

forth below. New text is italicized; deleted text is bracketed.

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Rule 444. Wire Connections Between Exchange and Members' Offices

Rule 444. No member or member organization shall establish or maintain any telephonic or other wire connection between his or its office and the Exchange except with the approval of the Committee. The Committee may grant or withhold such approval, and may without being obliged to assign any reason or cause for its action cause to be disconnected any such connection. *In order to facilitate communications remote specialists (whether competing or primary) shall be required to have and maintain e-mail capability acceptable to the Exchange at remote locations.*

Rule 460. Procedures for Competing Specialists

- (a) Application—No change.
- (b) Obligations—No change.
- (c) Withdrawal

If a competing specialist seeks to withdraw from acting as such in a security, it should so notify the Committee at least three business days prior to the desired effective date of such withdrawal. Withdrawal by a competing specialist bars that Competing Specialist from applying to trade [compete in] that same security as a primary or competing specialist for 90 days following the effective date of withdrawal. *If the EAES Committee determines that extraordinary circumstances exist, it may waive the 90 day period.* When the primary specialist requests to withdraw from a security, it shall be posted for reallocation by the EAES Committee. In the interim, if the EAES Committee is satisfied that a competing specialist can continue to maintain a fair and orderly market in such security, the competing specialist shall serve as the *interim* primary specialist until the security has been reallocated. Where there is more than one competing specialist in the security, [a] *an interim primary specialist shall be selected from among the competing specialists by the EAES Committee until reallocation. A remote specialist may be selected as an interim primary specialist only where there is no non-remote competing specialist in the security who can continue to maintain a fair and orderly market in such security as interim primary specialist.*

- (d) Competing Markets in a Security—No change.

Competing and Remote Specialist

Rule 517. Rules governing the approval of trading as a competing specialist [and as a remote competing specialist] are set forth in 460, Procedures for Competing Specialists. *Rules governing the approval of trading as a remote specialist are set forth in [and] Rule 461, PACE Remote Specialist., respectively, and] Rules 460 and 461 are incorporated by reference herein. Rules 500 through 599 shall apply both to the specialist selected by the Committee following solicitation of applications under Rule 506(a) to serve as primary specialist and to any competing specialist approved under Rule 460, except that, subject to Rules 522 and 523 below, the primary specialist shall determine whether a security shall be PACE registered. Applications for allocation of competing specialist privileges pursuant to Rule 460 shall contain the information required in Rule 506(b), and competing specialist privileges may be terminated on the same basis that primary specialist privileges may be removed and reallocated.*

Rule 522. *When a Registrant (as defined in Rule 505) notifies the Exchange, the [The] Committee shall institute reallocation proceedings with respect to any security voluntarily removed from PACE by its Registrant. The original Registrant shall not be reallocated the security once another applicant, which may be a remote specialist unit, commits to trading the security on PACE. Should no applicant commit to trading the security on PACE, the Committee shall allocate the security pursuant to Rules 506 and 511; provided, however, that if the original Registrant has applied to retain the security it shall be awarded the allocation. The Committee shall not allocate the security to a remote specialist unit if, following solicitation, any non-remote specialist unit applicant (other than the original Registrant) commits to trading the security on PACE.*

Rule 523. The Committee shall institute reallocation proceedings for *primary specialist privileges* with respect to any non-PACE traded security should any applicant commit to trading that security as the *primary specialist unit* on PACE. The existing Registrant *(as defined in Rule 505)* shall retain *primary specialist privileges* in the security if it commits to trading the security on PACE as the *primary specialist unit*; provided, however, that the Committee may from time to time determine that, for specified periods, the existing Registrant shall not retain

primary specialist privileges in the security in the event an applicant commits to trade the security on PACE as the primary specialist unit. A remote specialist unit may make the commitment to trade the security on PACE as a primary specialist.

Rule 524

A remote specialist unit may be allocated primary specialist privileges to trade any security that had previously been solicited or allocated by the Exchange but which is currently not allocated.

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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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

a. Background

On December 21, 2001, the Commission approved Phlx Rule 460, which was designed to establish a framework pursuant to which multiple specialists could trade on the equity trading floor of the Phlx.³ Prior to the adoption of Phlx Rule 460, there was one specialist unit ("Primary Specialist") for each equity security traded on the floor. The Primary Specialist was approved by the Phlx's Equity Allocation, Evaluation and Securities Committee (the "EAES Committee")⁴ pursuant to Phlx Rule 506(a) and Phlx Rule 511(b). Those rules generally provide for the allocation of equity securities (commonly called "books") to particular specialist units, which consist of specialists and other staff.⁵

Phlx Rule 460 currently provides that approved specialist units may apply to trade one or more securities as Competing Specialists. Each Competing

³ See Securities Exchange Act Release No. 45183 (December 21, 2001), 67 FR 118 (January 2, 2002) (SR-Phlx-2001-97).

⁴ See Phlx By-Law Article 10-6 and Phlx Rule 500.

⁵ See Phlx Rule 501.