Proposed Rule Change by Philadelphia Stock Exchange

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

Initial Amendment Withdrawal Rule

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

Pilot Extension of Time Period for Commission Action Date Expires

Rule

☑ 19b-4(f)(6)

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

Description

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

Proposed rule change relating to assignment of options trading privileges.

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,

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

Date 12/05/2006

By Vice President and Counsel

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,
<table>
<thead>
<tr>
<th><strong>Form 19b-4 Information</strong></th>
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<tbody>
<tr>
<td>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.</td>
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<tr>
<th><strong>Exhibit 1 - Notice of Proposed Rule Change</strong></th>
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<tr>
<td>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).</td>
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<th><strong>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</strong></th>
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<tr>
<td>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.</td>
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<tr>
<th><strong>Exhibit 3 - Form, Report, or Questionnaire</strong></th>
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<tr>
<td>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.</td>
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<th><strong>Exhibit 4 - Marked Copies</strong></th>
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<td>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.</td>
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<th><strong>Exhibit 5 - Proposed Rule Text</strong></th>
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<td>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.</td>
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<th><strong>Partial Amendment</strong></th>
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<td>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.</td>
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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 507,\(^3\) which governs the assignment of options to Streaming Quote Traders (“SQTs”)\(^4\) and Remote Streaming Quote Traders (“RSQTs”),\(^5\) by: (i) clarifying that all options traded on the Exchange are Streaming Quote Options,\(^6\) (ii) deleting outdated requirements contained in paragraph (f) under Rule 507 regarding the assignment of options during the first six months of the roll-out of streaming quote technology; (iii) moving the existing text of Rule 507(a) to the first paragraph of (b) and naming paragraph (b) “Assignment in Options;” (iv) moving the language in 507(b)(iv) to paragraph (a) and renaming it “Approval as an SQT and RSQT;” and (v) applying some of the current criteria for RSQT applicants (formerly in Rule 507(b)(iv)) to SQT applicants as well.

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\(^3\) Exchange Rule 507 sets forth the process by which the Committee assigns or reassigns equity options to eligible Streaming Quote Traders and Remote Streaming Quote Traders. See Exchange Rule 507.

\(^4\) An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit options 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).

\(^5\) An RSQT is a 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).

\(^6\) A Streaming Quote Option is an option for which the Options Committee determines the SQTs may generate and submit options quotations from the Exchange floor and that RSQTs may generate and submit options quotations from off of the Exchange floor, electronically. See Exchange Rule 1080(k).
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.

Brackets indicate deletions; underlining indicates new text.

**Application for Approval as an SQT or RSQT and Assignment in [Streaming Quote] Options**

**Rule 507.** (a) [When a Streaming Quote Option, as defined in Rule 1080(k), is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”), as defined in Rule 1014(b)(ii).] Approval as an SQT or RSQT. Registered Options Traders (“ROTs”), as defined in Rule 1014, may apply for approval as Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”), as defined in Rule 1014(b)(ii).

This Rule 507 places no limit on the number of qualifying ROTs that may become SQTs or RSQTs; any applicant that is qualified as an ROT in good standing, and that satisfies the technological readiness and testing requirements described in sub-paragraph (b)(ii) below, shall be approved as an SQT. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Board may defer, for a period to be determined in the Board's discretion, approval of qualifying applications for SQT or RSQT status pending any action required to address the issue of concern to the Board. The Board may not defer a determination of the approval of the application of any SQT or RSQT applicant or place any limitation(s) on access to Phlx XL on any SQT or RSQT applicant unless the basis for such limitation(s) or deferral have been objectively determined by the Board, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Committee shall provide written notification to any SQT or RSQT applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

(i) RSQT applicants must demonstrate to the Committee that they have:

(A) Significant market-making and/or specialist experience in a broad array of securities;
(B) Superior resources, including capital, technology and personnel;
(C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
(D) Proven ability to interact with order flow in all types of markets;
(E) Existence of order flow commitments;
(F) Willingness to accept allocations as an RSQT in options overlying 400 or more securities; and
(G) Willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades.

(ii) SQT applicants must demonstrate to the Committee that they have:

(A) Significant market-making and/or specialist experience in a broad array of securities;
(B) Superior resources, including capital, technology and personnel;
(C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
(D) Proven ability to interact with order flow in all types of markets;
(E) Willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades.

(b)(i) Assignment in Options. When an option is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible SQTs and RSQTs, as defined in Rule 1014(b)(ii).

An application for assignment in an [Streaming Quote O] option[s] shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name of the SQT or RSQT applicant and written verification from the Exchange's Membership Services Department that such SQT or RSQT applicant is qualified as a Registered Options Trader.

(ii) No application for assignment in an [Streaming Quote O] option[s] shall be approved by the Committee without written certification signed by an officer (Vice President or above) of the Exchange's Financial Automation Department indicating that (A) the SQT or RSQT applicant has sufficient technological ability to support his/her continuous quoting requirements as set forth in Rule 1014(b)(ii), and (B) the SQT or RSQT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.

[(iii) (A) This Rule 507 places no limit on the number of qualifying ROTs that may become SQTs or RSQTs; any applicant that is qualified as an ROT in good standing, and that satisfies the technological readiness and testing requirements described in sub-paragraph (b)(ii) above, shall be approved as an SQT. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Board may defer, for a period to be determined in the Board's discretion, approval of qualifying applications for SQT or RSQT status pending any action required to address the issue of concern to the Board. The Board may not defer a determination of the approval of the application of any SQT or RSQT applicant or place any limitation(s) on access to Phlx XL on any SQT or RSQT applicant unless the basis]
for such limitation(s) or deferral have been objectively determined by the Board, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Committee shall provide written notification to any SQT or RSQT applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

(B) In addition to the above requirements, an RSQT applicant must demonstrate to the Committee that it has:

(1) Significant market-making and/or specialist experience in a broad array of securities;
(2) Superior resources, including capital, technology and personnel;
(3) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
(4) Proven ability to interact with order flow in all types of markets;
(5) Existence of order flow commitments;
(6) Willingness to accept allocations as an RSQT in options overlying 400 or more securities; and
(7) Willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades.]

c) The Committee shall hold allocation meetings as appropriate. The Exchange's designated staff shall provide Committee members data on the [Streaming Quote O] option to be assigned, including the number of series in the [Streaming Quote O] option currently quoted on the Exchange and the number of contracts representing open interest in the [Streaming Quote O] option, copies of the applications, and any other information that the Committee may deem to be relevant. Applicants may make and the Committee may request personal appearances.

d) Decisions concerning applications for assignment in Streaming Quote Options shall be in writing and shall be distributed to all floor members.

e) If an SQT or RSQT seeks to withdraw from acting as such in an [Streaming Quote O] option, it should so notify the Committee at least three business days prior to the desired effective date of such withdrawal.

(f) [During the first six months of the Exchange's program to allow SQTs and RSQTs to submit electronic option quotations, an SQT or RSQT applicant member or member organization that has, for at least the immediately preceding twelve months: (i) been a
member of the Exchange; and (ii) maintained a continuous presence as an ROT in the trading crowd associated with the Streaming Quote Option(s) that are the subject of the application, shall be guaranteed an assignment in the Streaming Quote Option, provided that such member organization has satisfied the requirements set forth in paragraph (b)(ii) of this Rule 507. SQT and RSQT applicants that have been granted trading privileges in Streaming Quote Options pursuant to this Rule 507(f) shall not be required to re-apply for such privileges after the initial six-month period.

(g)] An appeal to the Board of Governors from a decision of the Committee may be taken by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered, in accordance with Exchange By-Law Article XI, Section 11-1.

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 November 22, 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.

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

a. Purpose

The purpose of the proposed rule change is to update Rule 507 to reflect the current status of options trading on the Exchange.

First, the proposed amendments modify outdated concepts and requirements contained in Rule 507 by (i) clarifying that all options traded on the Exchange are “Streaming Quote Options,” and (ii) deleting obsolete requirements for the assignment of options contained in paragraph (f) of Rule 507. The Exchange’s introduction of the Phlx XL technology allowed, among other things, SQTs and RSQTs to generate and submit
electronic quotations. Initially, RSQTs and SQTs could only stream electronic quotations in designated options until such technology was fully rolled-out to all options, which occurred in February 2005. The Exchange is proposing to amend Rule 507 to clarify the fact that all options listed for trading on the Exchange are now “Streaming Quote Options.”

For the same reason, the Exchange is also proposing to delete the requirements contained in paragraph (f) under Rule 507 that were applicable to member firms seeking option assignments as an RSQT or SQT during the first six months of the streaming quote roll-out. This amendment will update the Exchange’s rules and remove rule text that may cause confusion.

Second, the Exchange is proposing to reorganize Rule 507(a) and (b) so that paragraph (a) covers the approval of SQTs and RSQTs as such, and paragraph (b) covers the assignment of options to SQTs and RSQTs. In order to clarify that paragraph (b) covers the assignment of specific options to SQTs and RSQTs, paragraph (b)(i) would be titled “Assignment in Options,” and the introductory phrase, “When an option is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible SQTs and RSQTs, as defined in Rule 1014(b)(ii)” is proposed to be deleted from current paragraph (a) and inserted into paragraph (b). The Exchange believes that this should distinguish paragraph (a), which covers applications for approval of an applicant’s status as an SQT or RSQT on the Exchange, from paragraph (b), which covers and SQT or RSQT’s application for assignment in a particular option. Currently, the two concepts are intermingled in these paragraphs, which may be hard to follow.
Third, the Exchange proposes to extend some of the requirements applicable to RSQT applicants to SQT applicants. These requirements include significant market-making and/or specialist experience in a broad array of securities; superior resources, including capital, technology and personnel; demonstrated history of stability, superior electronic capacity, and superior operational capacity; proven ability to interact with order flow in all types of markets; and willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades. The purpose of this proposal is to enable the Exchange’s Option Allocation, Evaluation and Securities Committee (“OAESC”)\footnote{See Phlx By-Law Article X, Section 10-7. The Options Allocations Committee has jurisdiction over, among other things: the appointment of specialists on the options and foreign currency options trading floors; allocation, retention and transfer of privileges to deal in options on the trading floors; and administration of the 500 series of Phlx rules.} to make a more informed and efficient decision as to whether a particular SQT applicant should be assigned in an option.

SQT applicants would not be required to be willing to accept assignments as an SQT in options overlying 400 or more securities, and would not be required to show the existence of order flow commitments in order to become an SQT. RSQT applicants would continue to have such a requirement.

The Exchange believes that it is appropriate to apply these requirements to SQTs because SQT status, similar to RSQT status, entails a commitment to provide liquidity on the Exchange.
b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^8\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^9\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by removing outdated concepts from the Exchange’s rules as well as by adopting requirements to promote the objective, efficient and beneficial assignment of options to SQTs and RSQTs.

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)**

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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 and Rule 19b-4(f)(6) thereunder.

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 submitted such notice on August 9, 2006. The Exchange is requesting that the Commission waive the 30-day operative delay, 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 is consistent with the protection of investors and the public interest.

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

The proposed rule change is based on NYSE Arca Rule 6.35(b),\(^\text{10}\) International Securities Exchange ("ISE") Rule 802,\(^\text{11}\) and Boston Options Exchange ("BOX") Rule Chapter IV, Section 4(b).\(^\text{12}\)

\(^{10}\) See NYSE Arca Rule 6.35(b).

\(^{11}\) See ISE Rule 802.
9. **Exhibits**

   1. Notice of proposed rule for publication in the *Federal Register*.
Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Assignment of Options Trading Privileges to Streaming Quote Traders and Remote 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 507,⁵ which governs the assignment of options to Streaming Quote Traders (“SQTs”)⁶ and Remote Streaming Quote Traders (“RSQTs”),⁷

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⁵ Exchange Rule 507 sets forth the process by which the Committee assigns or reassigns equity options to eligible Streaming Quote Traders and Remote Streaming Quote Traders. See Exchange Rule 507.
⁶ An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from the Exchange to generate and submit options 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).
by: (i) clarifying that all options traded on the Exchange are Streaming Quote Options, 8 (ii) deleting outdated requirements contained in paragraph (f) under Rule 507 regarding the assignment of options during the first six months of the roll-out of streaming quote technology; (iii) moving the existing text of Rule 507(a) to the first paragraph of (b) and naming paragraph (b) “Assignment in Options;” (iv) moving the language in 507(b)(iv) to paragraph (a) and renaming it “Approval as an SQT and RSQT;” and (v) applying some of the current criteria for RSQT applicants (formerly in Rule 507(b)(iv)) to SQT applicants as well. The text of the proposed rule change is set forth below.

Brackets indicate deletions; underlining indicates new text.

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**Rule 507. (a)** [When a Streaming Quote Option, as defined in Rule 1080(k), is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”), as defined in Rule 1014(b)(ii).] Approval as an SQT or RSQT. Registered Options Traders (“ROTs”), as defined in Rule 1014, may apply for approval as Streaming Quote Traders (“SQTs”) and Remote Streaming Quote Traders (“RSQTs”), as defined in Rule 1014(b)(ii).

This Rule 507 places no limit on the number of qualifying ROTs that may become SQTs or RSQTs; any applicant that is qualified as an ROT in good standing, and that satisfies the technological readiness and testing requirements described in sub-paragraph (b)(ii) below, shall be approved as an SQT. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Board may defer, for a period to be determined in the Board's discretion, approval of qualifying applications for SQT or RSQT status pending any action required to address the issue of concern to the Board. The Board may not defer a determination of the approval of the application of any SQT or RSQT applicant or place any limitation(s) on access to Phlx XL on any SQT or RSQT applicant unless the basis for such

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7 An RSQT is a 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).

8 A Streaming Quote Option is an option for which the Options Committee determines the SQTs may generate and submit options quotations from the Exchange floor and that RSQTs may generate and submit options quotations from off of the Exchange floor, electronically. See Exchange Rule 1080(k).
limitation(s) or deferral have been objectively determined by the Board, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Committee shall provide written notification to any SQT or RSQT applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

(i) RSQT applicants must demonstrate to the Committee that they have:

(A) Significant market-making and/or specialist experience in a broad array of securities;
(B) Superior resources, including capital, technology and personnel;
(C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
(D) Proven ability to interact with order flow in all types of markets;
(E) Existence of order flow commitments;
(F) Willingness to accept allocations as an RSQT in options overlying 400 or more securities; and
(G) Willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades.

(ii) SQT applicants must demonstrate to the Committee that they have:

(A) Significant market-making and/or specialist experience in a broad array of securities;
(B) Superior resources, including capital, technology and personnel;
(C) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
(D) Proven ability to interact with order flow in all types of markets;
(E) Willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades.

(b)(i) Assignment in Options. When an option is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible SQTs and RSQTs, as defined in Rule 1014(b)(ii).

An application for assignment in an [Streaming Quote O] option[s] shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name of the SQT or RSQT applicant and written verification from the Exchange's Membership Services Department that such SQT or RSQT applicant is qualified as a Registered Options Trader.
(ii) No application for assignment in an [Streaming Quote O] option[s] shall be approved by the Committee without written certification signed by an officer (Vice President or above) of the Exchange's Financial Automation Department indicating that (A) the SQT or RSQT applicant has sufficient technological ability to support his/her continuous quoting requirements as set forth in Rule 1014(b)(ii), and (B) the SQT or RSQT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.

[(iii) (A) This Rule 507 places no limit on the number of qualifying ROTs that may become SQTs or RSQTs; any applicant that is qualified as an ROT in good standing, and that satisfies the technological readiness and testing requirements described in sub-paragraph (b)(ii) above, shall be approved as an SQT. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Board may defer, for a period to be determined in the Board's discretion, approval of qualifying applications for SQT or RSQT status pending any action required to address the issue of concern to the Board. The Board may not defer a determination of the approval of the application of any SQT or RSQT applicant or place any limitation(s) on access to Phlx XL on any SQT or RSQT applicant unless the basis for such limitation(s) or deferral have been objectively determined by the Board, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Committee shall provide written notification to any SQT or RSQT applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

(B) In addition to the above requirements, an RSQT applicant must demonstrate to the Committee that it has:

(1) Significant market-making and/or specialist experience in a broad array of securities;
(2) Superior resources, including capital, technology and personnel;
(3) Demonstrated history of stability, superior electronic capacity, and superior operational capacity;
(4) Proven ability to interact with order flow in all types of markets;
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(6) Willingness to accept allocations as an RSQT in options overlying 400 or more securities; and
(7) Willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades.]
(c) The Committee shall hold allocation meetings as appropriate. The Exchange's designated staff shall provide Committee members data on the [Streaming Quote O] option to be assigned, including the number of series in the [Streaming Quote O] option currently quoted on the Exchange and the number of contracts representing open interest in the [Streaming Quote O] option, copies of the applications, and any other information that the Committee may deem to be relevant. Applicants may make and the Committee may request personal appearances.

(d) Decisions concerning applications for assignment in Streaming Quote Options shall be in writing and shall be distributed to all floor members.

(e) If an SQT or RSQT seeks to withdraw from acting as such in an [Streaming Quote O] option, it should so notify the Committee at least three business days prior to the desired effective date of such withdrawal.

(f) During the first six months of the Exchange's program to allow SQTs and RSQTs to submit electronic option quotations, an SQT or RSQT applicant member or member organization that has, for at least the immediately preceding twelve months: (i) been a member of the Exchange; and (ii) maintained a continuous presence as an ROT in the trading crowd associated with the Streaming Quote Option(s) that are the subject of the application, shall be guaranteed an assignment in the Streaming Quote Option, provided that such member organization has satisfied the requirements set forth in paragraph (b)(ii) of this Rule 507. SQT and RSQT applicants that have been granted trading privileges in Streaming Quote Options pursuant to this Rule 507(f) shall not be required to re-apply for such privileges after the initial six-month period.

(g) An appeal to the Board of Governors from a decision of the Committee may be taken by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered, in accordance with Exchange By-Law Article XI, Section 11-1.

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 update Rule 507 to reflect the current status of options trading on the Exchange.

First, the proposed amendments modify outdated concepts and requirements contained in Rule 507 by (i) clarifying that all options traded on the Exchange are “Streaming Quote Options,” and (ii) deleting obsolete requirements for the assignment of options contained in paragraph (f) of Rule 507. The Exchange’s introduction of the Phlx XL technology allowed, among other things, SQTs and RSQTs to generate and submit electronic quotations. Initially, RSQTs and SQTs could only stream electronic quotations in designated options until such technology was fully rolled-out to all options, which occurred in February 2005. The Exchange is proposing to amend Rule 507 to clarify the fact that all options listed for trading on the Exchange are now “Streaming Quote Options.”

For the same reason, the Exchange is also proposing to delete the requirements contained in paragraph (f) under Rule 507 that were applicable to member firms seeking option assignments as an RSQT or SQT during the first six months of the streaming quote roll-out. This amendment will update the Exchange’s rules and remove rule text that may cause confusion.

Second, the Exchange is proposing to reorganize Rule 507(a) and (b) so that paragraph (a) covers the approval of SQTs and RSQTs as such, and paragraph (b) covers the assignment of options to SQTs and RSQTs. In order to clarify that paragraph (b) covers the assignment of specific options to SQTs and RSQTs, paragraph (b)(i) would be
titled “Assignment in Options,” and the introductory phrase, “When an option is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible SQTs and RSQTs, as defined in Rule 1014(b)(ii)” is proposed to be deleted from current paragraph (a) and inserted into paragraph (b). The Exchange believes that this should distinguish paragraph (a), which covers applications for approval of an applicant’s status as an SQT or RSQT on the Exchange, from paragraph (b), which covers and SQT or RSQT’s application for assignment in a particular option. Currently, the two concepts are intermingled in these paragraphs, which may be hard to follow.

Third, the Exchange proposes to extend some of the requirements applicable to RSQT applicants to SQT applicants. These requirements include significant market-making and/or specialist experience in a broad array of securities; superior resources, including capital, technology and personnel; demonstrated history of stability, superior electronic capacity, and superior operational capacity; proven ability to interact with order flow in all types of markets; and willingness and ability to make competitive markets on the Phlx and otherwise to promote the Phlx in a manner that is likely to enhance the ability of the Phlx to compete successfully for order flow in the options it trades. The purpose of this proposal is to enable the Exchange’s Option Allocation, Evaluation and Securities Committee (“OAESC”)⁹ to make a more informed and efficient decision as to whether a particular SQT applicant should be assigned in an option.

⁹ See Phlx By-Law Article X, Section 10-7. The Options Allocations Committee has jurisdiction over, among other things: the appointment of specialists on the options and foreign currency options trading floors; allocation, retention and transfer of privileges to deal in options on the trading floors; and administration of the 500 series of Phlx rules.
SQT applicants would not be required to be willing to accept assignments as an SQT in options overlying 400 or more securities, and would not be required to show the existence of order flow commitments in order to become an SQT. RSQT applicants would continue to have such a requirement.

The Exchange believes that it is appropriate to apply these requirements to SQTs because SQT status, similar to RSQT status, entails a commitment to provide liquidity on the Exchange.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^\text{10}\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^\text{11}\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, by removing outdated concepts from the Exchange’s rules as well as by adopting requirements to promote the objective, efficient and beneficial assignment of options to SQTs and RSQTs.

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**

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

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 and Rule 19b-4(f)(6) thereunder.

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 submitted such notice on August 9, 2006. The Exchange is requesting that the Commission waive the 30-day operative delay, 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 is consistent with the protection of investors and the public interest.

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](http://www.sec.gov/rules/sro.shtml)); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-80 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-2006-80. 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](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-2006-80 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{12} Nancy M. Morris

Secretary

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