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 Date Expires
for Commission Action

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

Proposed rule change relating to in-crowd priority in crossing, facilitation and solicited orders represented and executed in open outcry.

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 07/10/2006
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.
**Form 19b-4 Information**

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.

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**Exhibit 1 - Notice of Proposed Rule Change**

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).

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**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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.

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**Exhibit 3 - Form, Report, or Questionnaire**

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.

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**Exhibit 4 - Marked Copies**

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.

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**Exhibit 5 - Proposed Rule Text**

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.

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**Partial Amendment**

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 1014, Commentary .05(c), to afford priority to in-crowd participants over out-of-crowd Streaming Quote Traders ("SQTs")\(^3\) and Remote Streaming Quote Traders ("RSQTs")\(^4\) in crossing,\(^5\) facilitation\(^6\) and solicited\(^7\) orders. The proposed rule change would apply only to such orders that are represented in open outcry with a size of at least 500 contracts on each side.

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.

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\(^3\) An SQT is an Exchange Registered Options Trader ("ROT") who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such SQT is assigned. An 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 RSQT is an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Exchange Rule 1014(b)(ii)(B).

\(^5\) A crossing order occurs when an options Floor Broker holds orders to buy and sell the same option series. Such a Floor Broker may cross such orders, provided that the trading crowd is given an opportunity to bid and offer for such option series in accordance with Exchange rules. See Exchange Rule 1064(a).

\(^6\) A facilitation order occurs when an options Floor Broker holds an options order for a public customer and a contraside order. Such a Floor Broker may execute such orders as a facilitation order, provided that such Floor Broker proceeds in accordance with Exchange rules concerning facilitation orders. See Exchange Rule 1064(c).

\(^7\) A solicitation occurs whenever an order, other than a cross, is presented for execution in the trading crowd resulting from an away-from-the-crowd expression of interests to trade by one broker dealer to another. See Exchange Rule 1064(c).
Obligations and Restrictions Applicable to Specialists and Registered Options Traders

**Rule 1014.** (a) - (h) No change.

Commentary:

.01 - .04 No change.

.05 (a) – (b) No change

(c) Non-Electronic Orders.  (i) In the event that a Floor Broker or specialist presents a non-electronic order in a Streaming Quote Option in which an RSQT is assigned, and/or in which an SQT assigned in such Streaming Quote Option is not a crowd participant, such SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant SQT and/or RSQT at the time of execution.

(ii) Notwithstanding the foregoing, respecting crossing, facilitation and solicited orders (as defined in Rule 1064) with a size of at least 500 contracts on each side that are represented and executed in open outcry, priority shall be afforded to in-crowd participants over RSQTs and out-of crowd SQTs. Such orders shall be allocated in accordance with Exchange rules.

(iii) The specialist and/or SQTs participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Rule 1033(a)(ii).

(iv) For purposes of this Rule, an SQT or non-SQT ROT shall be deemed to be participating in a crowd if such SQT is, at the time an order is represented in the crowd, physically located in a specific “Crowd Area.” A Crowd Area shall consist of a specific physical location marked with specific, visible physical boundaries on the options floor, as determined by the Options Committee. An SQT or non-SQT ROT who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant in such a Crowd Area, provided that such SQT or non-SQT ROT fulfills the requirements set forth in this Rule 1014. An SQT or non-SQT ROT shall be deemed to be participating in a single Crowd Area.

.06 - .19 No change.
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 June 30, 2006.

   Questions and comments on the proposed rule change may be directed to Richard S. Rudolph, Vice President and Counsel, 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 Exchange proposes to amend Rule 1014, Commentary .05 by affording priority to in-crowd participants over out-of-crowd SQTs and RSQTs in crossing, facilitation and solicited orders represented and executed in open outcry in order to encourage order flow providers to send such orders to the Exchange.

      Currently, Commentary .05 to Rule 1014 provides that, in the event that a Floor Broker or specialist presents a non-electronic order in a Streaming Quote Option in which an RSQT is assigned, and/or in which an SQT assigned in such Streaming Quote Option is not a crowd participant, such SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant SQT and/or RSQT at the time of execution.

      The proposal would carve out crossing, facilitation, and solicited orders from the rule. Specifically, the proposed rule would state that, respecting crossing, facilitation and
solicited orders with a size of at least 500 contracts on each side that are represented and executed in open outcry, priority would be afforded to in-crowd participants over RSQTs and out-of crowd SQTs. Such orders would be allocated in accordance with Exchange rules. The proposed rule would apply only to crossing, facilitation and solicited orders represented in open outcry, and would not apply to orders submitted electronically via the Exchange’s electronic options trading platform, Phlx XL, to which other priority rules apply.

Recently, the Exchange adopted another exception to its normal priority rules concerning open outcry orders, affording priority to in-crowd participants over RSQTs and out-of crowd SQTs in split-price transactions, even when the bid/ask differential is one minimum trading increment.

The Exchange believes that the proposed rule should provide greater incentive for order flow providers to submit crossing, facilitation and solicited orders to the Exchange, thus enabling the Exchange to compete with other exchanges that have similar rules in effect.

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8 The Commentary to Rule 1064 defines participation guarantees in crossing and facilitation orders, and Rule 1014(g) sets forth the in-crowd trade allocation algorithm for other orders.


10 See, e.g., Exchange Rules 1014(g)(vii) and (viii).

11 See, e.g., Exchange Rules 119 and 120.


The proposed rule would apply only to crossing, facilitation and solicited orders with a size of at least 500 contracts on each side that are represented and executed in open outcry.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^\text{14}\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^\text{15}\) 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 adopting a limited exception to the Exchange’s priority rules concerning certain order types represented and executed in open outcry.

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.

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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\(^\text{16}\) and Rule 19b-4(f)(6) thereunder.\(^\text{17}\)

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 proposed rule 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 based on Chicago Board Options Exchange, Inc. ("CBOE") Rule 6.45A.\(^{18}\)

9. **Exhibits**

   1. Notice of proposed rule for publication in the [Federal Register](https://federalregister.gov).

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-42)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Priority for In-Crowd Participants Respecting Crossing, Facilitation and Solicited Orders in Open Outcry Transactions

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 1014, Commentary .05(c), to afford priority to in-crowd participants over out-of-crowd Streaming Quote Traders (“SQTs”)\(^5\) and Remote

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\(^5\) An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such SQT is assigned. An 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).
Streaming Quote Traders ("RSQTs")\(^6\) in crossing,\(^7\) facilitation\(^8\) and solicited\(^9\) orders.

The proposed rule change would apply only to such orders that are represented in open outcry with a size of at least 500 contracts on each side. The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text.

**Obligations and Restrictions Applicable to Specialists and Registered Options Traders**

**Rule 1014.** (a) - (h) No change.

Commentary:

.01 - .04 No change.

.05 (a) – (b) No change

(c) Non-Electronic Orders. (i) In the event that a Floor Broker or specialist presents a non-electronic order in a Streaming Quote Option in which an RSQT is assigned, and/or in which an SQT assigned in such Streaming Quote Option is not a crowd participant, such SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant SQT and/or RSQT at the time of execution.

(ii) Notwithstanding the foregoing, respecting crossing, facilitation and solicited orders (as defined in Rule 1064) with a size of at least 500 contracts on each side that are

\(^6\) An RSQT is an ROT that is a member or member organization with no physical trading floor presence who has received permission from the Exchange to generate and submit option quotations electronically through AUTOM in eligible options to which such RSQT has been assigned. An RSQT may only submit such quotations electronically from off the floor of the Exchange. See Exchange Rule 1014(b)(ii)(B).

\(^7\) A crossing order occurs when an options Floor Broker holds orders to buy and sell the same option series. Such a Floor Broker may cross such orders, provided that the trading crowd is given an opportunity to bid and offer for such option series in accordance with Exchange rules. See Exchange Rule 1064(a).

\(^8\) A facilitation order occurs when an options Floor Broker holds an options order for a public customer and a contraside order. Such a Floor Broker may execute such orders as a facilitation order, provided that such Floor Broker proceeds in accordance with Exchange rules concerning facilitation orders. See Exchange Rule 1064(c).

\(^9\) A solicitation occurs whenever an order, other than a cross, is presented for execution in the trading crowd resulting from an away-from-the-crowd expression of interests to trade by one broker dealer to another. See Exchange Rule 1064(c).
represented and executed in open outcry, priority shall be afforded to in-crowd participants over RSQTs and out-of-crowd SQTs. Such orders shall be allocated in accordance with Exchange rules.

(iii) The specialist and/or SQTs participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Rule 1033(a)(ii).

(iv) For purposes of this Rule, an SQT or non-SQT ROT shall be deemed to be participating in a crowd if such SQT is, at the time an order is represented in the crowd, physically located in a specific “Crowd Area.” A Crowd Area shall consist of a specific physical location marked with specific, visible physical boundaries on the options floor, as determined by the Options Committee. An SQT or non-SQT ROT who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant in such a Crowd Area, provided that such SQT or non-SQT ROT fulfills the requirements set forth in this Rule 1014. An SQT or non-SQT ROT shall be deemed to be participating in a single Crowd Area.

.06 -.19 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 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 Exchange proposes to amend Rule 1014, Commentary .05 by affording priority to in-crowd participants over out-of-crowd SQTs and RSQTs in crossing,
facilitation and solicited orders represented and executed in open outcry in order to encourage order flow providers to send such orders to the Exchange.

Currently, Commentary .05 to Rule 1014 provides that, in the event that a Floor Broker or specialist presents a non-electronic order in a Streaming Quote Option in which an RSQT is assigned, and/or in which an SQT assigned in such Streaming Quote Option is not a crowd participant, such SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant SQT and/or RSQT at the time of execution.

The proposal would carve out crossing, facilitation, and solicited orders from the rule. Specifically, the proposed rule would state that, respecting crossing, facilitation and solicited orders with a size of at least 500 contracts on each side that are represented and executed in open outcry, priority would be afforded to in-crowd participants over RSQTs and out-of crowd SQTs. Such orders would be allocated in accordance with Exchange rules.\(^{10}\) The proposed rule would apply only to crossing, facilitation and solicited orders represented in open outcry, and would not apply to orders submitted electronically via the Exchange’s electronic options trading platform, Phlx XL,\(^ {11}\) to which other priority rules apply.\(^ {12}\)

\(^{10}\) The Commentary to Rule 1064 defines participation guarantees in crossing and facilitation orders, and Rule 1014(g) sets forth the in-crowd trade allocation algorithm for other orders.


\(^{12}\) See, e.g., Exchange Rules 1014(g)(vii) and (viii).
Recently, the Exchange adopted another exception to its normal priority rules concerning open outcry orders, affording priority to in-crowd participants over RSQTs and out-of-crowd SQTs in split-price transactions, even when the bid/ask differential is one minimum trading increment.

The Exchange believes that the proposed rule should provide greater incentive for order flow providers to submit crossing, facilitation and solicited orders to the Exchange, thus enabling the Exchange to compete with other exchanges that have similar rules in effect.

The proposed rule would apply only to crossing, facilitation and solicited orders with a size of at least 500 contracts on each side that are represented and executed in open outcry.

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 adopting a

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13 See, e.g., Exchange Rules 119 and 120.


limited exception to the Exchange’s priority rules concerning certain order types represented and executed in open outcry.

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\(^\text{18}\) and Rule 19b-4(f)(6) thereunder.\(^\text{19}\)

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

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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 proposed rule 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-2006-42 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-2006-42. 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-2006-42 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{20}

Nancy M. Morris
Secretary

\textsuperscript{20}17 CFR 200.30-3(a)(12).