

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55121; File No. SR-Phlx-2006-31)

January 18, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change and Amendment Nos. 1 and 2 Thereto, Relating to Limit Orders Submitted by Streaming Quote Traders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on May 5, 2006, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Phlx. On December 8, 2006, the Exchange filed Amendment No. 1 to the proposed rule change. On January 11, 2007, the Exchange filed Amendment No. 2 to the proposed rule change. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Phlx proposes to amend Phlx Rule 1080(b)(i)(B) and Commentary .04 thereto to permit Streaming Quote Traders ("SQTs")³ and Remote Streaming Quote Traders ("RSQTs")⁴ to

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ An SQT is a Registered Options Trader ("ROT") who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options in which such SQT is assigned. An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange. See Phlx Rule 1014(b)(ii)(A).

⁴ An RSQT is a ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Phlx Rule 1014(b)(ii)(B).

enter Immediate or Cancel (“IOC”)⁵ orders for their own account(s) through an electronic interface with AUTOM;⁶ to permit non-SQT ROTs⁷ and specialists to place proprietary limit orders with a size of 10 contracts or greater onto the limit order book; to expand the type of order that non-SQT ROTs and specialists may enter to include IOC; and to permit non-SQT ROTs and specialists to submit proprietary limit orders with a size of less than 10 contracts as IOC only. The Exchange further proposes to amend Commentary .02 and .03 of Phlx Rule 1082 to reduce the one-second “counting period” to ¼ of one second during which SQTs, RSQTs and/or specialists may eliminate the locked or crossed markets caused by their electronic quotations.⁸ The text of the proposed rule change is available at Phlx, the Commission’s Public Reference Room, and www.phlx.com.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the

⁵ An immediate-or-cancel order is an order that is to be executed in whole or in part as soon as such order is submitted. Any portion not so executed is to be treated as cancelled.

⁶ AUTOM is the Exchange's electronic order delivery, routing, execution and reporting system, which provides for the automatic entry and routing of equity option and index option orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution features, AUTO-X, Book Sweep and Book Match. Equity option and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange members into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor. AUTOM is now commonly referred to as Phlx XL. See Phlx Rule 1080.

⁷ A ROT is an on-floor options participant of the Exchange who has received permission from the Exchange to trade in options for his own account in eligible options in which such ROT is assigned. See Phlx Rule 1014(b)(i).

⁸ Any unresolved locked or crossed markets remaining after the counting period are automatically executed.

purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to offer an additional mechanism for participants on the Exchange's electronic trading platform for options, Phlx XL,⁹ to trade against orders and electronic quotations. Currently, only non-SQT ROTs and specialists may enter limit orders, and such limit orders may only be submitted with a minimum size of 10 contracts as good-till-cancelled, day limit and simple cancel orders. Under the proposal, the Exchange would expand limit order entry to SQTs and RSQTs, who would be permitted to enter IOC orders with no size limitation.

The proposal would include limitations on the eligible order type and permissible order size, depending on the status of the participant submitting the order. Specifically, non-SQT ROTs and specialists would be permitted to submit limit orders with a size of 10 contracts or greater as Good-Till-Cancelled, day limit, IOC or simple cancel order types. Orders for less than 10 contracts submitted by non-SQT ROTs and specialists would be required to be submitted as IOC only.¹⁰

⁹ See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

¹⁰ Currently, the IOC order type is not eligible for submission by non-SQT ROTs and specialists, and all orders must be for a minimum size of 10 contracts. The proposal would permit orders with a size of less than 10 contracts, provided that such orders must

SQTs and RSQTs would be permitted to submit limit orders of any size,¹¹ provided that all limit orders submitted must be IOC. Thus, limit orders submitted by SQTs and RSQTs would not be eligible to rest on the limit order book, and would be cancelled if not executed immediately. If only a part of such an order is executed immediately, the remaining unexecuted contracts in such an order would be cancelled.

Under the proposal, specialists and non-SQT ROTs that submit limit orders with a size of less than 10 contracts must submit such orders as IOC only. According to the Exchange, this is to ensure that limit orders with a size of less than 10 contracts are not placed on the limit order book. The Exchange believes that this provision should encourage liquidity on the Exchange and limit orders on the limit order book that represent the Exchange's best bid or offer would thus result in a disseminated size of at least 10 contracts on the Exchange.

The purpose of the proposed change to Commentary .02 and .03 of Phlx Rule 1082 is to improve the speed by which the Exchange's systems can automatically execute locked or crossed quotations against one another and eliminate the locked or crossed market situation,¹² which should, in turn, facilitate compliance with firm quote obligations.¹³

be submitted as IOC only. Orders submitted by non-SQT ROTs and specialists with a size of 10 contracts or greater would be eligible to be placed on the limit order book.

¹¹ Currently, the Exchange permits SQTs to submit electronic quotations only. The proposal would permit SQTs to submit IOC limit orders in addition to electronic quotations. The quoting obligations applicable to SQTs contained in Exchange Rule 1014(b)(ii)(D) would be unchanged.

¹² Any unresolved locked or crossed markets remaining after the counting period are automatically executed.

¹³ See Phlx Rule 1082.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,¹⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹⁵ in particular, in that the proposal is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest by increasing the efficiency of options trading on the Exchange by allowing on-floor participants to electronically enter an additional type of order, which should increase the number of automatic executions. The Exchange believes that this new functionality should increase order interaction between market participants on the Exchange and the electronic limit order book. The Exchange also believes that reducing the counting period during which market participants may resolve locked and crossed markets should improve market efficiency by eliminating locked and crossed markets in a more timely fashion.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds

¹⁴ 15 U.S.C. 78f(b).

¹⁵ 15 U.S.C. 78f(b)(5).

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which Phlx consents, the Commission will:

- (A) by order approve such proposed rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-31 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2006-31. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those

that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2006-31 and should be submitted on or before [insert date 21 days after publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Florence E. Harmon
Deputy Secretary

¹⁶ 17 CFR 200.30-3(a)(12).