Proposed Rule Change by Philadelphia Stock Exchange

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

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Pilot

- Extension of Time Period for Commission Action
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Rule

- 19b-4(f)(1)
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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.

First Name: Richard

Last Name: Rudolph

Title: Vice President and Counsel

E-mail: Richard.Rudolph@phlx.com

Telephone: (215) 496-5074

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: 12/08/2006

By: Richard S. Rudolph

Vice President and Counsel

(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.

Richard Rudolph,
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 Exchange Rule 1080(b)(i)(B) and Commentary .04 thereto to permit Streaming Quote Traders (“SQTs”)\(^3\) to enter Immediate or Cancel (“IOC”)\(^4\) orders for their own account(s) through an electronic interface with AUTOM;\(^5\) to permit non-SQT ROTs\(^6\) and specialists to place proprietary limit orders with a size of 10 contracts or greater onto the limit order book; and to permit non-SQT ROTs and specialists to submit proprietary limit orders with a size of less than 10 contracts as IOC only. The Exchange further proposes to amend Commentary .02 and .03 of Exchange Rule 1082 to reduce the one-second “counting period” to ¼ of one second during which


\(^3\) 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).

\(^4\) An immediate-or-cancel order is an order that is to be executed in whole or in part as soon as such order is submitted. Any portion not so executed is to be treated as cancelled.

\(^5\) 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.

\(^6\) 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).
SQTs, RSQTs and/or specialists may eliminate the locked or crossed markets caused by their electronic quotations.\(^7\)

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 proposed 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) 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.

(1) The following types of orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of 10 contracts or greater are eligible for entry via electronic interface with AUTOM: GTC, day limit, IOC and simple cancel. Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(2) 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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\(^7\) Any unresolved locked or crossed markets remaining after the counting period are automatically executed.
(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) contract[s]. Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only. Orders for the proprietary account(s) of SQTs shall be submitted as IOC only.

.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 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-] 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.

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 December 6, 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.

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 participants on the Exchange’s electronic trading platform for options, Phlx XL<sup>8</sup> to trade against orders and electronic quotations. The proposed rule

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change would enable SQTs, non-SQT ROTs, and specialists to enter orders electronically for their own account.

Currently, only non-SQT ROTs and specialists may enter limit orders, and such limit orders may only be submitted with a minimum size of 10 contracts as good-till-cancelled, day limit and simple cancel orders. Under the proposal, the Exchange would expand limit order entry to SQTs, who would be permitted to enter IOC orders with no size limitation.

The proposal would include limitations on the eligible order type and permissible order size, depending on the status of the participant submitting the order. Specifically, non-SQT ROTs and specialists would be permitted to submit limit orders with a size of 10 contracts or greater as Good-Till-Cancelled (“GTC”), day limit, IOC or simple cancel order types. Orders for less than 10 contracts submitted by non-SQT ROTs and specialists would be required to be submitted as IOC only.\(^9\)

SQTs would be permitted to submit limit orders of any size,\(^{10}\) provided that all limit orders submitted by SQTs and RSQTs must be submitted as IOC, regardless of the size of such limit orders. Thus, limit orders submitted by SQTs and RSQTs would not be eligible to rest on the limit order book, and would be cancelled if not executed immediately. If only a part of such an order is executed immediately, the remaining unexecuted contracts in such an order would be cancelled.

\(^9\) Currently, the IOC order type is not eligible for submission by non-SQT ROTs and specialists, and all orders must be for a minimum size of 10 contracts. The proposal would permit orders with a size of less than 10 contracts, provided that such orders must be submitted as IOC only. Orders submitted by non-SQT ROTs and specialists with a size of 10 contracts or greater would be eligible to be placed on the limit order book.

\(^{10}\) Currently, the Exchange permits SQTs to submit electronic quotations only. The proposal would permit SQTs to submit IOC limit orders in addition to electronic quotations. The quoting obligations applicable to SQTs contained in Exchange Rule 1014(b)(ii)(D) would be unchanged.
The purpose of this Amendment No. 1, which replaces the previous filing in its entirety, is to clarify that specialists and non-SQT ROTs that submit limit orders with a size of less than 10 contracts must submit such orders as IOC only. This is to ensure that limit orders with a size of less than 10 contracts are not placed on the limit order book. The Exchange believes that this provision should encourage liquidity on the Exchange; limit orders on the limit order book that represent the Exchange’s best bid or offer would thus result in a disseminated size of at least 10 contracts on the Exchange.

The purpose of the proposed change to Commentary .02 and .03 of 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.¹¹

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act¹² in general, and furthers the objectives of Section 6(b)(5) of the Act¹³ 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

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¹¹ See Phlx Rule 1082.


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.

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.\(^\text{14}\)

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\(^{14}\) See Securities Exchange Act Release No. 51366 (March 14, 2005), 70 FR 13217 (March 18, 2005) (SR-
CBOE-2004-75).
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-2006-31)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Limit Orders Submitted by Streaming Quote Traders

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4² 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 Act³ and Rule 19b-4 thereunder,⁴ proposes to amend Exchange Rule 1080(b)(i)(B) and Commentary .04 thereto to permit Streaming Quote Traders (“SQTs”⁵) to enter Immediate or Cancel (“IOC”)⁶ orders for

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⁵ 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).
⁶ An immediate-or-cancel order is an order that is to be executed in whole or in part as soon as such order is submitted. Any portion not so executed is to be treated as cancelled.
their own account(s) through an electronic interface with AUTOM;\(^7\) to permit non-SQT
ROTs\(^8\) and specialists to place proprietary limit orders with a size of 10 contracts or
greater onto the limit order book; and to permit non-SQT ROTs and specialists to submit
proprietary limit orders with a size of less than 10 contracts as IOC only. The Exchange
further proposes to amend Commentary .02 and .03 of Exchange Rule 1082 to reduce the
one-second “counting period” to \(\frac{1}{4}\) of one second during which SQTs, RSQTs and/or
specialists may eliminate the locked or crossed markets caused by their electronic
quotations.\(^9\)

The text of the proposed 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.

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\(^7\) 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.

\(^8\) 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).

\(^9\) Any unresolved locked or crossed markets remaining after the counting period are automatically executed.
(B) 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.

(1) The following types of orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of 10 contracts or greater are eligible for entry via electronic interface with AUTOM: GTC, day limit, IOC and simple cancel. Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.

(2) 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]. Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only. Orders for the proprietary account(s) of SQTs shall be submitted as IOC only.

.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 \([one-] \frac{1}{4} \) 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 \([one-] \frac{1}{4} \) 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 rule change is to offer an additional mechanism for
   participants on the Exchange’s electronic trading platform for options, Phlx XL\(^{10}\) to trade
   against orders and electronic quotations. The proposed rule change would enable SQTs,
   non-SQT ROTs, and specialists to enter orders electronically for their own account.

   Currently, only non-SQT ROTs and specialists may enter limit orders, and such
   limit orders may only be submitted with a minimum size of 10 contracts as good-till-
   cancelled, day limit and simple cancel orders. Under the proposal, the Exchange would
   expand limit order entry to SQTs, who would be permitted to enter IOC orders with no
   size limitation.

   The proposal would include limitations on the eligible order type and permissible
   order size, depending on the status of the participant submitting the order. Specifically,
   non-SQT ROTs and specialists would be permitted to submit limit orders with a size of
   10 contracts or greater as Good-Till-Cancelled (“GTC”), day limit, IOC or simple cancel
   order types. Orders for less than 10 contracts submitted by non-SQT ROTs and
   specialists would be required to be submitted as IOC only.\(^{11}\)

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\(^{11}\) Currently, the IOC order type is not eligible for submission by non-SQT ROTs and specialists, and all
orders must be for a minimum size of 10 contracts. The proposal would permit orders with a size of less
than 10 contracts, provided that such orders must be submitted as IOC only. Orders submitted by non-SQT
ROTs and specialists with a size of 10 contracts or greater would be eligible to be placed on the limit order
book.
SQTs would be permitted to submit limit orders of any size, provided that all limit orders submitted by SQTs and RSQTs must be submitted as IOC, regardless of the size of such limit orders. Thus, limit orders submitted by SQTs and RSQTs would not be eligible to rest on the limit order book, and would be cancelled if not executed immediately. If only a part of such an order is executed immediately, the remaining unexecuted contracts in such an order would be cancelled.

The purpose of this Amendment No. 1, which replaces the previous filing in its entirety, is to clarify that specialists and non-SQT ROTs that submit limit orders with a size of less than 10 contracts must submit such orders as IOC only. This is to ensure that limit orders with a size of less than 10 contracts are not placed on the limit order book. The Exchange believes that this provision should encourage liquidity on the Exchange; limit orders on the limit order book that represent the Exchange’s best bid or offer would thus result in a disseminated size of at least 10 contracts on the Exchange.

The purpose of the proposed change to Commentary .02 and .03 of 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.

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

13 See Phlx Rule 1082.
2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\textsuperscript{14} in general, and furthers the objectives of Section 6(b)(5) of the Act\textsuperscript{15} 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.

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.

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

\textsuperscript{15} 15 U.S.C. 78f(b)(5).
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.
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{16}

Nancy M. Morris  
Secretary

\textsuperscript{16} 17 CFR 200.30-3(a)(12).
Exhibit 4

Brackets indicate deletions; underlining indicates new text; bold indicates changes from previously submitted 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] 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.

(1) 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. **Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only.**

(2) 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) contract[s]. **Orders for the proprietary account(s) of non-SQT ROTs and specialists with a size of less than 10 contracts shall be submitted as IOC only. Orders for the proprietary account(s) of SQTs shall be submitted as IOC only.**

.05-.07 No Change.