Proposed Rule Change by Philadelphia Stock Exchange
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial Amendment Withdrawal

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

Rule

Pilot Extension of Time Period for Commission Action Date Expires

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

Rule


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 07/11/2006
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 1063(e) to include a cross\(^3\) as one of the transaction categories to be recorded onto the Options Floor Broker Management System ("FBMS").\(^4\) A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of the proposed rule change is set forth below.

Underlining indicates new text.

**Responsibilities of Floor Brokers**

**Rule 1063.** (a) – (d) No change.

(e) *Options Floor Broker Management System.* In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Broker Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer); (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a complex order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number

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\(^3\) A cross can occur when a Floor Broker holds orders to buy and sell the same options series. See Exchange Rule 1064(a).

\(^4\) The FBMS is a component of AUTOM, the Exchange's electronic order delivery, routing, execution and reporting system. See Rule 1080. The FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The Options Floor Broker Management System also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order.
of the broker-dealer that submitted the order (collectively, the "required information"). Upon the execution of such an order, the Floor Broker shall enter the time of execution of the trade. Floor Brokers or their employees shall enter clearing information onto the Options Floor Broker Management System no later than five minutes after the execution of a trade. In the event of a malfunction in the Options Floor Broker Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall enter the required information that is recorded on such trade tickets into AUTOM for inclusion in the electronic audit trail.

(f) No change.

Commentary: No change.

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 May 4, 2006.

Questions and comments on the proposed rule change may be directed to Anthony Voci, Director and Counsel at (215) 496-5155, 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

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

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described below. The purpose of this Amendment No. 1 is to clarify the functionality of the augmented FBMS.

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

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

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

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

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6 See Exchange Rule 1064.


and perfect the mechanism of a free and open market and a national market system, and,
in general to protect investors and the public interest, by maintaining an accurate, time-
 sequenced audit trail of options transactions.

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)**

   The Exchange requests that this proposed rule change take effect upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act and paragraph (f)(5) of Rule 19b-4 thereunder; because the proposed amendment to Exchange Rule 1063(e) effects a change in the Exchange’s FBMS that does not significantly affect the protection of investors or the public interest. The proposed amendment to Exchange Rule 1063(e) does not impose any burden on competition and does not have the effect of limiting the access to or availability of the system.

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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.
Exhibit 1

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

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

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 Exchange Rule 1063(e) to include a cross\(^5\) as one of the transaction categories to be recorded onto the Options Floor Broker Management System ("FBMS").\(^6\) The text of the proposed rule change is set forth below.

\(^5\) A cross can occur when a Floor Broker holds orders to buy and sell the same options series. See Exchange Rule 1064(a).
\(^6\) The FBMS is a component of AUTOM, the Exchange's electronic order delivery, routing, execution and reporting system. See Rule 1080. The FBMS is designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The Options
Responsibilities of Floor Brokers

Rule 1063. (a) – (d) No change.

(e) Options Floor Broker Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Broker Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer); (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a complex order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information").

Upon the execution of such an order, the Floor Broker shall enter the time of execution of the trade. Floor Brokers or their employees shall enter clearing information onto the Options Floor Broker Management System no later than five minutes after the execution of a trade. In the event of a malfunction in the Options Floor Broker Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall enter the required information that is recorded on such trade tickets into AUTOM for inclusion in the electronic audit trail.

(f) No change.

Commentary: No change.

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

Floor Broker Management System also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order.
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

In July, 2003, the Exchange implemented a consolidated options audit trail system (“COATS”) to create an electronic audit trail for non-electronic orders and to improve, among other things, order handling by Floor Brokers, by deploying the FBMS. The purpose of the instant proposed rule change is to improve the existing electronic audit trail and provide a more efficient options marketplace by augmenting the FBMS, as described below. The purpose of this Amendment No. 1 is to clarify the functionality of the augmented FBMS.

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

Specifically, in cross transactions where both sides of the transaction contain completely identical terms, Floor Brokers will select the new cross screen which will automatically duplicate all of the terms of the initiating order to record the contra side, prior to representation in the crowd. The Exchange believes that this should better

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capture the actual time of receipt of a crossing order by streamlining the data entry process required of Floor Brokers pursuant to Exchange Rule 1063(e).

Finally, the proposed systems change will not replace the current rules setting forth the in-crowd requirements for Floor Brokers for handling crosses,\(^8\) but will improve the FBMS.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^9\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^{10}\) 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 enhancing its ability to maintain an accurate, time-sequenced audit trail of options transactions.

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

The Exchange does not believe that the proposed rule change 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.

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\(^8\) See Exchange Rule 1064.


\(^{10}\) 15 U.S.C. 78f(b)(5).
III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Exchange requests that this proposed rule change take effect upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act\textsuperscript{11} and paragraph (f)(5) of Rule 19b-4\textsuperscript{12} thereunder; because the proposed amendment to Exchange Rule 1063(e) effects a change in the Exchange’s FBMS that does not significantly affect the protection of investors or the public interest. The proposed amendment to Exchange Rule 1063(e) does not impose any burden on competition and does not have the effect of limiting the access to or availability of the system.

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-2006-35 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.


\textsuperscript{12} 17 CFR 240.19b-4(f)(5).
All submissions should refer to File Number SR-Phlx-2006-35. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be 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-2006-35 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority. 13

Nancy M. Morris
Secretary