

with Rule 1080.01(c); and (4) can be heard by the specialist and crowd. [However, t]The Options Committee may extend the number of options to be included in a Wheel [a]Assignment [a]Area on a case-by-case basis, taking into account the activity and trading crowd size in the [those options] Wheel Assignment Area(s) to be extended [as well as the intervening posts, if it is determined that the specialist and all Wheel participants on all Wheels agree that an ROT can be actively making markets in that particular situation and can thus be considered presenting such Wheel issues, until either specialist or any such Wheel participant no longer agree that the circumstances warrant an extension].

(iv) 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. Although ROTs may sign-on in individual listed options, a sign-off by an ROT is effective for all options for which the ROT is on the Wheel. Sign-offs shall become effective immediately upon being processed for deletion in the computer system.

((iii)v) If an ROT who is signed-on the Wheel is away from the Wheel [a]Assignment [a]Area for more than a brief interval, a Floor Official shall:

(A) Remove the ROT from [any]all Wheel participation for the remainder of the trading day; and

(B) issue a fine pursuant to the fine schedule below.

If [such] an ROT is assigned a Wheel trade while away from the Wheel [a]Assignment [a]Area for more than a brief interval, that ROT is responsible for all [trades]contracts assigned to his/her ROT account until the sign-off is processed.

Fine Schedule (Implemented on a two-year running calendar basis)

F-24 (c) ((iii)v):

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence	Sanction is discretionary with Business Conduct Committee
and thereafter.	

(d)-(f) No change.

Fine Schedule

F-24 Fine not applicable, except paragraph (c)((iii)v). Matters subject to review by the Business Conduct Committee.

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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 Exchange 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 update the definition of a "Wheel Assignment Area" to be consistent with the current physical configuration of the Options Floor. Due to changes in the physical layout of the Options Floor (as explained below), not only is the "two contiguous quarter turret" standard no longer useful, but the variations in layout and post location on the Options Floor are such that the Exchange believes a standard based on the activities of Registered Options Traders ("ROT's"), rather than a physical description of a "Wheel Assignment Area," is now more appropriate.

Currently, OFPA F-24 provides that ROTs may elect to participate on the Wheel⁴ for any or all issues in which they maintain an ROT assignment, as long as those listed options are located within two contiguous "quarter turrets" of each other and the ROT is actively making markets in the specific issues.

The Exchange's Options Floor has undergone many physical changes since the adoption of the current definition of "Wheel assignment area."⁵ Specifically, the Options Floor no longer has any

"quarter turrets." The Options Floor trading posts are now linear, and in some instances extend continuously over the entire length of a given specialist post, encompassing a relatively large number of options in a relatively large physical area.

In order to conform the Exchange's rules with the current physical configuration of the Options Floor, the proposed rule change amends the text of OFPA F-24 to include references to the proposed defined term "Wheel Assignment Area" throughout. The proposal defines a "Wheel Assignment Area" as a location on the trading floor where an ROT: (1) Is actively making markets by quoting continuous, 2-sided markets in compliance with Advice B-1 and Rule 1014; (2) can hear and ascertain the markets that are being made by the specialist and crowd; (3) is deemed to be quoting the disseminated markets being made by the specialist in accordance with Rule 1080.01(c); and (4) can be heard by the specialist and crowd.⁶

As stated above, the proposed definition of "Wheel Assignment Area" is focused on the activities of individual ROTs, and not on the actual physical area in which ROTs are present. The requirements to actively make markets (making continuous two-sided markets in all issues assigned to such ROT), to hear and be heard, and to be deemed by the Exchange to be quoting the disseminated markets being made by the specialist in accordance with Rule 1080.01(c)⁷ are central to an ROT's participation in a particular crowd.

The proposal contemplates that issues may be raised on the Options Floor as to whether a particular ROT is eligible to participate in a Wheel Assignment Area based on the above four criteria. In order to account for this, and to address possible disputes, the proposal would continue to provide that the Options Committee⁸ may extend the number of options to be included in a Wheel Assignment Area on a case-by-case basis. Under the proposal, the Options Committee could now take into account the activity and trading crowd size in the Wheel Assignment Area(s) to be extended. In such a situation, the Options Committee would have the authority to determine if the Wheel Assignment Area should be extended to

⁶ See Amendment No. 1, *supra* n. 3.

⁷ Phlx Rule 1080.01(c) provides, in relevant part: "[t]he disseminated market * * * is deemed to represent the quotations of all ROTs in that option unless an ROT has expressly indicated otherwise in a clear and audible manner. * * *"

⁸ The Options Committee has general supervision of the dealings of members on the options floor. See Exchange By-Law Article X, Section 10-19.

⁴ The "Wheel" is a feature of AUTOM that provides an automated mechanism for assigning specialists and ROTs signed on the Wheel for a given listed option, on a rotating basis, as contra-side participants to trades executed via AUTO-X. See Exchange Rule 1080(g). 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.

⁵ The Exchange previously defined a "Wheel assignment area" as two contiguous quarter turrets. See Securities Exchange Act Release No. 35033 (November 30, 1994), 59 FR 63152 (December 7, 1994) (SR-Phlx-94-32). A quarter turret was one section of a four-sided, diamond-shaped trading post, which no longer exists on the Exchange's Options Floor.