

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change, as amended, 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 such filings will also be available for inspection and copying at the principal office of the NYSE. All submissions should refer to File No. SR-NYSE-2002-32 and should be submitted by June 30, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁶

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-47955; File No. SR-Phlx-2003-29]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of a Proposed Rule Change and Amendments No. 1 and 2 Thereto by the Philadelphia Stock Exchange, Inc. for a Six-Month Extension of its Pilot Systems Change to its Automatic Execution Feature (AUTO-X)

May 30, 2003.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² notice is hereby given that on April 18, 2003, 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 Item I below, which was prepared by the Phlx. On May 5, 2003, the Exchange filed Amendment No. 1 to the proposed rule change.³ On May 30, 2003, the Exchange filed Amendment No. 2 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons and to approve the proposal, on an accelerated basis, as amended, for an additional six-month period, to expire on November 30, 2003.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Phlx proposes to extend, for an additional six months, its pilot program effecting a system change to the Exchange's Automated Options Market ("AUTOM") System,⁵ whereby AUTO-X is disengaged for a period of 30 seconds

³ See letter from Richard S. Rudolph, Director and Counsel, PHLX, to Marc McKayle, Special Counsel, Division of Market Regulation ("Division"), Commission, dated May 2, 2003. ("Amendment No. 1"). In Amendment No. 1 the Exchange, among other things, clarifies that it proposes to replace the phrase "AUTO-X guarantee" with the phrase "specified disengagement size." The Exchange also represents that, if the quotation in the option series that exhausts the specified disengagement size is revised (either by Auto-Quote or manually by the specialist) prior to the expiration of the 30-second period during which AUTO-X is disengaged, AUTO-X will be re-engaged for that option upon such revision. If the quotation in such an option series is not revised during the 30 second period during which AUTO-X is disengaged, the responsible broker or dealer is firm for the disseminated price, up to the disseminated size, pursuant to Exchange Rule 1082. In such a circumstance, AUTO-X is reengaged automatically after 30 seconds. The Exchange currently engages in surveillance for occurrences in which responsible brokers or dealers do not comply with the Firm Quotation requirements of Exchange Rule 1082, including during the 30-second AUTO-X disengagement period that is the subject of this proposed rule change.

⁴ See letter from Richard S. Rudolph, Director and Counsel, PHLX, to Marc McKayle, Special Counsel, Division, Commission, dated May 29, 2003 ("Amendment No. 2"). In Amendment No. 2, the Exchange adds Commentary .07 to Phlx Rule 1080 to clarify that "[t]he specified disengagement size set forth in Rule 1080(c)(iv)(I) is subject to the approval of the Options Committee and shall not be for a number of contracts that is fewer than the highest quotation size for any series in the given option." Further, Commentary .07 states that "[t]he specified disengagement size for each option shall be posted on the Exchange's web site."

⁵ AUTOM is the Exchange's electronic order delivery, routing, execution and reporting system, which provides for the automatic entry and routing of equity option and index option orders to the Exchange trading floor. Orders delivered through AUTOM may be executed manually, or certain orders are eligible for AUTOM's automatic execution feature, AUTO-X. Equity option and index option specialists are required by the Exchange to participate in AUTOM and its features and enhancements. Option orders entered by Exchange members into AUTOM are routed to the appropriate specialist unit on the Exchange trading floor.

after the number of contracts automatically executed in a given option meets the specified disengagement size for the option (the "pilot"). As explained further below, the Exchange also proposes to amend the pilot by replacing the phrase "AUTO-X guarantee" with the phrase "specified disengagement size."⁶ The text of the proposed rule change, as amended, is as follows:

Proposed new language is *italicized*; proposed deletions are in [brackets].

Philadelphia Stock Exchange Automated Options Market (AUTOM) and Automatic Execution System (AUTO-X)

Rule 1080

- (a)-(b) No change.
- (c) (i)-(iii) No change.
- (iv) (A)-(H) No change.

(I) When the number of contracts automatically executed within a 15 second period in an option (subject to a pilot program until [May] *November 30, 200[2]3*) exceeds the [AUTO-X guarantee] *specified disengagement size*, a 30 second period ensues during which subsequent orders are handled manually.

(v) No change.

(d)-(j) No change.

* * * Commentary:

.01—.05 No change.

.06 RESERVED

.07 The specified disengagement size set forth in Rule 1080(c)(iv)(I) is subject to the approval of the Options Committee and shall not be for a number of contracts that is fewer than the highest quotation size for any series in the given option. The specified disengagement size for each option shall be posted on the Exchange's Web site.

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 III below. The Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

⁶ See Amendment No. 1, note 3 *supra*.

¹⁶ 17 CFR 200.30-3(a)(12).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.