## Proposed Rule Change

**Exhibit 3 Sent As Paper Document**

**Exhibit 2 Sent As Paper Document**

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

<table>
<thead>
<tr>
<th>Initial</th>
<th>Amendment</th>
<th>Withdrawal</th>
<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
<th>Section 19(b)(3)(B)</th>
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**Rule**

- 19b-4(f)(1)
- 19b-4(f)(4)
- 19b-4(f)(2)
- 19b-4(f)(5)
- 19b-4(f)(3)
- 19b-4(f)(6)

### Description

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

**Proposed rule change relating to a maximum number of quoters per option.**

### 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,

**Date**: 12/05/2006

**By**: Richard S. Rudolph

**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.
| 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. |
| 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 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) |
| 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. |
| 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. |
| 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. |
| 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. |
| 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 507 \(^3\), which governs the assignment of options to Streaming Quote Traders (“SQTs”)\(^4\) and Remote Streaming Quote Traders (“RSQTs”),\(^5\) by adding commentary to the Rule establishing a maximum number of quoting participants that may be assigned to a particular equity option at any one time.

   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 Options**

   **Rule 507.** (a) No change.

   (b) (i) –(ii) No change

   (iii) In addition to the criteria described in this sub-paragraph, the Committee shall consider the following factors in making its decision concerning an application for assignment in an option when there are more applicants for assignment in a particular option than there are positions available:

   (A) the financial and technical resources available to the applicant;

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\(^3\) Exchange Rule 507 sets forth the process by which the Committee assigns or reassigns 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).
(B) the applicant's experience and expertise in market making or options trading;
(C) the applicant's prior performance as a specialist, SQT or RSQT based on evaluations conducted pursuant to Exchange Rule 510.

(c) – (f) No change.

Commentary:

.01 RESERVED

.02. Maximum Number of Quoters (“MNQ”) in Equity Options. The term “MNQ” refers to the maximum number of participants that may be assigned in a particular equity option at any one time. The MNQ levels for options trading on the Exchange are as follows, based on the preceding month’s national volumes:

(a) 20 for the 5% most actively traded options;
(b) 15 for the next 10% most actively traded options;
(c) 10 for all other options.

.03. Monthly Calculation of MNQ. Within the first five days of each month, a new MNQ will be set based on the previous month’s trading volume (“new MNQ”). The following rules apply to those options for which the new MNQ decreases the previous MNQ:

(a) If the number of assigned participants in the option on the last day of the month equals or is less than the new MNQ, then the previous MNQ is reduced immediately to the new MNQ.

(b) If the number of assigned participants in the option on the last day of the month is greater than the new MNQ, then that option will have an “increased” MNQ equal to the number of assigned participants quoting electronically in that option on the last day of the month. If an assigned participant changes his/her appointment and ceases the assignment in that option, the “increased” MNQ will decrease by one until such time that the number of remaining assigned participants in that option equals the new MNQ. From that point forward, the number of assigned participants in the option may not exceed the new MNQ.
.04. Increasing the MNQ in Exceptional Circumstances: When exceptional circumstances warrant, the Committee may increase the MNQ for an existing or new product. “Exceptional circumstances” refers to substantial trading volume, whether actual or expected (e.g., in the case of a new product or a major news announcement or corporate event). Upon cessation of the exceptional circumstances, the Committee, in its discretion, may determine to reduce the MNQ, provided, however, that any reduction must be undertaken in accordance with the procedure established in Commentary .03 above with respect to lowering the “increased MNQ.” Any actions taken by the Committee pursuant to this paragraph will be submitted to the SEC in a rule filing pursuant to Section 19(b)(3)(A) of the Securities Exchange Act of 1934, as amended (“Exchange Act”).

.05 Announcements Regarding, or Changes to, MNQs. The Exchange will announce all changes regarding MNQ levels to the membership via Exchange Circular. The Exchange may increase the MNQ levels established in this Commentary by submitting to the SEC a rule filing pursuant to Section 19(b)(3)(A) of the Exchange Act. The Exchange may decrease the MNQ levels established in this Commentary upon SEC approval of a rule filing submitted pursuant to Section 19(b)(2) of the Exchange Act.

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 Richard S. Rudolph, Vice President and Counsel, at (215) 496-5074, or to Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.

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

a. Purpose

The purpose of the proposed rule change is to enable the Exchange to manage its quotation traffic and bandwidth capacity by limiting the number of streaming quote market participants that may be assigned to a particular option at a given point in time.
The proposed amendments to Exchange Rule 507 would establish: (i) a maximum number of quoters (“MNQ”) in equity options based on each option’s monthly trading volume; (ii) a process for recalculating the MNQ based upon changes in an option’s monthly trading volume; (iii) an increase to the MNQ due to exceptional circumstances; (iv) the process by which the Exchange will notify market participants of changes to the MNQ; and (v) additional criteria relating to the process by which the Exchange will assign SQT and/or RSQT applicants in options in the event that there are more applicants for assignment in a particular option than there are positions.

The Exchange proposes to limit the number of participants that may be assigned to a particular equity option at any one time based upon each option’s monthly national volume. Proposed Commentary .02 to Rule 507 sets forth tiered MNQ levels providing for 20 participants for the top 5% most actively traded options; 15 participants for next 10% most actively traded options, and 10 market participants for all other options. The ranking is based upon the preceding month’s national volumes.

The MNQ would be recalculated within the first five days of each month based on the previous month’s trading volume (“new MNQ”). Proposed Commentary .03 to Rule 507 provides the process by which the Exchange will administer a decrease in the previous month’s MNQ. The Exchange will immediately implement the new MNQ if the number of assigned participants in the option on the last day of the month equals or is less than the new MNQ. Under circumstances in which the number of assigned participants is greater than the new MNQ, the option will have an “increased” MNQ equal to the number of assigned participants quoting electronically in that option on the last day of the month. The “increased” MNQ will automatically decrease if an assigned
participant changes or ceases the assignment in the option. The “increased” MNQ will continue to decrease until the number of assigned participants equal the new MNQ, at which point the number of assigned participants in the option may not exceed the new MNQ.

The Exchange will be able to increase the MNQ in exceptional circumstances. The Exchange’s Options Allocation, Evaluation and Securities Committee (“OAESC”)\(^6\) may increase the MNQ when the circumstances warrant. Proposed Commentary .04 to Rule 507 describes the events that may be considered “exceptional” including substantial trading volume (whether actual or expected), a major news event or corporate event. The Exchange may reduce the MNQ following the cessation of the exceptional circumstances, but the Exchange must follow the same procedures for decreases to the MNQ outlined above. When relying on this provision, the Exchange would submit a rule filing to the SEC pursuant to Section 19(b)(3)(A) of the Act.

The Exchange will inform market participants of changes to the MNQ via Exchange circular. The Exchange may increase the MNQ levels (meaning the 20, 15, and 10 number established in Commentary .01(a)-(c)) by submitting to the SEC a rule filing pursuant to Section 19(b)(3)(A) of the Act. The Exchange may also decrease the MNQ levels upon SEC approval of a rule filing submitted pursuant to 19(b)(2) of the Act.

The Exchange is also proposing to amend Rule 507 by adding additional criteria for the Committee to consider when determining whether to assign an option to a member

\(^6\) 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.
in the situation where there are more applicants for assignment in a particular option than there are positions available.

In this situation, proposed paragraph (b)(iii) would require the OAESC to consider (i) the financial and technical resources available to the applicant; (ii) the applicant’s experience and expertise in market making or options trading; and the applicant’s prior performance as a specialist, SQT or RSQT, based on evaluations conducted pursuant to Exchange Rule 510, which includes quantified measures of performance.

The purpose of this provision is to enable the OAESC to use these criteria to select the most qualified applicant in the event that there are more applicants for assignment in a particular option than there are positions available. The Exchange believes that the consideration of financial and technical capacity, as well as prior performance, will assist the OAESC in determining the most beneficial assignment of options for the Exchange and the public.

Finally, the Exchange represents that members that are assigned in a particular option as of the date of Commission approval of this proposed rule change will be guaranteed a position as a quoting participant in the particular option.

b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to

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\(^7\) 15 U.S.C. 78f(b).

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 allowing the Exchange to manage resources by fairly allocating limited bandwidth capacity.

4. **Self-Regulatory Organization's Statement on Burden on Competition**
   
The Phlx does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

5. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**
   
   No written comments were either solicited or received.

6. **Extension of Time Period for Commission Action**
   
The Exchange does not consent to an extension of the time period for Commission action.

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**
   
   Not applicable.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**
   
The proposed rule change is based on Chicago Board Options Exchange, Inc. (“CBOE”) Rule 8.3A.⁹

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

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SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-81)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Establishment of a Maximum Number of Quoting Participants Permitted in a Particular Option on the Exchange

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 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 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 adding commentary to the Rule establishing a maximum number of quoting participants that may be assigned to a particular equity option at any one time. 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 Options**

**Rule 507.** (a) No change.

(b) (i) –(ii) No change

(iii) In addition to the criteria described in this sub-paragraph, the Committee shall consider the following factors in making its decision concerning an application for assignment in an option when there are more applicants for assignment in a particular option than there are positions available:

(A) the financial and technical resources available to the applicant;
(B) the applicant's experience and expertise in market making or options trading;
(C) the applicant's prior performance as a specialist, SQT or RSQT based on evaluations conducted pursuant to Exchange Rule 510.

(c) – (f) No change.

**Commentary:**

.01 RESERVED

.02. Maximum Number of Quoters (“MNQ”) in Equity Options. The term “MNQ” refers to the maximum number of participants that may be assigned in a particular equity option at any one time. The MNQ levels for options trading on the Exchange are as follows, based on the preceding month’s national volumes:

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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 enable the Exchange to manage its quotation traffic and bandwidth capacity by limiting the number of streaming quote market participants that may be assigned to a particular option at a given point in time. The proposed amendments to Exchange Rule 507 would establish: (i) a maximum number of quoters ("MNQ") in equity options based on each option’s monthly trading volume; (ii) a process for recalculating the MNQ based upon changes in an option’s monthly trading volume; (iii) an increase to the MNQ due to exceptional circumstances; (iv) the process by which the Exchange will notify market participants of changes to the MNQ; and (v) additional criteria relating to the process by which the Exchange will assign SQT and/or RSQT applicants in options in the event that there are more applicants for assignment in a particular option than there are positions.

The Exchange proposes to limit the number of participants that may be assigned to a particular equity option at any one time based upon each option’s monthly national volume. Proposed Commentary .02 to Rule 507 sets forth tiered MNQ levels providing for 20 participants for the top 5% most actively traded options; 15 participants for next
10% most actively traded options, and 10 market participants for all other options. The ranking is based upon the preceding month’s national volumes.

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8 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.
but the Exchange must follow the same procedures for decreases to the MNQ outlined above. When relying on this provision, the Exchange would submit a rule filing to the SEC pursuant to Section 19(b)(3)(A) of the Act.

The Exchange will inform market participants of changes to the MNQ via Exchange circular. The Exchange may increase the MNQ levels (meaning the 20, 15, and 10 number established in Commentary .01(a)-(c)) by submitting to the SEC a rule filing pursuant to Section 19(b)(3)(A) of the Act. The Exchange may also decrease the MNQ levels upon SEC approval of a rule filing submitted pursuant to 19(b)(2) of the Act.

The Exchange is also proposing to amend Rule 507 by adding additional criteria for the Committee to consider when determining whether to assign an option to a member in the situation where there are more applicants for assignment in a particular option than there are positions available.

In this situation, proposed paragraph (b)(iii) would require the OAESC to consider (i) the financial and technical resources available to the applicant; (ii) the applicant’s experience and expertise in market making or options trading; and the applicant’s prior performance as a specialist, SQT or RSQT, based on evaluations conducted pursuant to Exchange Rule 510, which includes quantified measures of performance.

The purpose of this provision is to enable the OAESC to use these criteria to select the most qualified applicant in the event that there are more applicants for assignment in a particular option than there are positions available. The Exchange believes that the consideration of financial and technical capacity, as well as prior
performance, will assist the OAESC in determining the most beneficial assignment of options for the Exchange and the public.

Finally, the Exchange represents that members that are assigned in a particular option as of the date of Commission approval of this proposed rule change will be guaranteed a position as a quoting participant in the particular option.

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 allowing the Exchange to manage resources by fairly allocating limited bandwidth capacity.

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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III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

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

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission’s Internet comment form
  (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-81 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-2006-81. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site.
Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission’s Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2006-81 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.¹¹

Nancy M. Morris
Secretary