

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54138; File No. SR-Phlx-2006-35)

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to a System Change to the Options Floor Broker Management System

July 12, 2006

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 18, 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 prepared by the Phlx. On July 12, the Exchange filed Amendment No. 1 to the proposed rule change.³ The Exchange filed the proposal pursuant to Section 19(b)(3)(A) of the Act⁴ and Rule 19b-4(f)(5) thereunder,⁵ which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Form 19b-4 dated July 12, 2006 (“Amendment No. 1”). Amendment No. 1 replaced the original filing in its entirety. Telephone conversation between Anthony Voci, Director and Counsel, Phlx, and Natasha Cowen, Commission, Division of Market Regulation (“Division”), on July 12, 2006 (“Telephone Conversation”).

⁴ 15 U.S.C. 78s(b)(3)(A).

⁵ 17 CFR 240.19b-4(f)(5).

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

The Phlx proposes to amend Exchange Rule 1063(e) to include a cross⁶ as one of the transaction categories to be recorded onto the Options Floor Broker Management System ("FBMS").⁷ The text of the proposed rule change, as amended, is available on the Phlx's Web site (<http://www.phlx.com>), at the Phlx's Office of the Secretary, and at the Commission's Public Reference Room.

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 Exchange included statements concerning the 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.

⁶ A cross can occur when a Floor Broker holds orders to buy and sell the same options series. See Exchange Rule 1064(a).

⁷ The FBMS is a component of AUTOM, the Exchange's electronic order delivery, routing, execution and reporting system. See Exchange Rule 1080. The FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The Options Floor Broker Management System also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order.

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

1. Purpose

In July, 2003, the Exchange implemented a consolidated options audit trail system (“COATS”) to create an electronic audit trail for non-electronic orders and to improve, among other things, order handling by Floor Brokers, by deploying the FBMS.⁸ The purpose of the instant proposed rule change is to improve the existing electronic audit trail and provide a more efficient options marketplace by augmenting the FBMS, as described below.

Currently, the FBMS only provides one mechanism for cross transactions that are executed by Floor Brokers, i.e., the entry of two separate, contra-side orders for the same series. The Exchange is implementing a new, additional screen on the FBMS to reflect certain crosses as a single transaction, rather than requiring separate buy and sell transactions to be recorded.

Specifically, in cross transactions where both sides of the transaction contain completely identical terms,⁹ Floor Brokers will select the new cross screen which will automatically duplicate all of the terms of the initiating order to record the contra side, prior to representation in the crowd. The Exchange believes that this should better capture the actual time of receipt of a crossing order by streamlining the data entry process required of Floor Brokers pursuant to Exchange Rule 1063(e).

⁸ See Securities Exchange Act Release No. 48266 (July 31, 2003), 68 FR 47131 (August 7, 2003) (SR-Phlx-2003-56).

⁹ The following terms must be identical in order for the new cross screen to be utilized: order type, option symbol, price, number of contracts, any contingency indicators, and the clearing number of the broker-dealer that submitted the order. Telephone Conversation.

Finally, the proposed systems change will not replace the current rules setting forth the in-crowd requirements for Floor Brokers for handling crosses,¹⁰ but will improve the FBMS.

2. Statutory Basis

The Exchange believes that its proposal, as amended, is consistent with Section 6(b) of the Act¹¹ in general, and furthers the objectives of Section 6(b)(5) of the Act¹² in particular, in that it 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 maintaining an accurate, time-sequenced audit trail of options transactions.

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

The Exchange does not believe that the proposed rule change, as amended, 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 either solicited or received.

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

The foregoing rule change, as amended, has become effective pursuant to Section 19(b)(3)(A) of the Act¹³ and Rule 19b-4(f)(5) thereunder.¹⁴ At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if

¹⁰ See Exchange Rule 1064.

¹¹ 15 U.S.C. 78f(b).

¹² 15 U.S.C. 78f(b)(5).

¹³ 15 U.S.C. 78s(b)(3)(A).

¹⁴ 17 CFR 240.19b-4(f)(5).

it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹⁵

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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-2006-35 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2006-35. 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

¹⁵ For purposes of calculating the 60-day abrogation period, the Commission considers the proposed rule change to have been filed on July 12, 2006, when Amendment No. 1 was filed.

available for inspection and copying in the Commission's Public Reference Room. Copies of such filing also will be available for inspection and copying at the principal offices of 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-2006-35 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

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

Nancy M. Morris
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).