

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-48563; File No. SR-Phlx-2003-30]

Self-Regulatory Organizations; Notice of Filing and Order Accelerating Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc., Implementing a Pilot Program Relating to the Book Sweep Function of the Exchange's Automated Options Market System

September 29, 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 June 23, 2003, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I and II below, which Items have been prepared by Phlx. On August 19, 2003, the Exchange filed Amendment No. 1 to the proposed rule change.³ On September 12, 2003, the Exchange filed Amendment No. 2 to the proposed rule change.⁴ On September 17, 2003, the Exchange filed Amendment No. 3 to the proposed rule change.⁵ The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons, and is approving the proposal on an accelerated basis.

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

The Exchange proposes to adopt new Rule 1080(c)(iii) concerning a new feature of the Exchange's Automated Options Market ("AUTOM") System,⁶

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See letter from Richard S. Rudolph, Director and Counsel, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation, Commission, dated August 18, 2003 ("Amendment No. 1"). Amendment No. 1 replaced the original Form 19b-4 in its entirety.

⁴ See letter from Richard S. Rudolph, Director and Counsel, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation, Commission, dated September 11, 2003 ("Amendment No. 2"). In Amendment No. 2, Phlx amended the text of the proposed rule change to specify when the Book Sweep function would be engaged or disengaged.

⁵ See letter from Richard S. Rudolph, Director and Counsel, Phlx, to Nancy Sanow, Assistant Director, Division of Market Regulation, Commission, dated September 16, 2003 ("Amendment No. 3"). In Amendment No. 3, Phlx proposed to implement the Book Sweep function on a six-month pilot basis.

⁶ 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

designed to automatically execute limit orders on the book when the Exchange's electronic options pricing system, Auto-Quote, or a specialist's quote sent to the Exchange via specialized quote feed ("SQF"), locks or crosses a limit order on the book. This feature is called "Book Sweep." Below is the text of the proposed rule change. Proposed new language is *italicized*.

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Rule 1080. (a)-(b) No change.

(c)(i)-(ii) No change.

(iii) *Book Sweep. Book Sweep is a feature of AUTOM which, when engaged, does the following: when the bid or offer generated by the Exchange's Auto-Quote system (or by a proprietary quoting system provided for in Commentary .02 of this Rule called "Specialized Quote Feed" or "SQF") matches or crosses the Exchange's best bid or offer in a particular series as established by an order on the limit order book, orders on the limit order book in that series will be automatically executed and allocated among crowd participants signed onto the Wheel. If Book Sweep is not engaged at the time the Auto-Quote or SQF bid or offer matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist may manually initiate the Book Sweep feature. Book Sweep shall be engaged when AUTO-X is engaged, and shall be disengaged when AUTO-X is disengaged in accordance with Rule 1080(c)(iv) and Rule 1080(e). Eligible orders on the limit order book will be automatically executed up to the size associated with the quote that matches or crosses such limit orders.*

(iv)-(v) No change.

(d)-(j) No change.

Commentary

No change.

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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, 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

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. See Exchange Rule 1080.

may be examined at the places specified in Item IV below. 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 further automate options order handling by adopting a new rule reflecting a system enhancement to the Exchange's AUTOM system, called Book Sweep, that would allow certain orders resting on the limit order book⁷ to be automatically executed in the situation where the bid or offer generated by the Exchange's Auto-Quote⁸ system (or by a proprietary quoting system called "Specialized Quote Feed" or "SQF")⁹ locks (*i.e.*, 2 bid, 2 offer) or crosses (*i.e.*, 2.10 bid, 2 offer) the Exchange's best bid or offer in a particular series as established by an order on the limit order book. Orders executed by the Book Sweep feature would be allocated among crowd participants participating on the Wheel.¹⁰

The Book Sweep feature should provide for more timely and efficient execution of marketable limit orders on the book. Currently, when the Auto-Quote or SQF bid or offer locks or crosses a booked order, the specialist handles the execution manually after being alerted by the system that one or more limit orders on the book are marketable and due an execution. This situation can occur for several series in the same option, requiring multiple executions of booked limit orders in each such series to be carried out by the specialist, which can be a time-consuming and burdensome process.

Book Sweep Size. Book Sweep would function by automatically executing a

⁷ 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 Exchange Rule 1080, Commentary .02.

⁸ Auto-Quote is the Exchange's electronic options pricing system, which enables specialists to automatically monitor and instantly update quotations. See Exchange Rule 1080, Commentary .01(a).

⁹ See Exchange Rule 1080, Commentary .01(b)(i).

¹⁰ The "Wheel" is a feature of AUTOM that allocates contra-party participation respecting automatically executed trades among the specialist and Registered Options Traders ("ROTs") signed onto the Wheel for that listed option. See Exchange Rule 1080(g). See also Option Floor Procedure Advice ("OFFPA") F-24.