

should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2006-59 and should be submitted on or before January 3, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>14</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-54889; File No. SR-Phlx-2006-80]

### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the Assignment of Options Trading Privileges to Streaming Quote Traders and Remote Streaming Quote Traders

December 6, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on December 5, 2006, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II, below, which Items have been prepared by the Phlx. The Exchange filed the proposal as a “non-controversial” rule change pursuant to Section 19(b)(3)(A) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder,<sup>4</sup> which rendered the proposal effective upon filing with the Commission. 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 proposes to amend Phlx Rule 507,<sup>5</sup> which governs the assignment of options to Streaming Quote Traders (“SQTs”)<sup>6</sup> and Remote

Streaming Quote Traders (“RSQTs”),<sup>7</sup> by: (i) Clarifying that all options traded on the Exchange are Streaming Quote Options;<sup>8</sup> (ii) deleting outdated requirements contained in paragraph (f) under Phlx Rule 507 regarding the assignment of options during the first six months of the roll-out of streaming quote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 Phlx Rule 507(a) to the first paragraph of (b) and naming paragraph (b) “Assignment in Options;” (iv) moving the language in 507(b)(iii) 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 Phlx Rule 507(b)(iii)) to SQT applicants as well.

The text of the proposed rule change is available on the Phlx’s Web site, <http://www.phlx.com>, at the Phlx’s principal office, and at the Commission’s Public Reference Room.

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

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 Phlx Rule 1014(b)(ii)(A).

<sup>7</sup> 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 Phlx Rule 1014(b)(ii)(B).

<sup>8</sup> 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 Phlx Rule 1080(k).

First, the proposed amendments modify outdated concepts and requirements contained in Phlx 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 Phlx 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 Phlx 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 Phlx 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 Phlx 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 Phlx 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 an 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;

<sup>14</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

<sup>5</sup> Phlx 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 Phlx Rule 507.

<sup>6</sup> An SQT is an Exchange Registered Options Trader (“ROT”) who has received permission from

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")<sup>9</sup> 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.

## 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>10</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>11</sup> 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 that is not necessary or appropriate in furtherance of the purposes of the Act.

<sup>9</sup> See Phlx By-Law Article X, Section 10-7. The OAESC 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.

<sup>10</sup> 15 U.S.C. 78f(b).

<sup>11</sup> 15 U.S.C. 78f(b)(5).

### 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 by the Exchange.

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

Because the foregoing rule (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, 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, provided that the Exchange has given the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change or such shorter time as designated by the Commission, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and Rule 19b-4(f)(6) thereunder.<sup>13</sup> As required under Rule 19b-4(f)(6)(iii) under the Act,<sup>14</sup> Phlx provided the Commission with written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, prior to the date of the filing of the proposed rule change.

A proposed rule change filed under Rule 19b-4(f)(6) under the Act<sup>15</sup> normally may not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) under the Act permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.<sup>16</sup> The Exchange has requested that the Commission waive the 30-day operative delay, which would make the rule change effective and operative upon filing. The Commission believes that waiver of the 30-day operative delay is consistent with the protection of investors and the public interest because the proposed rule change clarifies the operation of Phlx Rule 507. Accordingly, the Commission designates the proposal to be effective and operative upon filing with the Commission.<sup>17</sup>

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6).

<sup>14</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

<sup>16</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>17</sup> For the purposes only of accelerating the operative date of this proposal, the Commission has

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.<sup>18</sup>

### 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](mailto: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>). 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

considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>18</sup> See 15 U.S.C. 78s(b)(3)(C).

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 January 3, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>19</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

**Release No. 34-54886; File No. SR-Phlx-2006-74]**

### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change, and Amendment Nos. 1 and 2 Thereto, Relating To a Pilot Program to Quote and Trade Options in Penny Increments

December 6, 2006.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on November 13, 2006, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been substantially prepared by the Phlx. On November 22, 2006, the Exchange filed Amendment No. 1 to the proposed rule change.<sup>3</sup> The Exchange filed Amendment No. 2 to the proposed rule change on December 5, 2006.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, 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<sup>5</sup> and Rule 19b-4 thereunder,<sup>6</sup> proposes to amend various Exchange rules in order to establish a six-month pilot period, beginning on January 26, 2007 (the “pilot”), during which certain

options would be quoted and traded on the Exchange in minimum increments of \$0.01 for all series in such options with a price of less than \$3.00, and in minimum increments of \$0.05 for all series in such options with a price of \$3.00 or higher, except that options overlying the Nasdaq-100 Index Tracking Stock (“QQQQ”)<sup>7</sup> would be quoted and traded in minimum increments of \$0.01 for all series regardless of the price. A list of all such options would be communicated to Phlx’s membership via Exchange circular.

The text of the proposed rule change, including Exhibit 2 (a draft Exchange circular which includes a list of all options to be included in the pilot), is available on the Phlx’s Web site at <http://www.phlx.com>, at the Phlx’s Office of the Secretary, and at the Commission’s Public Reference Room.

#### 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 Exchange 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 establish a six-month pilot program during which certain options would be quoted and traded in increments of \$0.01.

###### Scope of the Pilot

Proposed Phlx Rule 1034(a)(i)(B) states that the pilot would begin on

<sup>7</sup> The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 Shares<sup>SM</sup>, Nasdaq-100 Trust<sup>SM</sup>, Nasdaq-100 Index Tracking Stocks<sup>SM</sup>, and QQQ<sup>SM</sup> are trademarks or service marks of The Nasdaq Stock Market, Inc. (*Nasdaq*) and have been licensed for use for certain purposes by the Philadelphia Stock Exchange pursuant to a License Agreement with Nasdaq. The Nasdaq-100 Index® (the *Index*) is determined, composed, and calculated by Nasdaq without regard to the Licensee, the Nasdaq-100 Trust<sup>SM</sup>, or the beneficial owners of Nasdaq-100 Shares<sup>SM</sup>. Nasdaq has complete control and sole discretion in determining, comprising, or calculating the Index or in modifying in any way its method for determining, comprising, or calculating the Index in the future.

January 26, 2007, and would extend for a six-month period. There will be 13 options included in the pilot as determined by the Commission, subject to a rollout schedule to be determined. The rollout would begin on January 26, 2007. The options included in the pilot are:

Symbol	Underlying security
IWM .....	Ishares Russell 2000
QQQQ .....	QQQQ
SMH .....	SemiConductor Holders
GE .....	General Electric
AMD .....	Advanced Micro Devices
MSFT .....	Microsoft
INTC .....	Intel
CAT .....	Caterpillar
WFMI .....	Whole Foods
TXN .....	Texas Instruments
A .....	Agilent Tech Inc.
FLEX .....	Flextronics International
SUNW .....	Sun Micro

#### Changes to Minimum Increments

The Exchange proposes to adopt Phlx Rule 1034(a)(i)(B), which would provide that the options included in the pilot would be quoted in minimum increments of \$0.01 for all series in such options with a price of less than \$3.00, and in minimum increments of \$0.05 for all series in such options with a price of \$3.00 or higher, except that options overlying the QQQQ would be quoted and traded in minimum increments of \$0.01 for all series regardless of the price. A list of all such options would be communicated to Phlx’s membership via Exchange circular.

#### Automatic Executions During Crossed Markets

The Exchange anticipates that the instance of crossed markets (where the bid price is greater than the offer price) will increase in options traded in penny increments. Accordingly, the Exchange proposes to amend its rules concerning automatic executions during crossed markets, and its exemption from Trade-Through<sup>8</sup> liability when a Trade-Through occurs due to an automatic execution when the Exchange’s disseminated market is crossed, or crosses the disseminated market of another options exchange, and the Exchange’s disseminated price on the opposite side of the market for the

<sup>8</sup> “Trade-Through” means a transaction in an options series at a price that is inferior to the National Best Bid or Offer (“NBBO”), but shall not include a transaction that occurs at a price that is one minimum quoting increment inferior to the NBBO provided a Linkage Order is contemporaneously sent to each Participant Exchange disseminating the NBBO for the full size of the Participant Exchange’s bid (offer) that represents the NBBO. See Phlx Rule 1083(t).

<sup>19</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Amendment No. 1 replaced the original filing in its entirety.

<sup>4</sup> Amendment No. 2 replaced the previous filing in its entirety.

<sup>5</sup> 15 U.S.C. 78s(b)(1).

<sup>6</sup> 17 CFR 240.19b-4.