

AUTO-X size, inbound eligible orders shall be automatically executed up to such maximum guaranteed AUTO-X size. Remaining contracts shall be executed manually by the specialist.

The minimum and maximum guaranteed AUTO-X size applicable to each option shall be posted on the Exchange's Web site.

The Options Committee may, in its discretion, increase the size of orders in one or more classes of multiply-traded equity options eligible for AUTO-X to the extent necessary to match the size of orders in the same options eligible for entry into the automated execution system of any other options exchange, provided that the effectiveness of any such increase shall be conditioned upon its having been filed with the Securities and Exchange Commission pursuant to section 19(b)(3)(A) of the Securities Exchange Act of 1934.

(c)(i)–(iii) No change.

(iv) (A)–(D) No change.

(E) when the specialist posts a bid or offer that is better than the specialist's own bid or offer (*except with respect to orders eligible for "Book Match" as described in rule 1080(g)(ii) below*);

(F)–(I) No change.

(v) No change.

(d)–(f) No change.

(g) [The Wheel–]AUTO-X Contra-Party Participation—*The contra-side to automatically executed orders may be: (i) a Wheel Participant; or (ii) a booked customer limit order.*

(i) *The Wheel*—Contra-party participation for AUTO-X automatic execution shall rotate among Wheel Participants (which are specialists and ROTs signed-up on the Wheel for that listed option) in each option in accordance with procedures established by the Exchange. The Wheel will be activated each trading day within three minutes following the completion of the opening rotation for that listed option. An ROT must be present in his Wheel assignment area to participate in Wheel executions. Specialists on the Options Floor are required to participate on the Wheel in assigned issues.

No two associated or dually affiliated ROTs may be on the Wheel for the same option at the same time. Regardless of an ROT's total assigned issues, and ROT may only sign-on the Wheel in one assignment area at any given time. In order to be placed on the Wheel for an entire trade day, the respective ROT must sign-on, in person on the trading floor for that listed option.

AUTO-X participation shall be assigned to Wheel Participants on a routine basis, beginning at a random place on the rotational Wheel each day, from those participants signed-on in

that listed option. The Wheel shall rotate and assign contracts in accordance with procedures established by the Exchange.

(ii) *Book Match*—*For purposes of this sub-paragraph, the contra-side to automatically executed inbound eligible customer and off-floor broker-dealer orders shall be a customer limit order on the book where: (A) The Exchange's disseminated size includes a customer limit order on the book; and (B) the disseminated price is the National Best Bid or Offer. This feature is called Book Match. The inbound eligible order shall not be automatically executed prior to the expiration of a 10-second timer; the specialist may execute such order prior to the expiration of 10 seconds.*

(h)–(j) No change.

Commentary:

.01–.05. No change.

* * * * *

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

In its filing with the Commission, the PHLX included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in item IV below. The PHLX has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of the proposal is to increase automated options order handling by enabling the Exchange to automatically execute eligible inbound customer and off-floor broker-dealer limit orders delivered via AUTOM against customer limit orders on the specialist's limit order book.⁸ The proposal represents the first phase ("Phase I") of the Exchange's "Book Match" system, which the Exchange anticipates will eventually automatically match all eligible inbound order types against orders resting on the

limit order book ("booked limit orders").⁹

Currently, the Exchange's AUTOM System and its automatic execution feature, AUTO-X, do not automatically execute otherwise eligible inbound orders if all or part of the Exchange's disseminated size at the disseminated price consists of a booked limit order. In that situation, inbound orders that would otherwise be eligible for automatic execution are matched manually by the specialist.¹⁰

The Exchange proposes, pursuant to PHLX rule 1080(g)(ii), that when the Exchange's disseminated price is equal to the National Best Bid or Offer ("NBBO"), and all or part of the Exchange's disseminated size at the NBBO disseminated price includes a customer limit order on the book, eligible inbound customer and off-floor broker-dealer limit orders would be automatically executed against booked customer limit orders at the NBBO, up to the size of the booked customer limit orders at the NBBO.¹¹ If the inbound customer or off-floor broker-dealer limit order is for a greater size than the Exchange's disseminated size, the remaining portion of the order would be executed manually or placed on the limit order book by the specialist.

The proposal would further provide that inbound eligible customer or off-floor broker-dealer limit orders would be subject to a 10-second timer before execution. The specialist may, however, determine that the booked customer limit order was in the process of being

⁹ The Exchange notes that it was required by the Commission to commit to the automatic execution of eligible inbound orders against specialist and Registered Options Trader ("ROT") limit orders entered onto the limit order book through an electronic interface system known as "ROT Access" under the *Order Instituting Public Administrative Proceedings Pursuant to section 19(h)(1) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions*. See Securities Exchange Act Release No. 43268 (September 11, 2000), Administrative Proceeding File 3–10282 (the "Order"). See also Securities Exchange Act Release No. 46763 (November 1, 2002), 67 FR 68898 (November 13, 2002) (SR–Phlx–2002–04). The Exchange has committed to roll out the system for the automatic execution of orders placed on the limit order book through ROT Access beginning in January 2004. The instant proposal represents the first phase in the eventual rollout of that system.

¹⁰ Phlx rule 1080(c)(iv) sets forth the various situations in which orders otherwise eligible for automatic execution via AUTO-X are handled manually by the specialist, including this situation, where there is a booked limit order. See Securities Exchange Act Release No. 45927 (May 15, 2002), 67 FR 36289 (May 23, 2002) (SR–Phlx–2001–24).

¹¹ The disseminated price consisting of a booked limit order at which the eligible inbound order would be executed must be the NBBO. For instance, if the Phlx bid is the National Best Bid, but the Phlx offer is not the National Best Offer, an inbound buy order would not be subject to Book Match, but would instead be handled manually.

⁸ The electronic "limit order book" is the Exchange's automated specialist limit order book, which automatically routes all unexecuted AUTOM orders to the book and displays orders real-time in order of price-time priority. Orders not delivered through AUTOM may also be entered onto the limit order book. See Phlx rule 1080, Commentary .02.