Proposed Rule Change by Philadelphia Stock Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<table>
<thead>
<tr>
<th>Initial</th>
<th>Amendment</th>
<th>Withdrawal</th>
<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
<th>Section 19(b)(3)(B)</th>
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Rule

- 19b-4(f)(2)
- 19b-4(f)(3)
- 19b-4(f)(4)
- 19b-4(f)(5)
- 19b-4(f)(6)

Pilot

- Extension of Time Period for Commission Action
- Date Expires

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

<table>
<thead>
<tr>
<th>First Name</th>
<th>Richard</th>
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<tbody>
<tr>
<td>Last Name</td>
<td>Rudolph</td>
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<td>(215) 496-6729</td>
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</tbody>
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Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 06/15/2006

By Richard S. Rudolph  
Vice President and Counsel

(Note) 

(Title)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.
The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item 1 and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission’s permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e., partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.
1. **Text of the Proposed Rule Change**

The Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to amend various Exchange rules to delete obsolete provisions relating to trading systems and practices that are no longer in effect on the Exchange, particularly as the new options system, Phlx XL, replaced the old “AUTO-X” provisions.\(^3\)

A notice of the proposed rule change for publication in the *Federal Register* is attached hereto as **Exhibit 1**. The amended text of the proposed rule change indicating any additions to or deletions from the immediately preceding filing is attached hereto as **Exhibit 4**. The text of the amended Exchange rules is attached hereto as **Exhibit 5**.

2. **Procedures of the Self-Regulatory Organization**

The Exchange’s Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission (“SEC” or “Commission”) on April 20, 2006. Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074, or Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.

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

   a. **Purpose**

   The purpose of the proposed rule change is to delete provisions in the Exchange’s rules that no longer apply because of technological advancements or obsolete trading practices. The purpose of this Amendment No. 1 is to make clarifying changes to the description of the rules proposed to be amended. Specifically, the following provisions are proposed to be deleted.

   **Quotation Size:** The Phlx XL rules originally provided in Rule 1014(b) that electronic quotations submitted on Phlx XL could be submitted with a quotation size of fewer than 10 contracts for a specific period of time following the initial deployment of Phlx XL. The maximum time period during which such a quotation size was permitted was one year following the deployment of Phlx XL, after which all electronic quotations submitted on Phlx XL must be for a size of at least 10 contracts. Because it has been more than one year since the initial deployment of Phlx XL, the rule is now obsolete. Quotations submitted on Phlx XL currently must have a size of at least 10 contracts. Additionally, quotations made by non-SQT ROTs in open outcry in response to a request for a market were originally permitted to quote with a size fewer than 10 contracts during this period. Non-SQT ROTs must now provide such quotations with a size of at least 10 contracts.

   **Definition of “Remainder of the Order”:** Currently, Exchange Rule 1014(g)(i)(A)(1) defines “Remainder of the Order” as, respecting non-Streaming Quote Options, the portion of an Initiating Order that remains following the allocation of
contracts to customers that are on parity in accordance with Rule 1014(g)(i). The term “Remainder of the Order” is used in the Exchange’s rules concerning the allocation of contracts traded in open outcry and allocated in the crowd. During the rollout period of Phlx XL, some options traded as “Streaming Quote Options” on the Phlx XL platform, while others continued to trade as “non-Streaming Quote Options.” Currently, all options traded on the Exchange are traded on Phlx XL as “Streaming Quote Options.” Rule 1014(g)(i)(A)(1) originally contemplated that non-Streaming Quote Options would generally be traded and allocated in open outcry. Currently, all options traded on the Exchange are traded on Phlx XL as “Streaming Quote Options.” Thus, now that there are no longer any non-Streaming Quote Options, the Exchange proposes to amend Rule 1014(g)(i)(A)(1) such that the definition of “Remainder of the Order,” in that sub-paragraph would apply only to transactions that are executed and allocated in open outcry.

The Exchange is proposing a corresponding amendment to Options Floor Procedure Advice (“OFPA”) B-6, Priority of Options Orders for Equity Options and Index Options by Account Type.

ROT Access: Prior to the deployment of Phlx XL, Exchange specialists and ROTs were permitted to submit price improving limit orders onto the limit order book electronically in non-Streaming Quote options. Specialists and ROTs that submitted such price-improving limit orders were entitled to receive a special allocation. The program, known as “ROT Access” and codified in Rule 1014(g)(i)(B), applied to options that did not trade on Phlx XL because it was, before Phlx XL, the only way for ROTs to enter

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4 See Exchange Rule 1014(g)(v).
trading interest independently and electronically. Currently, all options traded on the
Exchange are traded on Phlx XL, thus obviating the need for ROT Access. 5

Rule 1014(g)(i)(B) is therefore proposed to be deleted. The introductory phrase
“[r]especting Streaming Quote Options” in Rule 1014(g)(i)(A)(2) and the caption
“Assignment in Streaming Quote Options” in Rule 1014 Commentary .05(b) are deleted
as unnecessary because all equity and index options now trade as Streaming Quote
Options.

**Assignment in Non-Streaming Quote Options:** Rule 1014, Commentary .05(a)
currently describes assignments in non-Streaming Quote Options. Because all options on
the exchange currently trade on Phlx XL (and thus there are no non-Streaming Quote
Options), Rule 1014, Commentary .05(a) is proposed to be deleted.

**AUTO-X:** Exchange Rule 1080(c) currently includes references to the antiquated
notion of an artificial “AUTO-X guarantee” and a minimum and maximum guaranteed
AUTO-X size. Because the Exchange’s Phlx XL automatic execution features (Book
Match 6 and Book Sweep 7) currently provide for automatic executions up to the

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5 The Exchange notes that the proposed rule change would not affect the ability of a non-SQT ROT (i.e. an
on-floor Exchange ROT that does not submit electronic quotes) to place limit orders onto the limit order

6 Book Match is an automatic execution feature of the Exchange’s systems that automatically executes
inbound marketable orders against limit orders on the book or specialist, RSQT and/or SQT electronic
quotes (“electronic quotes”) at the disseminated price where: (1) the Exchange’s disseminated size includes
limit orders on the book and/or electronic quotes at the disseminated price; and (2) the disseminated price is
the National Best Bid or Offer. *See* Exchange Rule 1080(g)(i)(B).

7 Book Sweep is an automatic execution feature of the Exchange’s systems that, respecting non-Streaming
Quote Options, allowed certain orders resting on the limit order book to be automatically executed when
the bid or offer generated by the Exchange’s system or by the specialist’s proprietary quoting system locks
(i.e., $ 1.00 bid, $ 1.00 offer) or crosses (i.e., $ 1.05 bid, $ 1.00 offer) the Exchange’s best bid or offer in a
particular series as established by an order on the limit order book. Orders in non-Streaming Quote Options
executed by the Book Sweep feature were allocated among crowd participants participating on the Wheel.
*See* Exchange Rule 1080(c)(iii).
disseminated size (for which the responsible brokers or dealers that are quoting are firm),
there is no longer an artificial “AUTO-X guarantee” for which the Exchange will provide
automatic executions. Therefore, the Exchange proposes to delete the relevant sections
of Rule 1080(c) discussing an artificial AUTO-X guarantee. In addition, the Options
Committee’s ability to restrict the use of AUTO-X and increase the size of eligible orders
is being deleted, as automatic execution processes are described in other parts of the rule.

Exchange Rule 1080(c)(iii)(A) currently describes the Exchange’s “Book Sweep”
automatic execution and Wheel allocation functionality respecting non-Streaming Quote
Options. Because there are no longer any non-Streaming Quote Options and the Wheel is
obsolete, the Exchange proposes to delete the current text of Rule 1080(c)(iii)(A). The
current text of Rule 1080(c)(iii)(B) respecting the Book Sweep functionality applicable to
Streaming Quote Options would be retained and renumbered accordingly.

**The Wheel:** Prior to the floor-wide deployment of Phlx XL, contra-side
participation for AUTO-X automatic execution in non-Streaming Quote Options rotated
among Wheel participants (the specialist and ROTs signed onto the Wheel) in accordance
with Rule 1080(g)(i)(A). Trades executed on the Wheel were allocated in accordance
with the algorithm set forth in Options Floor Procedure Advice (“OFPA”) F-24. Because
all options on the Exchange are traded on Phlx XL, and because the Wheel is no longer in
use in the Exchange’s trading system, Rule 1080(g)(i)(A) and OFPA F-24 are proposed
to be deleted.

Additionally, Rule 1080(g)(i) currently provides that the contra-side to
automatically executed orders may be a Wheel Participant. There are no longer any
Wheel Participants on the Exchange; therefore the Exchange proposes to amend Rule
1080(g)(i) to provide that the contra-side to automatically executed orders may be an electronic quotation.  

Finally, for accuracy, the Exchange proposes to delete the reference to AUTO-X from the title of Rule 1080(g).

Collective Crowd Quote/Firm Quotations: Rule 1080, Commentary .01(b)(ii) currently provides that, respecting non-Streaming Quote Options, specialists determine which model to select per option and may change models during the trading day, and that the specialist may, but is not required to (a) consult with and/or (b) agree with the trading crowd in setting these parameters or selecting a model, but the members of the trading crowd are not required to provide input in these decisions, and in all cases, the specialist has the responsibility and authority to make the final determination. Because all options on the Exchange trade on Phlx XL, and each Phlx XL participant submits independent quotations, the rule is obsolete and is proposed to be deleted.

Rule 1080, Commentary .01(c) states that with respect to non-Streaming Quote Options, the disseminated market (whether by Auto-Quote or specialized quote feed) is deemed to represent the quotations of all ROTs in that option unless a ROT has expressly indicated otherwise in a clear and audible manner, respecting either a specific series, the class or the option (specifying LEAPS), and with sufficient time for the specialist to take action to update the quote if necessary. Because there are no longer any non-Streaming Quote Options and there is no collective quote (rather, there are independent quotations), Rule 1080, Commentary .01(c) is proposed to be deleted. For the same reason, a similar

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8 See supra note 6.
provision concerning a collective quoting requirement is proposed to be deleted from Rule 1082.

Disseminated Size: Rule 1082(a)(ii)(A) defines “disseminated size” as it applies to non-Streaming Quote Options. Because there are no longer any non-Streaming Quote Options, Rule 1082(a)(ii)(A) is proposed to be deleted. The phrase “[w]ith respect to non-Streaming Quote Options” is deleted from Rule 1082(b)(i) as obsolete. The introductory phrases “respecting Streaming Quote Options” and “[w]ith respect to Streaming Quote Options” are deleted from Rule 1082(a)(ii)(B) and Rule 1082(b)(ii) respectively as unnecessary, since all equity and index options are now Streaming Quote Options.

The Exchange is proposing a corresponding amendment to OFPA F-7, Size of Exchange’s Disseminated Bid or Offer.

Firm Quote Rule Citation: Rule 1082(a)(iii) currently provides that the term “SEC Quote Rule” shall mean Rule 11Ac1-1 under the Securities Exchange Act of 1934, as amended (the “Act”). Recently, Regulation NMS under the Act was promulgated, and the SEC Quote Rule was re-designated as Rule 602 of Regulation NMS. The proposal would amend Rule 1082(a)(iii) accordingly.

Specified Disengagement Size: Commentary .07 to Rule 1080 contains references to the “specified disengagement size” that applied to the Exchange’s “rapid fire” mechanism prior to the deployment of Phlx XL. Because that “rapid fire” program

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no longer exists and has been replaced with Rule 1093, Phlx XL Risk Monitor Mechanism\textsuperscript{10}, Commentary .07 is proposed to be deleted.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{11} in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{12} 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 removing rule provisions which have become obsolete due to changes in technology, trading practices, or other changes that make such provisions obsolete. Eliminating the obsolete provisions is in the public interest because it will eliminate possible confusion regarding the Exchange’s current practices.

4. **Self-Regulatory Organization’s Statement on Burden on Competition**

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

5. **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.


\textsuperscript{11} 15 U.S.C. 78f(b).

\textsuperscript{12} 15 U.S.C. 78f(b)(5).
6. **Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period for Commission action.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\(^\text{13}\) and Rule 19b-4(f)(6) thereunder.\(^\text{14}\)

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange is requesting that the Commission waive the 30-day operative delay and the five-day pre-filing notice requirement, as specified in Rule 19b-4(f)(6)(iii), and designate the proposed rule change immediately operative. The Exchange believes that waiving the 30-day


operative delay and the five-day pre-filing notice requirement is consistent with the protection of investors and the public interest. By waiving the 30-day operative delay and the five-day pre-filing notice requirement, the deletion of the obsolete or unnecessary rules will take effect as of the date the Exchange filed the proposed rule change.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

   The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

9. **Exhibits**

   1. Notice of proposed rule for publication in the Federal Register.
   4. The amended text of the proposed rule change indicating any additions to or deletions from the immediately preceding filing.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2006-28)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Deletion of Obsolete Provisions from Exchange Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)\(^1\), and Rule 19b-4\(^2\) thereunder, notice is hereby given that on ______________________ 2006, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Phlx. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Phlx, pursuant to Section 19(b)(1) of the Act\(^3\) and Rule 19b-4 thereunder,\(^4\) proposes to amend various Exchange rules to delete obsolete provisions relating to trading systems and practices that are no longer in effect on the Exchange, particularly as the new options system, Phlx XL, replaced the old “AUTO-X” provisions.\(^5\)

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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 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 delete provisions in the Exchange’s rules that no longer apply because of technological advancements or obsolete trading practices. The purpose of this Amendment No. 1 is to make clarifying changes to the description of the rules proposed to be amended. Specifically, the following provisions are proposed to be deleted.

Quotation Size: The Phlx XL rules originally provided in Rule 1014(b) that electronic quotations submitted on Phlx XL could be submitted with a quotation size of fewer than 10 contracts for a specific period of time following the initial deployment of Phlx XL. The maximum time period during which such a quotation size was permitted was one year following the deployment of Phlx XL, after which all electronic quotations submitted on Phlx XL must be for a size of at least 10 contracts. Because it has been more than one year since the initial deployment of Phlx XL, the rule is now obsolete. Quotations submitted on Phlx XL currently must have a size of at least 10 contracts. Additionally, quotations made by non-SQT ROTs in open outcry in response to a request
for a market were originally permitted to quote with a size fewer than 10 contracts during this period. Non-SQT ROTs must now provide such quotations with a size of at least 10 contracts.

**Definition of “Remainder of the Order”:** Currently, Exchange Rule 1014(g)(i)(A)(1) defines “Remainder of the Order” as, respecting non-Streaming Quote Options, the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with Rule 1014(g)(i). The term “Remainder of the Order” is used in the Exchange’s rules concerning the allocation of contracts traded in open outcry and allocated in the crowd. During the rollout period of Phlx XL, some options traded as “Streaming Quote Options” on the Phlx XL platform, while others continued to trade as “non-Streaming Quote Options.” Currently, all options traded on the Exchange are traded on Phlx XL as “Streaming Quote Options.” Rule 1014(g)(i)(A)(1) originally contemplated that non-Streaming Quote Options would generally be traded and allocated in open outcry. Currently, all options traded on the Exchange are traded on Phlx XL as “Streaming Quote Options.” Thus, now that there are no longer any non-Streaming Quote Options, the Exchange proposes to amend Rule 1014(g)(i)(A)(1) such that the definition of “Remainder of the Order,” in that sub-paragraph would apply only to transactions that are executed and allocated in open outcry.

The Exchange is proposing a corresponding amendment to Options Floor Procedure Advice (“OFPA”) B-6, Priority of Options Orders for Equity Options and Index Options by Account Type.

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6 See Exchange Rule 1014(g)(v).
**ROT Access**: Prior to the deployment of Phlx XL, Exchange specialists and ROTs were permitted to submit price improving limit orders onto the limit order book electronically in non-Streaming Quote options. Specialists and ROTs that submitted such price-improving limit orders were entitled to receive a special allocation. The program, known as “ROT Access” and codified in Rule 1014(g)(i)(B), applied to options that did not trade on Phlx XL because it was, before Phlx XL, the only way for ROTs to enter trading interest independently and electronically. Currently, all options traded on the Exchange are traded on Phlx XL, thus obviating the need for ROT Access.\(^7\)

Rule 1014(g)(i)(B) is therefore proposed to be deleted. The introductory phrase “[r]especting Streaming Quote Options” in Rule 1014(g)(i)(A)(2) and the caption “Assignment in Streaming Quote Options” in Rule 1014 Commentary .05(b) are deleted as unnecessary because all equity and index options now trade as Streaming Quote Options.

**Assignment in Non-Streaming Quote Options**: Rule 1014, Commentary .05(a) currently describes assignments in non-Streaming Quote Options. Because all options on the exchange currently trade on Phlx XL (and thus there are no non-Streaming Quote Options), Rule 1014, Commentary .05(a) is proposed to be deleted.

**AUTO-X**: Exchange Rule 1080(c) currently includes references to the antiquated notion of an artificial “AUTO-X guarantee” and a minimum and maximum guaranteed AUTO-X size. Because the Exchange’s Phlx XL automatic execution features (Book

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\(^7\) The Exchange notes that the proposed rule change would not affect the ability of a non-SQT ROT (i.e. an on-floor Exchange ROT that does not submit electronic quotes) to place limit orders onto the limit order book via electronic interface.
Match\(^8\) and Book Sweep\(^9\) currently provide for automatic executions up to the disseminated size (for which the responsible brokers or dealers that are quoting are firm), there is no longer an artificial “AUTO-X guarantee” for which the Exchange will provide automatic executions. Therefore, the Exchange proposes to delete the relevant sections of Rule 1080(c) discussing an artificial AUTO-X guarantee. In addition, the Options Committee’s ability to restrict the use of AUTO-X and increase the size of eligible orders is being deleted, as automatic execution processes are described in other parts of the rule.

Exchange Rule 1080(c)(iii)(A) currently describes the Exchange’s “Book Sweep” automatic execution and Wheel allocation functionality respecting non-Streaming Quote Options. Because there are no longer any non-Streaming Quote Options and the Wheel is obsolete, the Exchange proposes to delete the current text of Rule 1080(c)(iii)(A). The current text of Rule 1080(c)(iii)(B) respecting the Book Sweep functionality applicable to Streaming Quote Options would be retained and renumbered accordingly.

The Wheel: Prior to the floor-wide deployment of Phlx XL, contra-side participation for AUTO-X automatic execution in non-Streaming Quote Options rotated among Wheel participants (the specialist and ROTs signed onto the Wheel) in accordance with Rule 1080(g)(i)(A). Trades executed on the Wheel were allocated in accordance

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\(^8\) Book Match is an automatic execution feature of the Exchange’s systems that automatically executes inbound marketable orders against limit orders on the book or specialist, RSQT and/or SQT electronic quotes (“electronic quotes”) at the disseminated price where: (1) the Exchange’s disseminated size includes limit orders on the book and/or electronic quotes at the disseminated price; and (2) the disseminated price is the National Best Bid or Offer. See Exchange Rule 1080(g)(i)(B).

\(^9\) Book Sweep is an automatic execution feature of the Exchange’s systems that, respecting non-Streaming Quote Options, allowed certain orders resting on the limit order book to be automatically executed when the bid or offer generated by the Exchange’s system or by the specialist’s proprietary quoting system locks (i.e., $ 1.00 bid, $ 1.00 offer) or crosses (i.e., $ 1.05 bid, $ 1.00 offer) the Exchange's best bid or offer in a particular series as established by an order on the limit order book. Orders in non-Streaming Quote Options executed by the Book Sweep feature were allocated among crowd participants participating on the Wheel. See Exchange Rule 1080(c)(iii).
with the algorithm set forth in Options Floor Procedure Advice (“OFPA”) F-24. Because all options on the Exchange are traded on Phlx XL, and because the Wheel is no longer in use in the Exchange’s trading system, Rule 1080(g)(i)(A) and OFPA F-24 are proposed to be deleted.

Additionally, Rule 1080(g)(i) currently provides that the contra-side to automatically executed orders may be a Wheel Participant. There are no longer any Wheel Participants on the Exchange; therefore the Exchange proposes to amend Rule 1080(g)(i) to provide that the contra-side to automatically executed orders may be an electronic quotation.\(^\text{10}\)

Finally, for accuracy, the Exchange proposes to delete the reference to AUTO-X from the title of Rule 1080(g).

**Collective Crowd Quote/Firm Quotations:** Rule 1080, Commentary .01(b)(ii) currently provides that, respecting non-Streaming Quote Options, specialists determine which model to select per option and may change models during the trading day, and that the specialist may, but is not required to (a) consult with and/or (b) agree with the trading crowd in setting these parameters or selecting a model, but the members of the trading crowd are not required to provide input in these decisions, and in all cases, the specialist has the responsibility and authority to make the final determination. Because all options on the Exchange trade on Phlx XL, and each Phlx XL participant submits independent quotations, the rule is obsolete and is proposed to be deleted.

Rule 1080, Commentary .01(c) states that with respect to non-Streaming Quote Options, the disseminated market (whether by Auto-Quote or specialized quote feed) is

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\(^{10}\) See supra note 8.
deemed to represent the quotations of all ROTs in that option unless a ROT has expressly indicated otherwise in a clear and audible manner, respecting either a specific series, the class or the option (specifying LEAPS), and with sufficient time for the specialist to take action to update the quote if necessary. Because there are no longer any non-Streaming Quote Options and there is no collective quote (rather, there are independent quotations), Rule 1080, Commentary .01(c) is proposed to be deleted. For the same reason, a similar provision concerning a collective quoting requirement is proposed to be deleted from Rule 1082.

Disseminated Size: Rule 1082(a)(ii)(A) defines “disseminated size” as it applies to non-Streaming Quote Options. Because there are no longer any non-Streaming Quote Options, Rule 1082(a)(ii)(A) is proposed to be deleted. The phrase “[w]ith respect to non-Streaming Quote Options” is deleted from Rule 1082(b)(i) as obsolete. The introductory phrases “respecting Streaming Quote Options” and “”[w]ith respect to Streaming Quote Options” are deleted from Rule 1082(a)(ii)(B) and Rule 1082(b)(ii) respectively as unnecessary, since all equity and index options are now Streaming Quote Options.

The Exchange is proposing a corresponding amendment to OFPA F-7, Size of Exchange’s Disseminated Bid or Offer.

Firm Quote Rule Citation: Rule 1082(a)(iii) currently provides that the term “SEC Quote Rule” shall mean Rule 11Ac1-1 under the Securities Exchange Act of 1934, as amended (the “Act”). Recently, Regulation NMS under the Act was promulgated, and
the SEC Quote Rule was re-designated as Rule 602 of Regulation NMS.\textsuperscript{11} The proposal would amend Rule 1082(a)(iii) accordingly.

\textbf{Specified Disengagement Size:} Commentary .07 to Rule 1080 contains references to the “specified disengagement size” that applied to the Exchange’s “rapid fire” mechanism prior to the deployment of Phlx XL. Because that “rapid fire” program no longer exists and has been replaced with Rule 1093, Phlx XL Risk Monitor Mechanism\textsuperscript{12}, Commentary .07 is proposed to be deleted.

2. \textbf{Statutory Basis}

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{13} in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{14} 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 removing rule provisions which have become obsolete due to changes in technology, trading practices, or other changes that make such provisions obsolete. Eliminating the obsolete provisions is in the public interest because it will eliminate possible confusion regarding the Exchange’s current practices.

\textsuperscript{11} 17 CFR 242.602.


\textsuperscript{13} 15 U.S.C. 78f(b).

\textsuperscript{14} 15 U.S.C. 78f(b)(5).
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 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

Because the foregoing rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act\textsuperscript{15} and Rule 19b-4(f)(6) thereunder.\textsuperscript{16}

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange is requesting that the Commission waive the 30-day operative delay and the five-day pre-


filing notice requirement, as specified in Rule 19b-4(f)(6)(iii), and designate the proposed rule change immediately operative. The Exchange believes that waiving the 30-day operative delay and the five-day pre-filing notice requirement is consistent with the protection of investors and the public interest. By waiving the 30-day operative delay and the five-day pre-filing notice requirement, the deletion of the obsolete or unnecessary rules will take effect as of the date the Exchange filed the proposed rule change.

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-2006-28 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-2006-28. 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-2006-28 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.\textsuperscript{17}

Nancy M. Morris
Secretary

\textsuperscript{17} 17 CFR 200.30-3(a)(12).
Obligations and Restrictions Applicable to Specialists and Registered Options Traders

Rule 1014. (a) No change.

(b) ROT. (i) No change.

(ii) (A) – (D) No change.

(E) No change.

(1) (a) – (b) No change.

(c) Continuous Open Outcry Quoting Obligation: In response to any request for quote by a Floor Broker, specialist, Floor Official, or other ROT (including an SQT), non-SQT ROTs must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i).

During a six month period commencing on the date of the initial deployment of Phlx XL (the "initial six-month period"), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, such quotations shall be for a size of at least 10 contracts. During a six month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Thereafter, such non-SQT ROTs shall provide such quotations with a size of not less than 10 contracts [beginning on the date on which such Streaming Quote Option begins trading on Phlx XL].

(d) No change.

(2) (a) No change.

(b) Continuous Quoting Obligation: A non-SQT ROT trading a Streaming Quote Option shall be required to submit continuous two-sided electronic quotations in a designated percentage of series within the Streaming Quote Option, in accordance with the schedule below. During a six month period commencing on the date of the initial deployment of Phlx XL (the "initial six-month period"), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROT may submit electronic quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, such electronic quotations shall be for a size of at least 10 contracts. During a six
month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROT may submit electronic quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Beginning on the thirty-first day after such option begins trading as a Streaming Quote Option, such electronic quotations shall be for a size of at least 10 contracts. Thereafter, such non-SQT ROT shall submit electronic quotations with a size of not less than 10 contracts [beginning on the date on which such Streaming Quote Option begins trading on Phlx XL].

<table>
<thead>
<tr>
<th>% of Overall Streaming Quote Option</th>
<th>Electronic Quoting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume Transacted on the Exchange During the Previous Quarter that was Transacted Electronically ( % of Series)</td>
<td></td>
</tr>
<tr>
<td>50% or Below</td>
<td>20%</td>
</tr>
<tr>
<td>51-75%</td>
<td>40%</td>
</tr>
<tr>
<td>Above 75%</td>
<td>60%</td>
</tr>
</tbody>
</table>

For example, if 83% of the total volume on the Exchange in a particular Streaming Quote Option is transacted electronically (i.e., through AUTO-X, Book Match or Book Sweep), non-SQT ROTs in such Streaming Quote Option shall be required to maintain continuous quotations in 60% of the series. The Exchange will monitor on a calendar quarter basis the percentage of contracts transacted electronically on the Exchange in each particular Streaming Quote Option for the purpose of adjusting the applicable electronic quoting percentage during the next succeeding calendar quarter.

(c) - (f) No change.

(g) Equity Option and Index Option Priority and Parity

(i) (A) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (2) below.

For the purpose of paragraph (g) of this Rule, “Initiating Order” means an incoming contra-side order.
(1) Respecting [non-Streaming Quote Options,] transactions that are executed and allocated in open outcry. “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Rule 1014(g)(i). The Remainder of the Order shall be allocated pursuant to this Rule 1014.

Orders of controlled accounts, other than ROTs and Specialists market making in person, must be (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and (2) recorded as for a controlled account by appropriately circling the "yield" field on the floor ticket of any such order (except market maker tickets) or, in case of trades involving a Floor Broker, by making the appropriate notation the Options Floor Broker Management System.

Several programs described below provide an Enhanced Specialist Participation to specialists, which refers to the portion of an options trade available for allocation to the specialist on parity, including a 30% (which may actually result in a 40% or 60%) Enhanced Specialist Participation, New Unit/New Option Enhanced Specialist Participation, and New Product Enhanced Specialist Participation.

The Enhanced Specialist Participation is a percentage of the Remainder of the Order to which the specialist is entitled, depending upon whether (g)(ii), (iii), or (iv) applies.

(2) [Respecting Streaming Quote Options, a] An Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Rule 1014(g)(vii). "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (2).

[(B) ROT Access --Respecting non-Streaming Quote Options, pursuant to Rule 1080(b)(i)(B) and Commentary .04 thereto, a Phlx ROT or specialist may enter a limit order through an electronic interface with AUTOM and must announce, loudly and audibly in the crowd, that he has entered such a limit order. If such a limit order results in the improvement of the prevailing bid and/or offer disseminated by the Exchange ("price improving order"), such ROT or specialist is referred to, in this rule, as a Price Improving ROT/Specialist.][]

[[Matching --The other crowd participants, including ROTs and/or the specialist, may match such price improving order via electronic interface with AUTOM and by loudly and audibly announcing their intention to do so, and indicating their size, at any time. If Auto-Quote or Specialized Quote Feed matches the price associated with a price improving order, the specialist and crowd participants shall be deemed to be matching the price improving order under this paragraph.

Further Improvement --the other crowd participants may improve the price improving order by entering an order via an electronic interface with AUTOM.}]}
Trade Allocation -- Among the Price Improving ROT/Specialist and matching crowd participants trades shall be allocated as follows:

(1) Special Allocation: a Price Improving ROT/Specialist shall be entitled to receive the largest number of contracts among all crowd participants that have matched such price improving order, subject to size, as follows:

(a) When a price improving order is matched by one single crowd participant via electronic interface with AUTOM, the Price Improving ROT/Specialist shall be entitled to receive 60% of an incoming order, and the matching crowd participant shall be entitled to receive 40% of an initiating incoming order.

(b) When a price improving order is matched via electronic interface with AUTOM by two or more crowd participants, the Price Improving ROT/Specialist shall be entitled to receive 40% of an incoming order. If one of the matching crowd participants is the specialist, the specialist shall be entitled to receive 30% of an incoming order, and any other ROT(s) that matched the Price Improving ROT's order shall be entitled to receive 30% of an incoming order, in the aggregate.

(c) When a Price Improving ROT/Specialist's price improving order is matched via electronic interface with AUTOM by two or more other ROTs in the crowd, the Price Improving ROT/Specialist shall be entitled to receive 40% of an incoming order, and any other ROT(s) that matched the Price Improving ROT's order shall be entitled to receive 60% of an incoming order, in the aggregate.

(d) Any partial contracts shall be rounded up in favor of the Price Improving ROT/Specialist.

(2) The Special Allocation set forth in (a)-(c) above shall remain in effect until:

(a) the price improving order has been executed up to the minimum number of contracts required under Rule 1080, Commentary .04;

(b) the Price Improving ROT/Specialist cancels the price improving order;

(c) the original price improving order is superceded by a new price improving order, unless that new price improving order is cancelled before at least one contract executes at that price (in which case the original price improving order remains subject to special allocation until one of these three conditions occur).

(3) Once the Special Allocation is no longer in effect, all contracts remaining to be executed at the originally improved price (including those remaining of the price improving order) shall be considered on parity and allocated in accordance with Exchange Rules 1014(g)(ii)-(iv). Thus, if the specialist is among the crowd participants remaining on parity, the specialist shall be entitled to receive an Enhanced Specialist Participation in eligible options. The Special Allocation may apply to part of an incoming order (up to the minimum number permitted by Rule 1080, Commentary .04 i.e., 20 contracts), with the rest of an incoming order subject to allocation under Rules 1014(g)(ii)-(iv).
(4) In no event shall a Price Improving ROT or crowd participant that matches a price improving order be required to participate in a trade above such Price Improving ROT or crowd participant's stated size.

(5) Notwithstanding the first sentence of Rule 1014(g)(i), neither Rule 119(a)-(d) and (f), nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of trades executed against price-improving orders and orders matching such price improving orders entered into AUTOM via electronic interface. The Special Allocation set forth above shall apply only to Phlx Price Improving ROT or specialist price improving orders and orders matching such price improving orders entered into AUTOM via electronic interface. No other rule relating to the allocation of contracts shall apply to such orders entered into AUTOM via electronic interface, until the Special Allocation ends, which is determined above. The person responsible for allocation of orders under this rule shall use best efforts to ensure that Price Improving ROTs or specialists that enter price improving orders via electronic interface with AUTOM, and crowd participants that match such price improving orders via electronic interface with AUTOM, are allocated contracts in accordance with this Rule.

([ C ] B) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales).

When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer.

The Options Committee may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made via an Exchange circular. This paragraph is subject to a pilot scheduled to expire June 30, 2006, and shall only apply to transactions in equity options (including options overlying Exchange Traded Fund Shares ("ETFs")) and only to such transactions that are effected in open outcry.

(ii) – (viii) No change.

(h) No change.

Commentary: ...

.01 - .04 No change.

.05 (a) RESERVED [ Assignment in non-Streaming Quote Options. With respect to options that are not eligible to be traded by SQTs and RSQTs ("non-Streaming Quote Options"), the Exchange will assign an ROT to act in one or more classes of option contracts. In making
such assignments, the Exchange shall give attention to (i) the preference of applicants; (ii) assuring that financial resources available to an ROT enable him to satisfy the obligations set forth in Rule 1014 with respect to each class of option contracts to which he is assigned; (iii) the applicant's expertise in options trading; and (iv) the applicant's prior market performance. The Exchange may suspend or terminate any assignment of an ROT under this Rule and may make additional assignments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action.]

(b) [ Assignment in Streaming Quote Options. ] The Options Allocation, Evaluation and Securities Committee (“OAESC”) or its designee shall assign SQTs and RSQTs in one or more Streaming Quote Options in accordance with Rule 507. An SQT or RSQT may be assigned to (and thus submit quotes electronically in) any option traded on Phlx XL for which they are approved by the OAESC.

(c) No change.

.06 - .19 No change.

Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)

Rule 1080. (a) No change.

(b) Eligible Orders

(i) The following types of orders are eligible for entry into AUTOM:

(A) No change.

(B) [Respecting non-Streaming Quote Options, o] On-floor orders for the proprietary account(s) of non-SQT ROTs and specialists via electronic interface with AUTOM may be entered, subject to the restrictions on order entry set forth in Commentary .04 of this Rule. The following types of orders for the proprietary account(s) of ROTs and specialists are eligible for entry via electronic interface with AUTOM: GTC, day limit and simple cancel.

(C) No change.

(c) [ AUTO-X. --AUTO-X is a feature of AUTOM that automatically executes eligible market and marketable limit orders up to the number of contracts permitted by the Exchange for certain strike prices and expiration months in equity options and index options, unless the Options Committee determines otherwise. AUTO-X automatically executes eligible orders using the Exchange disseminated quotation (except if executed pursuant to the NBBO Feature in sub-paragraph (i) below) and then automatically routes execution reports to the originating member organization. AUTOM orders not eligible for AUTO-X are executed manually in accordance with Exchange rules. Manual execution may also occur when AUTO-X is not engaged, such as pursuant to sub-paragraph (iv) below. An order may also be executed partially by AUTO-X and partially manually.
The Options Committee may for any period restrict the use of AUTO-X on the Exchange in any option or series provided that the effectiveness of any such restriction shall be conditioned upon its having been approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934 and the rules and regulations thereunder. Any such restriction on the use of AUTO-X approved by the Options Committee will be clearly communicated to Exchange membership and AUTOM users through an electronic message sent via AUTOM and through an Exchange information circular. Such restriction would not take effect until after such communication has been made.

Currently, the Exchange's maximum allowable AUTO-X guarantee is 250 contracts. With respect to options on the Nasdaq-100 Index Tracking Stock ("QQQ")SM, orders of up to 2,000 contracts in the first two (2) near term expiration months, and 1,000 contracts for all other expiration months, are eligible for AUTO-X.

For each option, there shall be a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size.

The Exchange shall provide automatic executions for eligible customer and broker-dealer orders up to the Exchange's disseminated size as defined in Exchange Rule 1082 (except with respect to orders eligible for "Book Match" as described in Rule 1080(g)(ii) below), subject to a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size. The current minimum guaranteed AUTO-X size is 1 contract, and the current maximum guaranteed AUTO-X size is 250 contracts, except for QQQSM options.

- If the Exchange's disseminated size is greater than the minimum guaranteed AUTO-X size, and less than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to Exchange's disseminated size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is less than the minimum guaranteed AUTO-X size for that option, inbound eligible orders shall be automatically executed up to such minimum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is greater than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to such maximum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist.

The minimum and maximum guaranteed AUTO-X size applicable to each option shall be posted on the Exchange's web site.

The Options Committee may, in its discretion, increase the size of orders in one or more classes of multiply-traded equity options eligible for AUTO-X to the extent necessary to match the size of orders in the same options eligible for entry into the automated execution system of any other options exchange, provided that the effectiveness of any such increase shall be conditioned upon its having been filed with the Securities and
(i) – (ii) No change.

(iii) Quotations Interacting With Limit Orders on the Book.

   (A) Respecting non-Streaming Quote Options, when a bid or offer that is: (1) generated by the Exchange's Auto-Quote system (or by a proprietary quoting system provided for in Commentary .01(b) of this Rule called "Specialized Quote Feed" or "SQF"); and (2) priced at the National Best Bid or Offer ("NBBO"), and therefore would result in an execution at the NBBO (a "Book Sweep Quote"), matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and allocated among crowd participants signed onto the Wheel. This feature of AUTOM is known as "Book Sweep." If Book Sweep is not engaged at the time the Book Sweep Quote matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist may manually initiate the Book Sweep feature. Book Sweep shall be engaged when AUTO-X is engaged, and shall be disengaged when AUTO-X is disengaged in accordance with Rule 1080(c)(iv) and Rule 1080(e). Eligible orders on the limit order book will be automatically executed up to the size associated with the quote that matches or crosses such limit orders.

   (B) Respecting Streaming Quote Options, when the bid or offer generated by the Exchange's Auto-Quote system, SQF, or by an SQT or RSQT (as defined in Rule 1014(b)(ii)) matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and automatically allocated in accordance with Exchange rules. If Book Sweep is not engaged at the time the Auto-Quote, SQF, RSQT or SQT bid or offer matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist, RSQT, or SQT may manually initiate the Book Sweep feature.

(iv) – (vi) No change.

(d) - (f) No change.

(g) [AUTO-X] Contra-Party Participation --The contra-side to automatically executed orders may be: (i) [a Wheel Participant] an electronic quotation; or (ii) a booked customer limit order.

   (A) [The Wheel --With respect to non-Streaming Quote Options, contra-party participation for AUTO-X automatic execution shall rotate among Wheel Participants (which are specialists and ROTs signed-up on the Wheel for that listed option) in each option in accordance with procedures established by the Exchange. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions. Specialists on the Options Floor are required to participate on the Wheel in assigned issues.
No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT's total assigned issues, and ROT may only sign-on the Wheel in one assignment area at any given time. In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option.

AUTO-X participation shall be assigned to Wheel Participants on a routine basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in that listed option. The Wheel shall rotate and assign contracts in accordance with procedures established by the Exchange.

(B) ] Book Match --For purposes of this sub-paragraph, the contra-side to automatically executed inbound marketable orders shall be a limit order on the book or specialist, RSQT and/or SQT electronic quotes ("electronic quotes") at the disseminated price where: (1) the Exchange's disseminated size includes limit orders on the book and/or electronic quotes at the disseminated price; and (2) the disseminated price is the National Best Bid or Offer. This feature is called Book Match.

(h) – (l) No change.

Commentary: ...

.01 (a) Automatic Quotation (Auto-Quote) is the Exchange's electronic options pricing system, which enables specialists to automatically monitor and instantly update quotations.

(b) (i) The Auto-Quote System includes three commonly used options pricing algorithms: the Black Scholes Option Pricing Model; the Cox, Ross and Rubenstein Binomial Option Pricing Model; and the Barone, Adesi and Whaley American Option Pricing Model. In addition, a specialist or SQT may separately employ other pricing models, by establishing a specialized connection by-passing the Exchange's Auto-Quote System, which is known as a specialized quote feed.

(ii) [Respecting non-Streaming Quote Options, s] Specialists, SQTs and RSQTs determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist, SQTs and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends. [The specialist may, but is not required to (a) consult with and/or (b) agree with the trading crowd in setting these parameters or selecting a model, but the members of the trading crowd are not required to provide input in these decisions, and in all cases, the specialist has the responsibility and authority to make the final determination.

(c) With respect to non-Streaming Quote Options, the disseminated market (whether by Auto-Quote or specialized quote feed) is deemed to represent the quotations of all ROTs in that option unless a ROT has expressly indicated otherwise in a clear and audible manner, respecting either a specific series, the class or the option (specifying LEAPS), and with sufficient time for the specialist to take action to update the quote if necessary.
(d)] If options trading systems throttle quotations for at least three minutes, the Chairman of the Board of Governors or his designee may, for capacity management purposes, mandate that the Auto-Quote or specialized quote feed be set to update quotations based on a certain minimum movement in the underlying security for: (i) all options; (ii) index options only; or (iii) certain specified options, taking into account certain factors that may include, but are not limited to, the price of the underlying security, volatility in the underlying security, or whether there has been any trading volume over the last two trading days. Such mandated minimum setting may continue for a period of 15 minutes, and may be continued every 15 minutes thereafter, provided that the Exchange's options trading systems are throttling quotations at the end of each such 15-minute period.

.02 - .03 No change.

.04 ROT Limit Orders. [Respecting Streaming Quote Options, o] On-floor orders for the proprietary accounts of non-SQT ROTs may be entered for delivery through AUTOM, through the use of Exchange approved proprietary systems to interface with AUTOM ("interface") to be placed on the limit order book. [Respecting non-Streaming Quote Options, on-floor orders for the proprietary account(s) of ROTs or specialists may also be entered through the interface.] Such orders shall be for a minimum of 10 contracts [in both Streaming Quote Options and non-Streaming Quote Options].

[Respecting non-Streaming Quote Options, inbound orders eligible for execution against price-improving ROT orders entered into AUTOM via electronic interface and orders that match such orders via electronic interface with AUTOM, shall be executed by the specialist and shall be allocated by the person required to do so pursuant to Exchange Rule 1014(g)(vi). Respecting Streaming Quote Options, inbound AUTOM orders or electronic quotations eligible for execution against non-SQT ROT limit orders entered into AUTOM via electronic interface shall be automatically executed and shall be allocated automatically pursuant to Exchange rules. The Exchange will make electronic interface with AUTOM available to member firms, and will notify all members on the Options Floor when it has completed the development of appropriate interfaces for such proprietary systems on the Options Floor, and when the use of such electronic interfaces may commence. Thereafter, ROTs and specialists must connect with these interfaces with their own proprietary devices.

Not later than ten days following approval by the Securities and Exchange Commission of the rules applicable to the Exchange's electronic trading platform, Phlx XL, the Exchange will commence the initial deployment of Phlx XL by allowing specialists and ROTs who are Streaming Quote Traders ("SQTs," as defined in the Phlx XL rules) to submit electronic quotations in Streaming Quote Options (as defined in the Phlx XL rules), and ROTs who are not SQTs to submit limit orders onto the limit order book via electronic interface with AUTOM. Eligible incoming orders and quotations will automatically execute against quotations of specialists and SQTs and orders of ROTs in accordance with the functionality of the Phlx XL system, as set forth in the Phlx XL rules.
Over a period following the commencement of operation of the Phlx XL system, the Exchange expects to gradually increase the number of Streaming Quote Options eligible to be traded via Phlx XL. If the Phlx XL system is in operation on April 30, 2005, but less than all of the options traded on the Exchange are Streaming Quote Options, then the Exchange shall, as of April 30, 2005, ensure that the AUTOM system automatically executes eligible incoming orders in options that are not then Streaming Quote Options against Phlx Price Improving ROT and specialist price improving orders and orders matching such price-improving orders entered via the electronic interface with AUTOM described in this Commentary .04 and that are resting on the limit order book.

If the Exchange for any reason determines not to deploy Phlx XL, or if, following the initial deployment of the Phlx XL system, the deployment of Phlx XL is terminated for any reason, then the Exchange shall, within 30 days of such determination not to deploy Phlx XL or termination, ensure that the AUTOM system (or any successor thereto) automatically executes eligible incoming option orders against Phlx Price Improving ROT and specialist price improving orders and orders matching such price-improving orders entered via the electronic interface with AUTOM described in this Commentary .04 and that are resting on the limit order book. In such event, the Exchange shall, at the time of such termination, identify to the Commission and to members and member organizations the options subject to such automatic execution, and shall cause all options to be subject to automatic execution by April 30, 2005.]

.05 - .06  No change.

.07 RESERVED [The specified disengagement size set forth in Rule 1080(c)(iv)(I) is subject to the approval of the Options Committee. The specified disengagement size for each option shall be posted on the Exchange's web site.]

**Firm Quotations**

**Rule 1082.** (a) No change.

(i) No change.

(ii) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:

(A) [respecting non-Streaming Quote options (as defined in Rule 1080(k)), at least the sum of the size associated with: (1) limit orders; and (2) specialists' quotations generated by Auto-Quote or Specialized Quote Feed as described in Rule 1080, Commentary .01 (which represents the collective quotation size of the specialist and any ROTs bidding or offering at the disseminated price unless an ROT has expressly indicated otherwise in a clear and audible manner).]

(B) respecting Streaming Quote Options, a] At least the sum of the size associated with limit orders, specialists' quotations, SQTs' quotations, and RSQTs' (as defined in Rule 1014(b)(ii)(B)) quotations.
(C) (1) No change.

(2) If the Exchange's disseminated size in a particular series in a Streaming Quote option is exhausted at that particular price level, and no specialist, SQT or RSQT has revised their quotation immediately following the exhaustion of the Exchange's disseminated size at such price level, the Exchange shall automatically provide two-sided quotes that comply with the Exchange's rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation, with a size of one contract.


(iv) The terms "customer," "responsible broker or dealer," and "specified persons" shall have the meaning set forth in the SEC Quote Rule.

(b) (i)[With respect to non-Streaming Quote Options, e ] Except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size.[Responsible brokers or dealers bidding (or offering) at the disseminated price shall be collectively required to execute orders presented to them at such price up to the disseminated size in accordance with Rule 1015, or, i ] If the responsible broker or dealer is representing (as agent) a limit order, such responsible broker or dealer shall be responsible (as agent) up to the size of such limit order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such limit order to the extent provided in Rule 1015.

(ii) [With respect to Streaming Quote Options, i] In the event an SQT, RSQT or specialist in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or specialist member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

(c) The requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by two Floor Officials, with the concurrence of the Director of Surveillance, or his designee; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when two Floor Officials determine that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.
Any exemption granted pursuant to paragraph (c)(iv) shall be in writing and shall set forth the basis upon which the exemption is granted.

(d) No change.

Commentary: ...

.01 No change.

.02 Locked Markets. In the event that an SQT, RSQT, and/or specialist's electronically submitted quotations in Streaming Quote Options interact with the electronically submitted quotations of other SQTs, RSQTs and/or the specialist, resulting in the dissemination of a “locked” quotation (e.g., $1.00 bid - 1.00 offer), the following shall occur:

(a) No change.

(b) A “counting period” of one second will begin during which SQTs, RSQTs and/or specialists whose quotations are locked may eliminate the locked market. Provided, however, that in accordance with subparagraph (a) above, such SQT, RSQT and/or specialist shall be obligated to execute orders at their disseminated quotation. During the “counting period” SQTs and specialists located in the Crowd Area in which the option that is the subject of the locked market is traded will continue to be obligated to respond to Floor Brokers as set forth in Rule 1014, Commentary .05(c), and will continue to be obligated for one contract in open outcry to other SQTs, non-SQT ROTs, and specialists. If at the end of the one-second counting period the quotations remain locked, the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Rule 1014(g)(vii).

The quotation that is locked may be executed by an order during the one-second counting period.

.03 No change.

Options Floor Procedure Advices

B-6 Priority of Options Orders for Equity Options and Index Options by Account Type
(EQUITY OPTION AND INDEX OPTION ONLY)

Section A

Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (ii) below.
For the purposes of this Advice, “Initiating Order” means an incoming contra-side order.

(i) Respecting [non-Streaming Quote Options] transactions that are executed and allocated in open outcry, “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Advice. The Remainder of the Order shall be allocated pursuant to this Advice.

(ii) [Respecting Streaming Quote Options, a] An Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Section F of this Advice. “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (ii).

Section B – (F) No change.

FINE SCHEDULE No change.

F-7 Size of Exchange’s Disseminated Bid or Offer

The size of any disseminated bid or offer by the Exchange shall be, with respect to the disseminated price for any quoted options series, equal to:

(a) [respecting non-Streaming Quote options (as defined in Rule 1080(k), at least the sum of the size associated with: (1) limit orders; and (2) specialists' quotations generated by Auto-Quote or Specialized Quote Feed as described in Rule 1080, Commentary .01 (which represents the collective quotation size of the specialist and any ROTs bidding or offering at the disseminated price unless an ROT has expressly indicated otherwise in a clear and audible manner).

(b) respecting Streaming Quote Options, a] At least the sum of the size associated with limit orders, specialists’ quotations, SQTs’ quotations, and RSQTs’ quotations.

F-24 RESERVED. [AUTO-X Contra-Party Participation (The Wheel) (NON-STREAMING QUOTE EQUITY OPTION AND INDEX OPTION ONLY)

(a) Public customer orders of sizes up to the maximum permissible size, or lesser eligible amounts as set by the respective trading crowd, are eligible for AUTO-X automatic executions at the displayed market. The Options Committee may, however, for any period restrict the use of AUTO-X on the Exchange in any listed option, option class, option series, user or account type.

(b) Contra-party participation for AUTO-X automatic executions shall rotate among Wheel Participants which are specialists and ROTs signed-up on the Wheel for that listed option in each option in accordance with paragraph (e) below. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions.
(c) Participation Requirements and Sign-on/off - Specialists on the Options Floor are required to participate on the Wheel in assigned issues in accordance with paragraph (e) of this Advice.

(i) ROTs may elect to participate on the Wheel for any or all issues in which they maintain an ROT assignment, as long as those listed options are located within two contiguous quarter turrets of each other and the ROT is actively making markets in the specific issues. No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT's total assigned issues, an ROT may only sign-on the Wheel in one Wheel assignment area at any given time. For the purposes of this Advice, a Wheel assignment area is each area on the trading floor constituted by two contiguous quarter turrets. However, the Options Committee may extend a Wheel assignment area on a case-by-case basis, taking into account the activity and trading crowd size in those options as well as the intervening posts, if it is determined that:

the specialists and all Wheel participants on all Wheels agree that an ROT can be actively making markets in that particular situation and can thus be considered presenting such Wheel issues, until either specialist or any such Wheel participant no longer agree that the circumstances warrant an extension.

(ii) In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option. Although ROTs may sign-on in individual listed options, a sign-off by an ROT is effective for all options for which the ROT is on the Wheel. Sign-offs shall become effective immediately upon being processed for deletion in the computer system.

(iii) If an ROT who is signed-on the Wheel is away from the Wheel assignment area for more than a brief interval, a Floor Official shall:

(A) remove the ROT from any Wheel participation for the remainder of the trading day;

and

(B) issue a fine pursuant to the fine schedule below.

If such ROT is assigned a Wheel trade while away from the Wheel assignment area for more than a brief interval, that ROT is responsible for all trades assigned to his/her ROT account until the sign-off is processed.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

F-24 (c) (iii)

<table>
<thead>
<tr>
<th>Occurrence</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
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</tr>
<tr>
<td>2nd</td>
<td>$500.00</td>
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<tr>
<td>3rd</td>
<td>$1,000.00</td>
</tr>
<tr>
<td>4th and beyond</td>
<td>Sanction is discretionary with Business Conduct</td>
</tr>
</tbody>
</table>
(d) Extraordinary Circumstances - With respect to the Wheel sign-on/sign-off procedures, a Floor Official may permit, in extraordinary circumstances, the modification of an ROT's Wheel participation. In addition, in extraordinary circumstances, in order to promote liquidity, two Floor Officials may require all assigned ROTs to participate on the Wheel.

(e) Wheel Rotation/Assigning Contracts - AUTO-X participation shall be assigned to Wheel Participants on a rotating basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in that listed option at that time. At a minimum, the Wheel shall rotate and assign contracts depending upon the size of the AUTO-X guarantee, as follows:

- 1-10 contracts every 2 contracts;
- 11-25 contracts every 5 contracts;
- 26 and more every 10 contracts

The Options Committee, or its designees, may approve a Wheel rotation in a size larger than the minimum stated above, if requested by the specialist and Wheel participants. However, the Wheel may not rotate in a size larger than ten contracts.

Each remaining portion shall be successively assigned to individual Wheel Participants on that same basis. The specialist shall receive the first execution of the day; thereafter, if four or less ROTs are participating on the Wheel, the specialist shall participate in a normal rotation. However, if an average of five to 15 ROTs have signed-on the Wheel, the specialist shall receive every fifth execution; if an average of 16 or more ROTs have signed-on the Wheel, the specialist shall receive every tenth execution, unless Wheel participation falls below ten participants at any time, then the specialist shall automatically participate in a normal rotation.

Exception to the normal rotation: With the unanimous consent of Wheel participants in an option and approval of the Options Committee Chairman or his designee, the specialist shall receive an enhanced participation substantially equivalent to twice the number of contracts as other crowd participants where the Enhanced Specialist Participation of Rule 1014(g)(ii) applies.

(f) The provisions of section (e) above will be reviewed and evaluated by the Options Committee, on a six month basis.

FINE SCHEDULE

F-24 Fine not applicable, except paragraph (c)(iii). Matters subject to review by the Business Conduct Committee.]
Obligations and Restrictions Applicable to Specialists and Registered Options Traders

Rule 1014. (a) No change.

(b) ROT. (i) No change.

   (ii) (A) – (D) No change.

(E) No change.

(1) (a) – (b) No change.

(c) Continuous Open Outcry Quoting Obligation: In response to any request for quote by a Floor Broker, specialist, Floor Official, or other ROT (including an SQT), non-SQT ROTs must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i). During a six month period commencing on the date of the initial deployment of Phlx XL (the "initial six-month period"), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, such quotations shall be for a size of at least 10 contracts. During a six month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Thereafter, such non-SQT ROTs shall provide such quotations with a size of not less than 10 contracts [beginning on the date on which such Streaming Quote Option begins trading on Phlx XL].

(d) No change.

(2) (a) No change.

   (b) Continuous Quoting Obligation: A non-SQT ROT trading a Streaming Quote Option shall be required to submit continuous two-sided electronic quotations in a designated percentage of series within the Streaming Quote Option, in accordance with the schedule below. During a six month period commencing on the date of the initial deployment of Phlx XL (the "initial six-month period"), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROT may submit electronic quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, such electronic quotations shall be for a size of at least 10 contracts. During a six
month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROT may submit electronic quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Beginning on the thirty-first day after such option begins trading as a Streaming Quote Option, such electronic quotations shall be for a size of at least 10 contracts. Thereafter, s] Such non-SQT ROT shall submit electronic quotations with a size of not less than 10 contracts [beginning on the date on which such Streaming Quote Option begins trading on Phlx XL].

<table>
<thead>
<tr>
<th>% of Overall Streaming Quote Option</th>
<th>Electronic Quoting</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Volume Transacted on the Exchange</td>
<td>(% of Series)</td>
</tr>
<tr>
<td>During the Previous Quarter that was Transacted Electronically</td>
<td></td>
</tr>
<tr>
<td>50% or Below</td>
<td>20%</td>
</tr>
<tr>
<td>51-75%</td>
<td>40%</td>
</tr>
<tr>
<td>Above 75%</td>
<td>60%</td>
</tr>
</tbody>
</table>

For example, if 83% of the total volume on the Exchange in a particular Streaming Quote Option is transacted electronically (i.e., through AUTO-X, Book Match or Book Sweep), non-SQT ROTs in such Streaming Quote Option shall be required to maintain continuous quotations in 60% of the series. The Exchange will monitor on a calendar quarter basis the percentage of contracts transacted electronically on the Exchange in each particular Streaming Quote Option for the purpose of adjusting the applicable electronic quoting percentage during the next succeeding calendar quarter.

(c) - (f) No change.

(g) Equity Option and Index Option Priority and Parity

(i) (A) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (2) below.

For the purpose of paragraph (g) of this Rule, “Initiating Order” means an incoming contra-side order.
(1) Respecting [non-Streaming Quote Options,] transactions that are executed and allocated in open outcry, “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Rule 1014(g)(i). The Remainder of the Order shall be allocated pursuant to this Rule 1014.

Orders of controlled accounts, other than ROTs and Specialists market making in person, must be (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and (2) recorded as for a controlled account by appropriately circling the "yield" field on the floor ticket of any such order (except market maker tickets) or, in case of trades involving a Floor Broker, by making the appropriate notation the Options Floor Broker Management System.

Several programs described below provide an Enhanced Specialist Participation to specialists, which refers to the portion of an options trade available for allocation to the specialist on parity, including a 30% (which may actually result in a 40% or 60%) Enhanced Specialist Participation, New Unit/New Option Enhanced Specialist Participation, and New Product Enhanced Specialist Participation.

The Enhanced Specialist Participation is a percentage of the Remainder of the Order to which the specialist is entitled, depending upon whether (g)(ii), (iii), or (iv) applies.

(2) [Respecting Streaming Quote Options, a] An Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Rule 1014(g)(vii). "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (2).

[(B) ROT Access --Respecting non-Streaming Quote Options, pursuant to Rule 1080(b)(i)(B) and Commentary .04 thereto, a Phlx ROT or specialist may enter a limit order through an electronic interface with AUTOM and must announce, loudly and audibly in the crowd, that he has entered such a limit order. If such a limit order results in the improvement of the prevailing bid and/or offer disseminated by the Exchange ("price improving order"), such ROT or specialist is referred to, in this rule, as a Price Improving ROT/Specialist.

Matching --The other crowd participants, including ROTs and/or the specialist, may match such price improving order via electronic interface with AUTOM and by loudly and audibly announcing their intention to do so, and indicating their size, at any time. If Auto-Quote or Specialized Quote Feed matches the price associated with a price improving order, the specialist and crowd participants shall be deemed to be matching the price improving order under this paragraph.

Further Improvement --the other crowd participants may improve the price improving order by entering an order via an electronic interface with AUTOM.
Trade Allocation -- Among the Price Improving ROT/Specialist and matching crowd participants trades shall be allocated as follows:

(1) Special Allocation: a Price Improving ROT/Specialist shall be entitled to receive the largest number of contracts among all crowd participants that have matched such price improving order, subject to size, as follows:

(a) When a price improving order is matched by one single crowd participant via electronic interface with AUTOM, the Price Improving ROT/Specialist shall be entitled to receive 60% of an incoming order, and the matching crowd participant shall be entitled to receive 40% of an initiating incoming order.

(b) When a price improving order is matched via electronic interface with AUTOM by two or more crowd participants, the Price Improving ROT/Specialist shall be entitled to receive 40% of an incoming order. If one of the matching crowd participants is the specialist, the specialist shall be entitled to receive 30% of an incoming order, and any other ROT(s) that matched the Price Improving ROT's order shall be entitled to receive 30% of an incoming order, in the aggregate.

(c) When a Price Improving ROT/Specialist's price improving order is matched via electronic interface with AUTOM by two or more other ROTs in the crowd, the Price Improving ROT/Specialist shall be entitled to receive 40% of an incoming order, and any other ROT(s) that matched the Price Improving ROT's order shall be entitled to receive 60% of an incoming order, in the aggregate.

(d) Any partial contracts shall be rounded up in favor of the Price Improving ROT/Specialist.

(2) The Special Allocation set forth in (a)-(c) above shall remain in effect until:

(a) the price improving order has been executed up to the minimum number of contracts required under Rule 1080, Commentary .04;

(b) the Price Improving ROT/Specialist cancels the price improving order;

(c) the original price improving order is superceded by a new price improving order, unless that new price improving order is cancelled before at least one contract executes at that price (in which case the original price improving order remains subject to special allocation until one of these three conditions occur).

(3) Once the Special Allocation is no longer in effect, all contracts remaining to be executed at the originally improved price (including those remaining of the price improving order) shall be considered on parity and allocated in accordance with Exchange Rules 1014(g)(ii)-(iv). Thus, if the specialist is among the crowd participants remaining on parity, the specialist shall be entitled to receive an Enhanced Specialist Participation in eligible options. The Special Allocation may apply to part of an incoming order (up to the minimum number permitted by Rule 1080, Commentary .04 i.e., 20 contracts), with the rest of an incoming order subject to allocation under Rules 1014(g)(ii)-(iv).
(4) In no event shall a Price Improving ROT or crowd participant that matches a price improving order be required to participate in a trade above such Price Improving ROT or crowd participant's stated size.

(5) Notwithstanding the first sentence of Rule 1014(g)(i), neither Rule 119(a)-(d) and (f), nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of trades executed against price-improving orders and orders matching such price improving orders entered into AUTOM via electronic interface. The Special Allocation set forth above shall apply only to Phlx Price Improving ROT or specialist price improving orders and orders matching such price improving orders entered into AUTOM via electronic interface. No other rule relating to the allocation of contracts shall apply to such orders entered into AUTOM via electronic interface, until the Special Allocation ends, which is determined above. The person responsible for allocation of orders under this rule shall use best efforts to ensure that Price Improving ROTs or specialists that enter price improving orders via electronic interface with AUTOM, and crowd participants that match such price improving orders via electronic interface with AUTOM, are allocated contracts in accordance with this Rule.

[(C]\(B]\) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales).

When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer.

The Options Committee may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made via an Exchange circular. This paragraph is subject to a pilot scheduled to expire June 30, 2006, and shall only apply to transactions in equity options (including options overlying Exchange Traded Fund Shares ("ETFs")) and only to such transactions that are effected in open outcry.

(ii) – (viii) No change.

(h) No change.

Commentary: ...

.01 -.04 No change.

.05 (a) RESERVED [ Assignment in non-Streaming Quote Options. With respect to options that are not eligible to be traded by SQTs and RSQTs ("non-Streaming Quote Options"), the Exchange will assign an ROT to act in one or more classes of option contracts. In making such assignments, the Exchange shall give attention to (i) the preference of applicants; (ii)
assuring that financial resources available to an ROT enable him to satisfy the obligations set forth in Rule 1014 with respect to each class of option contracts to which he is assigned; (iii) the applicant's expertise in options trading; and (iv) the applicant's prior market performance. The Exchange may suspend or terminate any assignment of an ROT under this Rule and may make additional assignments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action.]

(b) [Assignment in Streaming Quote Options.] The Options Allocation, Evaluation and Securities Committee (“OAESC”) or its designee shall assign SQTs and RSQTs in one or more Streaming Quote Options in accordance with Rule 507. An SQT or RSQT may be assigned to (and thus submit quotes electronically in) any option traded on Phlx XL for which they are approved by the OAESC.

(c) No change.

.06 - .19  No change.

**Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)**

**Rule 1080.** (a) No change.

(b) Eligible Orders

(i) The following types of orders are eligible for entry into AUTOM:

(A) No change.

(B) [Respecting non-Streaming Quote Options, o] On-floor orders for the proprietary account(s) of non-SQT ROTs and specialists via electronic interface with AUTOM may be entered, subject to the restrictions on order entry set forth in Commentary .04 of this Rule. The following types of orders for the proprietary account(s) of ROTs and specialists are eligible for entry via electronic interface with AUTOM: GTC, day limit and simple cancel.

(C) No change.

(c) [AUTO-X. --AUTO-X is a feature of AUTOM that automatically executes eligible market and marketable limit orders up to the number of contracts permitted by the Exchange for certain strike prices and expiration months in equity options and index options, unless the Options Committee determines otherwise. AUTO-X automatically executes eligible orders using the Exchange disseminated quotation (except if executed pursuant to the NBBO Feature in sub-paragraph (i) below) and then automatically routes execution reports to the originating member organization. AUTOM orders not eligible for AUTO-X are executed manually in accordance with Exchange rules. Manual execution may also occur when AUTO-X is not engaged, such as pursuant to sub-paragraph (iv) below. An order may also be executed partially by AUTO-X and partially manually.}
The Options Committee may for any period restrict the use of AUTO-X on the Exchange in any option or series provided that the effectiveness of any such restriction shall be conditioned upon its having been approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934 and the rules and regulations thereunder. Any such restriction on the use of AUTO-X approved by the Options Committee will be clearly communicated to Exchange membership and AUTOM users through an electronic message sent via AUTOM and through an Exchange information circular. Such restriction would not take effect until after such communication has been made.

Currently, the Exchange's maximum allowable AUTO-X guarantee is 250 contracts. With respect to options on the Nasdaq-100 Index Tracking Stock ("QQQ")SM, orders of up to 2,000 contracts in the first two (2) near term expiration months, and 1,000 contracts for all other expiration months, are eligible for AUTO-X.

For each option, there shall be a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size.

The Exchange shall provide automatic executions for eligible customer and broker-dealer orders up to the Exchange's disseminated size as defined in Exchange Rule 1082 (except with respect to orders eligible for "Book Match" as described in Rule 1080(g)(ii) below), subject to a minimum guaranteed AUTO-X size and a maximum guaranteed AUTO-X size. The current minimum guaranteed AUTO-X size is 1 contract, and the current maximum guaranteed AUTO-X size is 250 contracts, except for QQQSM options.

- If the Exchange's disseminated size is greater than the minimum guaranteed AUTO-X size, and less than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to Exchange's disseminated size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is less than the minimum guaranteed AUTO-X size for that option, inbound eligible orders shall be automatically executed up to such minimum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist or placed on the limit order book.

- If the Exchange's disseminated size is greater than the maximum guaranteed AUTO-X size, inbound eligible orders shall be automatically executed up to such maximum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist.

The minimum and maximum guaranteed AUTO-X size applicable to each option shall be posted on the Exchange's web site.

The Options Committee may, in its discretion, increase the size of orders in one or more classes of multiply-traded equity options eligible for AUTO-X to the extent necessary to match the size of orders in the same options eligible for entry into the automated execution system of any other options exchange, provided that the effectiveness of any such increase shall be conditioned upon its having been filed with the Securities and
(iii) Quotations Interacting With Limit Orders on the Book.

(A) Respecting non-Streaming Quote Options, when a bid or offer that is: (1) generated by the Exchange's Auto-Quote system (or by a proprietary quoting system provided for in Commentary .01(b) of this Rule called "Specialized Quote Feed" or "SQF"); and (2) priced at the National Best Bid or Offer ("NBBO"), and therefore would result in an execution at the NBBO (a "Book Sweep Quote"), matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and allocated among crowd participants signed onto the Wheel. This feature of AUTOM is known as "Book Sweep." If Book Sweep is not engaged at the time the Book Sweep Quote matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist may manually initiate the Book Sweep feature. Book Sweep shall be engaged when AUTO-X is engaged, and shall be disengaged when AUTO-X is disengaged in accordance with Rule 1080(c)(iv) and Rule 1080(e). Eligible orders on the limit order book will be automatically executed up to the size associated with the quote that matches or crosses such limit orders.

(B) Respecting Streaming Quote Options, when the bid or offer generated by the Exchange's Auto-Quote system, SQF, or by an SQT or RSQT (as defined in Rule 1014(b)(ii)) matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and automatically allocated in accordance with Exchange rules. If Book Sweep is not engaged at the time the Auto-Quote, SQF, RSQT or SQT bid or offer matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist, RSQT, or SQT may manually initiate the Book Sweep feature.

(iv) – (vi) No change.

(d) - (f) No change.

(g) [AUTO-X ] Contra-Party Participation --The contra-side to automatically executed orders may be: (i) [a Wheel Participant] an electronic quotation ; or (ii) a booked customer limit order.

(A) [The Wheel --With respect to non-Streaming Quote Options, contra-party participation for AUTO-X automatic execution shall rotate among Wheel Participants (which are specialists and ROTs signed-up on the Wheel for that listed option) in each option in accordance with procedures established by the Exchange. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions. Specialists on the Options Floor are required to participate on the Wheel in assigned issues.
No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT's total assigned issues, and ROT may only sign-on the Wheel in one assignment area at any given time. In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option.

AUTO-X participation shall be assigned to Wheel Participants on a routine basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in that listed option. The Wheel shall rotate and assign contracts in accordance with procedures established by the Exchange.

(B)] Book Match --For purposes of this sub-paragraph, the contra-side to automatically executed inbound marketable orders shall be a limit order on the book or specialist, RSQT and/or SQT electronic quotes ("electronic quotes") at the disseminated price where: (1) the Exchange's disseminated size includes limit orders on the book and/or electronic quotes at the disseminated price; and (2) the disseminated price is the National Best Bid or Offer. This feature is called Book Match.

(h) – (l) No change.

Commentary: ...

.01 (a) Automatic Quotation (Auto-Quote) is the Exchange's electronic options pricing system, which enables specialists to automatically monitor and instantly update quotations.

(b) (i) The Auto-Quote System includes three commonly used options pricing algorithms: the Black Scholes Option Pricing Model; the Cox, Ross and Rubenstein Binomial Option Pricing Model; and the Barone, Adesi and Whaley American Option Pricing Model. In addition, a specialist or SQT may separately employ other pricing models, by establishing a specialized connection by-passing the Exchange's Auto-Quote System, which is known as a specialized quote feed.

(ii) [Respecting non-Streaming Quote Options, s] Specialists, SQTs and RSQTs determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist, SQTs and RSQTs to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends. [The specialist may, but is not required to (a) consult with and/or (b) agree with the trading crowd in setting these parameters or selecting a model, but the members of the trading crowd are not required to provide input in these decisions, and in all cases, the specialist has the responsibility and authority to make the final determination.

(c) With respect to non-Streaming Quote Options, the disseminated market (whether by Auto-Quote or specialized quote feed) is deemed to represent the quotations of all ROTs in that option unless a ROT has expressly indicated otherwise in a clear and audible manner, respecting either a specific series, the class or the option (specifying LEAPS), and with sufficient time for the specialist to take action to update the quote if necessary.
(d) If options trading systems throttle quotations for at least three minutes, the Chairman of the Board of Governors or his designee may, for capacity management purposes, mandate that the Auto-Quote or specialized quote feed be set to update quotations based on a certain minimum movement in the underlying security for: (i) all options; (ii) index options only; or (iii) certain specified options, taking into account certain factors that may include, but are not limited to, the price of the underlying security, volatility in the underlying security, or whether there has been any trading volume over the last two trading days. Such mandated minimum setting may continue for a period of 15 minutes, and may be continued every 15 minutes thereafter, provided that the Exchange's options trading systems are throttling quotations at the end of each such 15-minute period.

.02 - .03 No change.

.04 ROT Limit Orders. [Respecting Streaming Quote Options, o] On-floor orders for the proprietary accounts of non-SQT ROTs may be entered for delivery through AUTOM, through the use of Exchange approved proprietary systems to interface with AUTOM ("interface") to be placed on the limit order book. [Respecting non-Streaming Quote Options, on-floor orders for the proprietary account(s) of ROTs or specialists may also be entered through the interface.] Such orders shall be for a minimum of 10 contracts [in both Streaming Quote Options and non-Streaming Quote Options].

[Respecting non-Streaming Quote Options, inbound orders eligible for execution against price-improving ROT orders entered into AUTOM via electronic interface and orders that match such orders via electronic interface with AUTOM, shall be executed by the specialist and shall be allocated by the person required to do so pursuant to Exchange Rule 1014(g)(vi). Respecting Streaming Quote Options, inbound AUTOM orders or electronic quotations eligible for execution against non-SQT ROT limit orders entered into AUTOM via electronic interface shall be automatically executed and shall be allocated automatically pursuant to Exchange rules. The Exchange will make electronic interface with AUTOM available to member firms, and will notify all members on the Options Floor when it has completed the development of appropriate interfaces for such proprietary systems on the Options Floor, and when the use of such electronic interfaces may commence. Thereafter, ROTs and specialists must connect with these interfaces with their own proprietary devices.

Not later than ten days following approval by the Securities and Exchange Commission of the rules applicable to the Exchange's electronic trading platform, Phlx XL, the Exchange will commence the initial deployment of Phlx XL by allowing specialists and ROTs who are Streaming Quote Traders ("SQTs," as defined in the Phlx XL rules) to submit electronic quotations in Streaming Quote Options (as defined in the Phlx XL rules), and ROTs who are not SQTs to submit limit orders onto the limit order book via electronic interface with AUTOM. Eligible incoming orders and quotations will automatically execute against quotations of specialists and SQTs and orders of ROTs in accordance with the functionality of the Phlx XL system, as set forth in the Phlx XL rules.
Over a period following the commencement of operation of the Phlx XL system, the Exchange expects to gradually increase the number of Streaming Quote Options eligible to be traded via Phlx XL. If the Phlx XL system is in operation on April 30, 2005, but less than all of the options traded on the Exchange are Streaming Quote Options, then the Exchange shall, as of April 30, 2005, ensure that the AUTOM system automatically executes eligible incoming orders in options that are not then Streaming Quote Options against Phlx Price Improving ROT and specialist price improving orders and orders matching such price-improving orders entered via the electronic interface with AUTOM described in this Commentary .04 and that are resting on the limit order book.

If the Exchange for any reason determines not to deploy Phlx XL, or if, following the initial deployment of the Phlx XL system, the deployment of Phlx XL is terminated for any reason, then the Exchange shall, within 30 days of such determination not to deploy Phlx XL or termination, ensure that the AUTOM system (or any successor thereto) automatically executes eligible incoming option orders against Phlx Price Improving ROT and specialist price improving orders and orders matching such price-improving orders entered via the electronic interface with AUTOM described in this Commentary .04 and that are resting on the limit order book. In such event, the Exchange shall, at the time of such termination, identify to the Commission and to members and member organizations the options subject to such automatic execution, and shall cause all options to be subject to automatic execution by April 30, 2005.

.05 - .06  No change.

.07  RESERVED  [The specified disengagement size set forth in Rule 1080(c)(iv)(I) is subject to the approval of the Options Committee. The specified disengagement size for each option shall be posted on the Exchange's web site.]

**Firm Quotations**

**Rule 1082.** (a) No change.

(i) No change.

(ii) The term "disseminated size" shall mean with respect to the disseminated price for any quoted options series:

(A) [respecting non-Streaming Quote options (as defined in Rule 1080(k)), at least the sum of the size associated with: (1) limit orders; and (2) specialists' quotations generated by Auto-Quote or Specialized Quote Feed as described in Rule 1080, Commentary .01 (which represents the collective quotation size of the specialist and any ROTs bidding or offering at the disseminated price unless an ROT has expressly indicated otherwise in a clear and audible manner).

(B) respecting Streaming Quote Options, a] At least the sum of the size associated with limit orders, specialists' quotations, SQTs' quotations, and RSQTs' (as defined in Rule 1014(b)(ii)(B)) quotations.
(C) (1) No change.

(2) If the Exchange's disseminated size in a particular series in a Streaming Quote option is exhausted at that particular price level, and no specialist, SQT or RSQT has revised their quotation immediately following the exhaustion of the Exchange's disseminated size at such price level, the Exchange shall automatically provide two-sided quotes that comply with the Exchange's rules concerning quote spread parameters on behalf of the specialist until such time as the specialist revises the quotation, with a size of one contract.


(iv) The terms "customer," "responsible broker or dealer," and "specified persons" shall have the meaning set forth in the SEC Quote Rule.

(b) (i) [With respect to non-Streaming Quote Options, e ] Except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size. [Responsible brokers or dealers bidding (or offering) at the disseminated price shall be collectively required to execute orders presented to them at such price up to the disseminated size in accordance with Rule 1015, or, i ] If the responsible broker or dealer is representing (as agent) a limit order, such responsible broker or dealer shall be responsible (as agent) up to the size of such limit order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such limit order to the extent provided in Rule 1015.

(ii) [With respect to Streaming Quote Options, i] In the event an SQT, RSQT or specialist in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT, RSQT or specialist member shall be considered a "responsible broker or dealer" for that bid or offer, up to the size associated with such responsible broker or dealer's bid or offer.

(c) The requirements of paragraph (b) or (d) of this Rule shall not apply to displayed quotations: (i) when the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote Rule in a manner that accurately reflects the current market on the Exchange as determined by two Floor Officials, with the concurrence of the Director of Surveillance, or his designee; (ii) during a trading rotation; (iii) if any of the circumstances provided in paragraph (c)(3) of the SEC Quote Rule exist; or (iv) on a case by case basis where it is determined that an exemption is warranted for an obvious error in the posting of the disseminated price or disseminated size due to reporter error or system malfunction. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when two Floor Officials determine that the conditions supporting that declaration no longer exist. The Exchange shall immediately notify all specified persons of such a determination.
Any exemption granted pursuant to paragraph (c)(iv) shall be in writing and shall set forth the basis upon which the exemption is granted.

(d) No change.

Commentary: ...

.01 No change.

.02 Locked Markets. In the event that an SQT, RSQT, and/or specialist's electronically submitted quotations in Streaming Quote Options interact with the electronically submitted quotations of other SQTs, RSQTs and/or the specialist, resulting in the dissemination of a “locked” quotation (e.g., $1.00 bid - 1.00 offer), the following shall occur:

(a) No change.

(b) A “counting period” of one second will begin during which SQTs, RSQTs and/or specialists whose quotations are locked may eliminate the locked market. Provided, however, that in accordance with subparagraph (a) above, such SQT, RSQT and/or specialist shall be obligated to execute orders at their disseminated quotation. During the “counting period” SQTs and specialists located in the Crowd Area in which the option that is the subject of the locked market is traded will continue to be obligated to respond to Floor Brokers as set forth in Rule 1014, Commentary .05(c), and will continue to be obligated for one contract in open outcry to other SQTs, non-SQT ROTs, and specialists. If at the end of the one-second counting period the quotations remain locked, the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Rule 1014(g)(vii).

The quotation that is locked may be executed by an order during the one-second counting period.

.03 No change.

**Options Floor Procedure Advises**

**B-6 Priority of Options Orders for Equity Options and Index Options by Account Type**

*(EQUITY OPTION AND INDEX OPTION ONLY)*

**Section A**

Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (ii) below.

For the purposes of this Advice, “Initiating Order” means an incoming contra-side order.
(i) Respecting [non-Streaming Quote Options] transactions that are executed and allocated in open outcry, “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Advice. The Remainder of the Order shall be allocated pursuant to this Advice.

(ii) [Respecting Streaming Quote Options, a] An Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Section F of this Advice. “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (ii).

Section B – (F) No change.

FINE SCHEDULE No change.

F-7 Size of Exchange’s Disseminated Bid or Offer

The size of any disseminated bid or offer by the Exchange shall be, with respect to the disseminated price for any quoted options series, equal to:

(a) [respecting non-Streaming Quote options (as defined in Rule 1080(k), at least the sum of the size associated with: (1) limit orders; and (2) specialists’ quotations generated by Auto-Quote or Specialized Quote Feed as described in Rule 1080, Commentary .01 (which represents the collective quotation size of the specialist and any ROTs bidding or offering at the disseminated price unless an ROT has expressly indicated otherwise in a clear and audible manner).

(b) respecting Streaming Quote Options, a] At least the sum of the size associated with limit orders, specialists’ quotations, SQTs’ quotations, and RSQTs’ quotations.

F-24 RESERVED. [AUTO-X Contra-Party Participation (The Wheel) (NON-STREAMING QUOTE EQUITY OPTION AND INDEX OPTION ONLY)

(a) Public customer orders of sizes up to the maximum permissible size, or lesser eligible amounts as set by the respective trading crowd, are eligible for AUTO-X automatic executions at the displayed market. The Options Committee may, however, for any period restrict the use of AUTO-X on the Exchange in any listed option, option class, option series, user or account type.

(b) Contra-party participation for AUTO-X automatic executions shall rotate among Wheel Participants which are specialists and ROTs signed-up on the Wheel for that listed option in each option in accordance with paragraph (e) below. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions.
(c) Participation Requirements and Sign-on/off - Specialists on the Options Floor are required to participate on the Wheel in assigned issues in accordance with paragraph (e) of this Advice.

(i) ROTs may elect to participate on the Wheel for any or all issues in which they maintain an ROT assignment, as long as those listed options are located within two contiguous quarter turrets of each other and the ROT is actively making markets in the specific issues. No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT’s total assigned issues, an ROT may only sign-on the Wheel in one Wheel assignment area at any given time. For the purposes of this Advice, a Wheel assignment area is each area on the trading floor constituted by two contiguous quarter turrets. However, the Options Committee may extend a Wheel assignment area on a case-by-case basis, taking into account the activity and trading crowd size in those options as well as the intervening posts, if it is determined that:

the specialists and all Wheel participants on all Wheels agree that an ROT can be actively making markets in that particular situation and can thus be considered presenting such Wheel issues, until either specialist or any such Wheel participant no longer agree that the circumstances warrant an extension.

(ii) In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option. Although ROTs may sign-on in individual listed options, a sign-off by an ROT is effective for all options for which the ROT is on the Wheel. Sign-offs shall become effective immediately upon being processed for deletion in the computer system.

(iii) If an ROT who is signed-on the Wheel is away from the Wheel assignment area for more than a brief interval, a Floor Official shall:

(A) remove the ROT from any Wheel participation for the remainder of the trading day; and

(B) issue a fine pursuant to the fine schedule below.

If such ROT is assigned a Wheel trade while away from the Wheel assignment area for more than a brief interval, that ROT is responsible for all trades assigned to his/her ROT account until the sign-off is processed.

FINE SCHEDULE (Implemented on a two-year running calendar basis)
F-24 (c) (iii)

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<tr>
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<td>3rd Occurrence</td>
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<tr>
<td>4th Occurrence and Thereafter</td>
<td>Sanction is discretionary with Business Conduct Committee</td>
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(d) Extraordinary Circumstances - With respect to the Wheel sign-on/sign-off procedures, a Floor Official may permit, in extraordinary circumstances, the modification of an ROT's Wheel participation. In addition, in extraordinary circumstances, in order to promote liquidity, two Floor Officials may require all assigned ROTs to participate on the Wheel.

(e) Wheel Rotation/Assigning Contracts - AUTO-X participation shall be assigned to Wheel Participants on a rotating basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in that listed option at that time. At a minimum, the Wheel shall rotate and assign contracts depending upon the size of the AUTO-X guarantee, as follows:

1-10 contracts every 2 contracts;
11-25 contracts every 5 contracts;
26 and more every 10 contracts

The Options Committee, or its designees, may approve a Wheel rotation in a size larger than the minimum stated above, if requested by the specialist and Wheel participants. However, the Wheel may not rotate in a size larger than ten contracts.

Each remaining portion shall be successively assigned to individual Wheel Participants on that same basis. The specialist shall receive the first execution of the day; thereafter, if four or less ROTs are participating on the Wheel, the specialist shall participate in a normal rotation. However, if an average of five to 15 ROTs have signed-on the Wheel, the specialist shall receive every fifth execution; if an average of 16 or more ROTs have signed-on the Wheel, the specialist shall receive every tenth execution, unless Wheel participation falls below ten participants at any time, then the specialist shall automatically participate in a normal rotation.

Exception to the normal rotation: With the unanimous consent of Wheel participants in an option and approval of the Options Committee Chairman or his designee, the specialist shall receive an enhanced participation substantially equivalent to twice the number of contracts as other crowd participants where the Enhanced Specialist Participation of Rule 1014(g)(ii) applies.

(f) The provisions of section (e) above will be reviewed and evaluated by the Options Committee, on a six month basis.

FINE SCHEDULE

F-24 Fine not applicable, except paragraph (c)(iii). Matters subject to review by the Business Conduct Committee.