Proposed Rule Change by Philadelphia Stock Exchange

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

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Initial Amendment Withdrawal

Section 19(b)(2) Section 19(b)(3)(A) Section 19(b)(3)(B)

☑ 19b-4(f)(5) ☐ 19b-4(f)(6)

Pilot Extension of Time Period for Commission Action Date Expires

☑ 19b-4(f)(1) ☐ 19b-4(f)(4)

☑ 19b-4(f)(2) ☐ 19b-4(f)(5)

☑ 19b-4(f)(3) ☐ 19b-4(f)(6)

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Description

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

Relating to Immediate or Cancel ("IOC") Orders and Quarter Second Counting Period

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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.

First Name Edith Last Name Hallahan

Title Sr. Vice President & Deputy General Counsel

E-mail Edith.hallahan@phlx.com

Telephone (215) 496-5179 Fax (215) 496-6729

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 05/05/2006

By Cynthia Hoekstra Director

(Name) (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.

Cynthia HOekstra,
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.

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

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 I 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 (i) Exchange Rule 1080(b)(i)(B) and Commentary .04\(^3\) to permit SQTs,\(^4\) non-SQT ROTs,\(^5\) and specialists to enter Immediate or Cancel ("IOC") orders for their own account(s) through an electronic interface with AUTOM;\(^6\) and (ii) Commentary .02 and .03 of Exchange Rule 1082 to reduce the one-second “counting period” to ¼ of one second during which SQTs, RSQTs and/or specialists may eliminate the locked or crossed markets caused by their electronic quotations.\(^7\)

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3 The Exchange has previously filed a proposed rule change to delete obsolete provisions in the Exchange’s rules that no longer apply because of technological advancements or obsolete trading practices. In that filing, portions of Rule 1080 Commentary .04 regarding non-streaming quote options are proposed to be deleted. See SR-Phlx-2006-28 filed April 27, 2006.

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

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

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

7 Any unresolved locked or crossed markets remaining after the counting period are automatically executed.
A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the amended rule change is set forth below. Brackets indicate deletions; underlining indicates new text

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 SQTs and 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 non-SQT ROTs and specialists are eligible for entry via electronic interface with AUTOM: GTC, day limit, IOC and simple cancel. The following types of orders for the proprietary account(s) of SQTs are eligible for entry via electronic interface with AUTOM: IOC.

(C) No Change.

(ii) – (iii) No Change.

(c) – (l) No Change.

Commentary:

.01 - .03 No Change.

.04 ROT Limit Orders. On-floor orders for the proprietary accounts of SQTs and 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. Such orders shall be for a minimum of one (1) [0] contract[s].

.05-.07 No Change.
Rule 1082. Firm Quotations

(a) – (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) The Exchange will disseminate the locked market and both quotations will be deemed "firm" disseminated market quotations;

(b) A "counting period" of [one] 1/4 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] 1/4 of 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] 1/4 of one second counting period.

.03 Crossed Markets. The Exchange will not disseminate an internally crossed market (e.g., $1.10 bid, 1.00 offer). If an SQT, RSQT or specialist electronically submits a quotation in a Streaming Quote Option ("incoming quotation") that would cross an existing quotation ("existing quotation"), the Exchange will: (i) change the incoming quotation such that it locks the existing quotation; (ii) send a notice to the SQT, RSQT or specialist that submitted the incoming quotation indicating that its quotation was crossed; and (iii) send a notice to the specialist, SQT or RSQT that submitted the incoming quotation, indicating that its quotation crossed the existing quotation and was changed. Such a locked market shall be handled in accordance with Commentary .01 above. During the [one] 1/4 of one second counting period.
second counting period, if the existing quotation is cancelled subsequent to the time the incoming quotation is changed, the incoming quotation will automatically be restored to its original terms.

2. Procedures of the Self-Regulatory Organization

The 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 Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.

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 change to Exchange Rule 1080(b)(i)(B) is to offer an additional mechanism for on-floor participants to trade against orders and electronic quotations. The proposed rule change would enable SQTs, non-SQT ROTs, and specialists to enter IOC orders electronically for their own account. Currently, only good-till-cancelled day limit and simple cancel orders can be entered by non-SQT ROTs, in addition to continuous quotations. Under the proposal, SQTs can now enter IOC orders.\(^8\) Such orders may now be for one contract; the 10 contract minimum is being deleted as an unnecessary restriction based on the Exchange’s experience with Phlx XL.

The purpose of the proposed change to Commentary .02 and .03 of Exchange Rule 1082 is to improve the speed by which the Exchange’s systems can automatically execute locked or crossed quotations against one another and eliminate the locked or

\(^8\) See Phlx Rule 1080(b).
crossed market situation, which should, in turn, facilitate compliance with firm quote obligations.  

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act 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 increasing the efficiency of options trading on the Exchange by allowing on-floor participants to electronically enter an additional type of order, which should increase the number of automatic executions. The Exchange believes this new functionality should increase order interaction between market participants on the Exchange and the electronic limit order book. The Exchange also believes that reducing the counting period during which market participants may resolve locked and crossed markets should improve market efficiency by eliminating locked and crossed markets in a more timely fashion.

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.

\[9 \text{ See Phlx Rule 1082.}\]

\[10 \text{ 15 U.S.C. 78f(b).}\]

\[11 \text{ 15 U.S.C. 78f(b)(5).}\]
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.

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)**

   Not applicable.

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

   The proposed rule change is similar to Chicago Board Options Exchange Inc. (“CBOE”) Rule 6.45A and 6.45B.\(^\text{12}\)

9. **Exhibits**

   1. Notice of proposed rule for publication in the Federal Register.

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\(^{12}\) Both of these rules contain CBOE’s one second counting period.
SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-31)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the
Philadelphia Stock Exchange, Inc. Relating to Immediate or Cancel ("IOC") Orders and
Quarter Second Counting Period

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 (i) Exchange Rule 1080(b)(i)(B) and Commentary .04\(^5\) to permit
SQTs,\(^6\) non-SQT ROTs,\(^7\) and specialists to enter Immediate or Cancel ("IOC") orders for


\(^5\) The Exchange has previously filed a proposed rule change to delete obsolete provisions in the Exchange’s
rules that no longer apply because of technological advancements or obsolete trading practices. In that
filing, portions of Rule 1080 Commentary .04 regarding non-streaming quote options are proposed to be deleted. See SR-Phlx-2006-28 filed April 27, 2006.

\(^6\) An SQT is a ROT who has received permission from the Exchange to generate and submit option
quotations electronically through AUTOM in eligible options in which such SQT is assigned. A SQT may
their own account(s) through an electronic interface with AUTOM; and (ii) Commentary .02 and .03 of Exchange Rule 1082 to reduce the one-second “counting period” to ¼ of one second during which SQTs, RSQTs and/or specialists may eliminate the locked or crossed markets caused by their electronic quotations.

The text of the amended rule change is set forth below. Brackets indicate deletions; underlining indicates new text.

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

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and specialists are eligible for entry via electronic interface with AUTOM: GTC, day limit, IOC and simple cancel. The following types of orders for the proprietary account(s) of SQTs are eligible for entry via electronic interface with AUTOM: IOC.

(C) No Change.

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Commentary:

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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] $\frac{1}{4}$ of 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] $\frac{1}{4}$ of one second counting period.

.03 Crossed Markets. The Exchange will not disseminate an internally crossed market (e.g., $1.10$ bid, $1.00$ offer). If an SQT, RSQT or specialist electronically submits a quotation in a Streaming Quote Option ("incoming quotation") that would cross an existing quotation ("existing quotation"), the Exchange will: (i) change the incoming quotation such that it locks the existing quotation; (ii) send a notice to the SQT, RSQT or specialist that submitted the existing quotation indicating that its quotation was crossed; and (iii) send a notice to the specialist, SQT or RSQT that submitted the incoming quotation, indicating that its quotation crossed the existing quotation and was changed. Such a locked market shall be handled in accordance with Commentary .01 above. During the [one] $\frac{1}{4}$ of one second counting period, if the existing quotation is cancelled subsequent to the time the incoming quotation is changed, the incoming quotation will automatically be restored to its original terms.

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 change to Exchange Rule 1080(b)(i)(B) is to offer an additional mechanism for on-floor participants to trade against orders and electronic quotations. The proposed rule change would enable SQTs, non-SQT ROTs, and
specialists to enter IOC orders electronically for their own account. Currently, only
good-till-cancelled day limit and simple cancel orders can be entered by non-SQT ROTs,
in addition to continuous quotations. Under the proposal, SQTs can now enter IOC
orders. Such orders may now be for one contract; the 10 contract minimum is being
deleted as an unnecessary restriction based on the Exchange’s experience with Phlx XL.

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

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the
Act in general, and furthers the objectives of Section 6(b)(5) of the Act 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 increasing
the efficiency of options trading on the Exchange by allowing on-floor participants to
electronically enter an additional type of order, which should increase the number of
automatic executions. The Exchange believes this new functionality should increase
order interaction between market participants on the Exchange and the electronic limit

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11 See Phlx Rule 1082.
order book. The Exchange also believes that reducing the counting period during which market participants may resolve locked and crossed markets should improve market efficiency by eliminating locked and crossed markets in a more timely fashion.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition 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**

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which Phlx consents, the Commission shall: (a) by order approve such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. **Solicitation of Comments**

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

- Use the Commission’s Internet comment form
  (http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-31 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2006-31. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission’s Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information
that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2006-31 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.\textsuperscript{14}

\begin{center}
Nancy M. Morris  
Secretary
\end{center}

\textsuperscript{14} 17 CFR 200.30-3(a)(12).