

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-55375; File No. SR-Phlx-2006-31)

February 28, 2007

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Order Approving Proposed Rule Change as Modified by Amendment Nos. 1, 2, and 3 Thereto Relating to Electronically Submitted Limit Orders

I. Introduction

On May 5, 2006, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),¹ and Rule 19b-4 thereunder,² a proposed rule change to offer an additional mechanism for participants on the Exchange’s electronic trading platform for options, Phlx XL, to trade against orders and electronic quotations. On December 8, 2006, the Exchange filed Amendment No. 1 to the proposed rule change. The Exchange filed Amendment No. 2 to the proposed rule change on January 11, 2007. The proposed rule change, as modified by Amendment Nos. 1 and 2, was published for comment in the Federal Register on January 24, 2007.³ The Exchange filed Amendment No. 3 on February 28, 2007.⁴ The Commission received no comment letters on the proposed rule change. This order approves the proposed rule change as modified by Amendment Nos. 1, 2, and 3.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 55121 (January 18, 2007), 72 FR 3186.

⁴ Amendment No. 3 made minor clarifying changes to Commentary .04 to Phlx Rule 1080.

II. Description of the Proposal

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,⁵ to trade against orders and electronic quotations. Specifically, the proposal permits SQTs and RSQTs to enter Immediate or Cancel ("IOC")⁶ orders electronically and expands the types of orders that non-SQT ROTs and specialists may enter for their proprietary accounts to include electronically entered IOC orders. The proposal also changes the minimum order size for a ROT Limit Order from ten contracts to one contract if such contract is designated IOC.

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

III. Discussion

After careful review of the proposal, the Commission finds that the proposed rule change, as modified by Amendment Nos. 1, 2, and 3, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁷ In particular, the Commission finds that the proposal is consistent with Section 6(b)(5) of the Act,⁸ which

⁵ See Securities Exchange Act Release No. 50100 (July 27, 2004), 69 FR 46612 (August 3, 2004) (SR-Phlx-2003-59).

⁶ 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.

⁷ In approving this proposed rule change, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

⁸ 15 U.S.C. 78f(b)(5).

requires, among other things, that the rules of an exchange be 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.

The Commission believes that the Phlx's proposal to expand the order types that SQTs, RSQTs, non-SQT ROTs and specialists may enter electronically is consistent with the Act. In addition, the Commission believes that reducing the counting period from one-second to $\frac{1}{4}$ of one second 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.

IV. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (SR-Phlx-2006-31), as modified by Amendment Nos. 1, 2, and 3 be, and it is hereby approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁰

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Deputy Secretary

⁹ 15 U.S.C. 78s(b)(2).

¹⁰ 17 CFR 200.30-3(a)(12).