

Philadelphia Stock Exchange, Inc.

Proposed Rule Change

It is proposed that the following provisions of the Philadelphia Stock Exchange Rules be amended as set forth below. The following text does not appear in the release issued by the Commission. Proposed new language is in italics; proposed deletions are in [brackets].

Obligations And Restrictions Applicable To Specialists And Registered Options Traders

Rule 1014. (a) No change.

(b) ROT. (i) An ROT is a regular member or a foreign currency options participant of the Exchange located on the trading floor who has received permission from the Exchange to trade in options for his own account. For purposes of this Rule 1014, the term “ROT” shall include a Streaming Quote Trader, as defined below.

Each ROT electing to engage in Exchange options transactions shall be assigned by the Exchange one or more classes of options, and Exchange options transactions initiated by such ROT on the Floor for any account in which he had an interest shall to the extent prescribed by the Exchange be in such assigned classes.

(ii) (A) Streaming Quote Trader (“SQT”). An SQT is an ROT who has received permission from the Exchange to generate and submit option quotations electronically through an electronic interface with AUTOM via an Exchange approved proprietary electronic quoting device in eligible options to which such SQT is assigned.

(B) Market Making Obligations Applicable in Streaming Quote Options. In addition to the other requirements for ROTs set forth in this Rule 1014, an SQT shall be responsible to quote continuous, two-sided markets in not less than 60% of the series in each Streaming Quote Option (as defined in Rule 1080(k)) in which such SQT is assigned. The specialist shall be responsible

to quote continuous, two-sided markets in not less than 100% of the series in each Streaming Quote Option in which such specialist is assigned.

(1) During a six month period commencing on the date of the initial deployment of Phlx XL (the “initial six-month period”), any SQT assigned in a Streaming Quote Option (and the specialist assigned in such Streaming Quote Option) may submit electronic quotations with a size of fewer than 10 contracts for a period of sixty days after such option begins trading as a Streaming Quote Option. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, SQTs and the specialist assigned in such Streaming Quote Option shall submit electronic quotations with a size of not less than 10 contracts.

(2) During a six month period commencing on the first day following the expiration of the initial six-month period, any SQT assigned in a Streaming Quote Option (and the specialist assigned in such Streaming Quote Option) may submit electronic quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Beginning on the thirty-first day after such option begins trading as a Streaming Quote Option, SQTs and the specialist assigned in such Streaming Quote Option shall submit electronic quotations with a size of not less than 10 contracts.

(3) Thereafter, any SQT assigned in a Streaming Quote Option that is newly deployed on Phlx XL (and the specialist assigned in such Streaming Quote Option) shall submit electronic quotations with a size of not less than 10 contracts beginning on the date on which such Streaming Quote Option begins trading on Phlx XL.

An SQT may only submit such quotations while such SQT is physically present on the floor of the Exchange.

(C) Non-SQT ROTs Trading Streaming Quote Options. These requirements are applicable on a per option basis depending upon the percentage of volume a non-SQT ROT transacts electronically (*i.e.*, by way of placing limit orders on the limit order book that are executed electronically and allocated automatically in accordance with Rule 1014(g)(vii)) versus in open outcry. With respect to making this determination, the Exchange will monitor the non-SQT ROT's trading activity every calendar quarter to determine whether they exceed the thresholds established in this sub-paragraph (C). If a non-SQT ROT exceeds the threshold established below, the obligations contained in sub-paragraph (C)(2) will be effective the next calendar quarter.

For a period of 90 days commencing immediately after an option begins trading as a Streaming Quote Option, the provisions of sub-paragraph (C)(1) below shall govern trading in that Streaming Quote Option.

(1) Non-SQT ROT Trades Less Than 20% Contract Volume Electronically:

If a non-SQT ROT does not transact more than 20% (*i.e.*, trades 20% or less) of his/her contract volume electronically in an appointed Streaming Quote Option during any calendar quarter, the following provisions shall apply to such non-SQT ROT with respect to that Streaming Quote Option:

(a) Quote Spread Parameters: If a non-SQT ROT quotes electronically, such non-SQT ROT will not be required to comply with the quote spread parameter requirements of Exchange Rule 1014(c)(i) in that Streaming Quote Option. This subparagraph (C)(1)(a)

shall be in effect in each Streaming Quote Option for a period of one year commencing with the date the option begins trading as a Streaming Quote Option.

(b) *No Continuous Electronic Quoting Obligation:* The non-SQT ROT will not be obligated to quote electronically in any designated percentage of series within that Streaming Quote Option.

(c) *Continuous Open Outcry Quoting Obligation:* In response to any request for quote by a Floor Broker, specialist, Floor Official, or other ROT (including an SQT), non-SQT ROTs must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i). During a six month period commencing on the date of the initial deployment of Phlx XL (the “initial six-month period”), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, such quotations shall be for a size of at least 10 contracts. During a six month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Thereafter, such non-SQT ROTs shall provide such quotations with a size of not less than 10 contracts beginning on the date on which such Streaming Quote Option begins trading on Phlx XL.

(d) *In-Person Trading Requirement.* Any volume transacted electronically will not count towards the non-SQT ROT’s in-person requirement contained in Commentary .01 to this Rule 1014.

(2) Non-SQT ROT Trades More Than 20% Contract Volume Electronically:

If a non-SQT ROT transacts more than 20% of his/her contract volume in a Streaming Quote Option electronically (i.e., by way of placing limit orders on the limit order book that are executed electronically and allocated automatically in accordance with Rule 1014(g)(vii)) versus in open outcry during any calendar quarter, commencing the next calendar quarter such non-SQT ROT will be subject to the following quoting obligations in such Streaming Quote Option for as long as such non-SQT ROT trades such Streaming Quote Option:

(a) Quote Spread Parameters: Such non-SQT ROT must comply with the quote spread parameter requirements contained in Rule 1014(C)(i).

(b) Continuous Quoting Obligation: A non-SQT ROT trading a Streaming Quote Option shall be required to submit continuous two-sided electronic quotations in a designated percentage of series within the Streaming Quote Option, in accordance with the schedule below. During a six month period commencing on the date of the initial deployment of Phlx XL (the “initial six-month period”), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROT may submit electronic quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option begins trading as a Streaming Quote Option, such electronic quotations shall be for a size of at least 10 contracts. During a six month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROT may submit electronic quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Beginning on the thirty-first day after such option begins trading as a Streaming Quote

Option, such electronic quotations shall be for a size of at least 10 contracts. Thereafter, such non-SQT ROT shall submit electronic quotations with a size of not less than 10 contracts beginning on the date on which such Streaming Quote Option begins trading on Phlx XL.

<u>% of Overall Streaming Quote Option Volume Transacted on the Exchange During the Previous Quarter that was Transacted Electronically</u>	<u>Electronic Quoting % (% of Series)</u>
<u>50% or Below</u>	<u>20%</u>
<u>51-75%</u>	<u>40%</u>
<u>Above 75%</u>	<u>60%</u>

For example, if 83% of the total volume on the Exchange in a particular Streaming Quote Option is transacted electronically (i.e., through AUTO-X, Book Match or Book Sweep), non-SQT ROTs in such Streaming Quote Option shall be required to maintain continuous quotations in 60% of the series. The Exchange will monitor on a calendar quarter basis the percentage of contracts transacted electronically on the Exchange in each particular Streaming Quote Option for the purpose of adjusting the applicable electronic quoting percentage during the next succeeding calendar quarter.

(c) *Continuous Open Outcry Quoting Obligation*: In response to any request for quote by a Floor Broker, specialist, Floor Official, or other ROT (including an SQT), non-SQT ROTs must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i). During a six month period commencing on the date of the initial deployment of Phlx XL (the “initial six-month period”), for a period of sixty days commencing immediately after an option begins trading as a Streaming Quote Option, such non-SQT ROTs may provide such quotations with a size of fewer than 10 contracts. Beginning on the sixty-first day after such option

begins trading as a Streaming Quote Option, such quotations shall be for a size of at least 10 contracts. During a six month period commencing on the first day following the expiration of the initial six-month period, such non-SQT ROT may provide such quotations with a size of fewer than 10 contracts for a period of thirty days after such option begins trading as a Streaming Quote Option. Beginning on the thirty-first day after such option begins trading as a Streaming Quote Option, such quotations shall be for a size of at least 10 contracts. Thereafter, such non-SQT ROTs shall provide such quotations with a size of not less than 10 contracts beginning on the date on which such Streaming Quote Option begins trading on Phlx XL.

(c) – (f) No change.

(g) *Equity Option and Index Option Priority and Parity*

(i) (A) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. [In addition, e] Equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (2) below.

For the purpose of paragraph (g) of this Rule, “Initiating Order” means an incoming contra-side order.

(1) Respecting non-Streaming Quote Options, “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity [,] in accordance with this Rule 1014(g)(i). The Remainder of the Order shall be

allocated pursuant to this Rule 1014. [An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts.

Orders of controlled accounts must yield priority to customer orders.

Orders of controlled accounts are not required to yield priority to other controlled account orders.]

(2) Respecting Streaming Quote Options, an Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Rule 1014(g)(vii). “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (2).

(B) ROT Access-- Respecting non-Streaming Quote Options, [P]pursuant to Rule 1080(b)(i)(B) and Commentary .04 thereto, a Phlx ROT or specialist may enter a[n order that results in the improvement of the prevailing bid and/or offer disseminated by the Exchange] limit order through an electronic interface with AUTOM [(“price improving order”)] and must announce, loudly and audibly in the crowd, that he has [improved the displayed market] entered such a limit order. If such a limit order results in the improvement of the prevailing bid and/or offer disseminated by the Exchange (“price improving order”), [S]such ROT or specialist is referred to, in this rule, as a Price Improving ROT/Specialist.

Matching--The other crowd participants, including ROTs and/or the specialist, may match such price improving order via electronic interface with AUTOM and by loudly and audibly

announcing their intention to do so, and indicating their size, at any time. If Auto-Quote or Specialized Quote Feed matches the price associated with a price improving order, the specialist and crowd participants shall be deemed to be matching the price improving order under this paragraph.

Further Improvement--the other crowd participants may improve the price improving order by entering an order via an electronic interface with AUTOM.

Trade Allocation--Among the Price Improving ROT/Specialist and matching crowd participants trades shall be allocated as follows:

(1) – (5) No change.

(ii) – (vi) No change.

(vii) Allocation of Automatically Executed Trades in Streaming Quote Options. Solely with respect to Streaming Quote Options approved by the Exchange to be traded on Phlx XL by Streaming Quote Traders (“SQTs”) pursuant to Exchange Rule 1080(k), after public customer market and marketable limit orders have been executed, trades automatically executed in such options shall be allocated automatically in the following manner:

(A) If one Phlx XL participant is quoting alone at the disseminated price and their quote is not matched by another Phlx XL participant prior to execution, such Phlx XL participant shall be entitled to receive a number of contracts up to the size associated with his/her quotation.

(B) Parity. Quotations entered electronically by the specialist or an SQT that do not cause an order resting on the limit order book to become due for execution may be matched at any time by quotations entered electronically by the specialist and/or other SQTs, and by ROT limit orders entered via electronic interface and shall be deemed to be on parity, subject to the requirement that orders of controlled accounts must yield priority to customer orders as set forth in Rule 1014(g)(i)(A).

(1) if the specialist is quoting at the Exchange's disseminated price:

(a) orders for 5 contracts or fewer shall be allocated first to the specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the 5 contract or fewer order preference set forth in this sub-paragraph (B)(1)(a), the specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.

(b) Respecting orders for greater than 5 contracts, the specialist shall be entitled to receive a number of contracts that is the greater of: (i) the proportion of the aggregate size associated with the specialist's quote, SQT quotes, and non-SQT ROT limit orders entered on the book via electronic interface at the disseminated price represented by the size of the specialist's quote, or (ii) 60% of the contracts to be allocated if the specialist is on parity with one SQT or one non-SQT ROT that has placed a limit order on the book via electronic interface at the Exchange's disseminated price; (iii) 40% of the contracts to be allocated if the specialist is on parity with two SQTs or non-SQT ROTs that have placed a limit order on the book via electronic interface at the Exchange's disseminated price; and (iv) 30% of the contracts to be allocated if the specialist is on parity with three or more SQTs or non-SQT ROTs that have placed a limit order on the book via electronic interface at the Exchange's disseminated price. In order to be entitled to receive the number of contracts set forth in this sub-paragraph (B)(1)(b), the specialist must be

quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.

(c) Thereafter, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book via electronic interface at the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the total remaining aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book entered via electronic interface at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book via electronic interface. Such SQT(s) and non-SQT ROTs shall not be entitled to receive a number of contracts that is greater than the size associated with their quotation or limit order.

(d) If any contracts remain to be allocated after the specialist, SQTs and non-SQT ROTs with limit orders on the limit order book have received their respective allocations, off-floor broker-dealers (as defined in Rule 1080(b)(i)(C)) that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the aggregate size associated with off-floor broker-dealer limit orders on the limit order book at the disseminated price represented by the size of the limit order they have placed on the limit order book. Such off-floor broker-dealers shall not be entitled to receive a number of contracts that is greater than the size that is associated with each such limit order.

(2) If the specialist is not quoting at the Exchange's disseminated price, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book via electronic interface which represent the Exchange's disseminated price shall be entitled to

receive a number of contracts equal to the proportion of the aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book entered via electronic interface at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book via electronic interface. Thereafter, off-floor broker-dealers that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts as specified in paragraph (1)(d) above.

(3) *No Split-Price Executions in Streaming Quote Options.* If the size associated with a market order or an electronic quotation to be executed in a Streaming Quote Option is received for a greater number of contracts than the Exchange's disseminated size, the portion of such an order or quotation executed automatically at the Exchange's disseminated size shall be allocated automatically in accordance with Rule 1014(g)(vii). Contracts remaining in such an order shall be represented by the specialist and handled in accordance with Exchange rules.

(4) Notwithstanding the first sentence of Rule 1014(g)(i), neither Rule 119(a)-(d) and (f), nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of automatically executed trades in Streaming Quote Options.

Commentary:

.01-.04 No change

.05 (a) *Assignment in non-Streaming Quote Options.* With respect to options that are not eligible to be traded by SQTs ("non-Streaming Quote Options"), [T]the Exchange will assign an ROT to act in one or more classes of option contracts. In making such assignments, the Exchange shall give attention to ([a]i) the preference of applicants; ([b]ii) assuring that financial resources available to an ROT enable him to satisfy the obligations set forth in Rule 1014 with respect to

each class of option contracts to which he is assigned; ([c]iii) the applicant's expertise in options trading; and ([d]iv) the applicant's prior market performance. The Exchange may suspend or terminate any assignment of an ROT under this Rule and may make additional assignments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action.

(b) Assignment in Streaming Quote Options. The Options Allocation, Evaluation and Securities Committee or its designee shall assign SQTs in one or more Streaming Quote Options in accordance with Rule 507. An SQT may be assigned to (and thus submit quotes electronically in) up to all of the options located within a specified physical zone on the Exchange Options Floor (an "SQT Zone") provided that such SQT is physically present in such SQT Zone. Each member organization must have at least one SQT physically present in each SQT Zone in which such member organization submits electronic quotations. The number and location of SQT Zones will be determined by the Options Committee. Initially, there will be one single SQT Zone encompassing the entire options floor. In the event the Options Committee determines to change the number and/or location of SQT Zones, the effectiveness of any such change shall be conditioned upon its having been approved by the Securities and Exchange Commission pursuant to Section 19(b) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

(c) Non-Electronic Orders. In the event that a Floor Broker or specialist presents a non-electronic order in an option in which an SQT is not a crowd participant, but which is traded in the SQT Zone where such SQT is located, such SQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant SQT at the time of execution. The specialist and/or SQTs

participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Rule 1033(a)(ii). For purposes of this Rule, an SQT or non-SQT ROT shall be deemed to be participating in a crowd if such SQT is, at the time an order is represented in the crowd, physically located in a specific "Crowd Area." A Crowd Area shall consist of a specific physical location marked with specific, visible physical boundaries on the options floor, as determined by the Options Committee. An SQT or non-SQT ROT who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant in such a Crowd Area, provided that such SQT or non-SQT ROT fulfills the requirements set forth in this Rule 1014. An SQT or non-SQT ROT shall be deemed to be participating in a single Crowd Area.

Priority And Parity At Openings In Options

Rule 1017. (a) No change.

(b) (i) In connection with an opening, a limited price order to buy which is at a higher price than the price at which the option is to be opened and a limited price order to sell which is at a lower price than the price at which the option is to be opened, are to be treated as market orders.

(ii) In connection with an opening in a Streaming Quote Options (as defined in Rule 1080(k), a bid (offer) submitted electronically by the specialist or an SQT in such Streaming Quote Option which is at a higher (lower) price than the price at which the option is to be opened is to be executed at the opening price.

(c) – (f) No change.

(g) With respect to Streaming Quote Options, Streaming Quote Traders (“SQTs”), as defined in Rule 1014(b)(ii), may participate in opening transactions by submitting electronic quotations to interact with opening orders.

Bids And Offers --Premium

Rule 1033. (a)(i) No change.

(ii) Solicitation of Quotations. In response to a floor broker's solicitation of a single bid or offer, the members of a trading crowd (including the specialist and ROTs) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the AUTO-X guarantee can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Plan for the Purpose of Creating an Options Intermarket Linkage and Exchange Rules 1083 – 1087 respecting Trade-Throughs.

Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the specialist and ROTs).

(b) - (h) No change.

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

Rule 1080. (a) No change.

(b) (i)(A) Agency orders up to the maximum number of contracts permitted by the Exchange may be entered. Agency orders up to [1]5,000 contracts, depending on the option, are eligible for AUTOM order delivery, subject to the approval of the Options Committee. The following types of agency orders are eligible for AUTOM; day, GTC, Immediate or Cancel (“IOC”), market, limit, [stop, stop limit,] all or none, or better, simple cancel, simple cancel to reduce size (cancel leaves), cancel to change price, cancel with replacement order, [market close, market on opening, limit on opening, limit close,] and possible duplicate orders.

(B) Respecting non-Streaming Quote Options, [O]n-floor orders for the proprietary account(s) of non-SQT ROTs and specialists via electronic interface with AUTOM may be entered, up to the maximum number of contracts permitted by the Exchange, subject to the restrictions on order entry set forth in Commentary .04 of this Rule. Orders up to [1]5,000 contracts, depending on the option, are eligible for AUTOM order delivery. The following types of orders for the proprietary account(s) of ROTs and specialists are eligible for entry via electronic interface with AUTOM: GTC, day limit and simple cancel.

(C) Off-floor broker-dealer limit orders, up to the minimum number of contracts permitted by the Exchange, subject to the restrictions on order entry set forth in Commentary .05 of this Rule, may be entered. Generally, orders up to [1]5,000 contracts, depending on the option, are eligible for AUTOM order delivery on an issue-by-issue basis, subject to the approval of the Options Committee. The Options Committee may determine to increase the eligible order delivery size to an amount greater than [1-5,000 contracts, on an issue-by-issue basis. The following types of broker-dealer limit orders are eligible for AUTOM: day, GTC, IOC, simple cancel, simple cancel to reduce size (cancel leaves), cancel to change price, cancel with replacement order. For purposes of this Rule 1080, the term "off-floor broker-dealer" means a broker-dealer that delivers orders from off the floor of the Exchange for the proprietary account(s) of such broker-dealer, including a market maker located on an exchange or trading floor other than the Exchange's trading floor who elects to deliver orders via AUTOM for the proprietary account(s) of such market maker.

(ii) No change.

(c) ***

(i) [AUTO-X on the NBBO (NBBO Feature). AUTO-X on the NBBO (the “NBBO Feature”) is a feature of AUTOM that automatically executes at the National Best Bid or Offer (“NBBO”). NBBO Feature will execute AUTO-X eligible orders at the NBBO for certain options designated by the Options Committee as eligible for the NBBO Feature (“automatic step-up options”), provided that the NBBO does not differ from the specialist's best bid or offer by more than the “step up parameter.”

(A) The “step-up parameter” for automatic step-up options shall be the minimum trading increment for options in that series established pursuant to Exchange Rule 1034, or any greater amount established by the Options Committee in respect of specified automatic step-up options or series of options.

(B) The Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials) may determine to disengage the NBBO Feature for orders in certain automatic step-up options after notice to AUTOM users in situations in which the Exchange is experiencing communications or systems problems; fast markets; or delays in the dissemination of quotes because of queues on the Options Price Reporting Authority (“OPRA”) which would likely render such quotes stale, Where the NBBO Feature is disengaged, such orders shall be executed manually in accordance with Exchange rules.

(C) In respect of automatic step-up options (1) where the specialist's best bid or offer is inferior to the current best bid or offer in another market by more than the step-up parameter; or (2) where the NBBO for one of the series of automatic step-up options is crossed (i.e., 2.10, 2 asked) or locked (i.e., 2 bid, 2 asked); or (3) in respect of equity options other than automatic step-up options where the specialist's best bid or offer is inferior to the current best bid or offer in

another market by any amount, such orders shall be executed manually in accordance with Exchange rules. There may be circumstances in which the specialist's best bid or offer is inconsistent with the Exchange's best bid or offer. In such a circumstance, such an order shall be executed manually.

(D)(A) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, as defined in Exchange Rule 1082(a)(iii) (the "Quote Rule"), customer market orders will receive an automatic execution at the NBBO based on the best bid or offer in markets whose quotes are not subject to relief from the firm quote requirement set forth in the Quote Rule. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are excluded from the calculation of NBBO. The Exchange may determine to exclude quotes from its calculation of NBBO on a series-by-series basis or issue-by-issue basis, or may determine to exclude all options quotes from an exchange, where appropriate, under the conditions set forth above. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Such documentation shall include: identification of the option(s) affected by such action; the date and time such action was taken and concluded; identification of

the other exchange(s) whose quotes were excluded from the Exchange's calculation of NBBO; identification of the Chairman of the Options Committee, his designee, or two Floor Officials (as applicable) who approved such action; the reasons for which such action was taken; and identification of the specialist and the specialist unit. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rule and regulations thereunder.

([E]B) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from the Option Price Reporting Authority (“OPRA”); and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are again included in the calculation of NBBO.

(ii) No change.

(iii) *Book Sweep*. Book Sweep is a feature of AUTOM which, when engaged, does the following: (A) Respecting non-Streaming Quote Options, 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.

(B) Respecting Streaming Quote Options, when the bid or offer generated by the Exchange's Auto-Quote system, SQF, or by an SQT (as defined in Rule 1014(b)(ii)) 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 automatically allocated in accordance with Exchange rules. If Book Sweep is not engaged at the time the Auto-Quote, SQF, or SQT bid or offer matches or crosses the Exchange's best bid or offer represented by a limit order on the book, the specialist or SQT may manually initiate the Book Sweep feature.

(iv) Except as otherwise provided in this Rule, in the following circumstances, an order otherwise eligible for AUTO-X will instead be manually handled by the specialist:

(A) No change.

(B) [one of the following order types: stop, stop limit, market on closing, market on opening, or an] all-or-none order [where the full size of the order cannot be executed];

(C) – (E) No change.

(F) if the [NBBO Feature, described in paragraph (c)(i) above, is not engaged, and the] Exchange's bid or offer is not the NBBO.

(H) No change.

(I) respecting non-Streaming Quote Options, when the number of contracts automatically executed within a 15 second period in an option (subject to a pilot program until November 30, 2004) exceeds the specified disengagement size, a 30 second period ensues during which

subsequent orders are handled manually. If the Exchange's disseminated size exceeds the specified disengagement size and an eligible order is delivered for a number of contracts that is greater than the specified disengagement size, such an order will be automatically executed up to the disseminated size, followed by an AUTO-X disengagement period of 30 seconds. If the specialist revises the quotation in such an option prior to the expiration of such 30-second period, eligible orders in such an option shall again be executed automatically.

[(v)(A) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, as defined in Exchange Rule 1082(a)(iii) (the "Quote Rule"), customer market orders will receive an automatic execution at the NBBO based on the best bid or offer in markets whose quotes are not subject to relief from the firm quote requirement set forth in the Quote Rule. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are excluded from the calculation of NBBO. The Exchange may determine to exclude quotes from its calculation of NBBO on a series-by-series basis or issue-by-issue basis, or may determine to exclude all options quotes from an exchange, where appropriate. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Such

documentation shall include: identification of the option(s) affected by such action; the date and time such action was taken and concluded; identification of the other exchange(s) whose quotes were excluded from the Exchange's calculation of NBBO; identification of the Chairman of the Options Committee, his designee, or two Floor Officials (as applicable) who approved such action; the reasons for which such action was taken; and identification of the specialist and the specialist unit. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rule and regulations thereunder.

(B) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from the Option Price Reporting Authority (“OPRA”); and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are again included in the calculation of NBBO.]

(d) – (f) No change.

(g) AUTO-X Contra-Party Participation— The contra-side to automatically executed orders may be:

- (i) The Wheel - With respect to non-Streaming Quote Options, [C]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, an[d] 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 marketable [eligible customer and off-floor broker-dealer] orders shall be a [customer] limit order on the book or specialist and/or SQT electronic quotes (“electronic quotes”) at the disseminated price where: (A) the Exchange’s disseminated size includes [a customer] limit orders on the book and/or electronic quotes at the disseminated price; and (B) the disseminated price is the National Best Bid or Offer.

This feature is called Book Match.

(h)- (j) No change.

(k) Electronic Streaming Quotations. The Options Committee may, on an issue-by-issue basis, determine the specific issues in which Streaming Quote Traders (“SQTs”), as defined in Exchange Rule 1014(b)(ii), may generate and submit option quotations from on the floor of the Exchange electronically through an electronic interface with AUTOM, via an Exchange approved proprietary electronic quoting device. Such issues shall be known as “Streaming Quote Options.”

Commentary:

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

(b)(i) The Auto-Quote System includes three commonly used options pricing algorithms: the Black Scholes Option Pricing Model; the Cox, Ross and Rubenstein Binomial Option Pricing Model; and the Barone, Adesi and Whaley American Option Pricing Model. In addition, a specialist or SQT may separately employ other pricing models, by establishing a specialized connection by-passing the Exchange's Auto-Quote System, which is known as a specialized quote feed.

(ii) Specialists and SQTs, respectively, determine which model to select per option and may change models during the trading day. Each pricing model requires the specialist and SQT, respectively, to input various parameters, such as interest rates, volatilities (delta, vega, theta, gamma, etc.) and dividends. Respecting non-Streaming Quote Options, [T]the specialist may, but is not required to (a) consult with and/or (b) agree with the trading crowd in setting these parameters or selecting a model, but the members of the trading crowd are not required to provide input in these decisions, and in all cases, the specialist has the responsibility and authority to make the final determination.

(c) With respect to non-Streaming Quote Options, [T]he disseminated market (whether by Auto-Quote or specialized quote feed) is deemed to represent the quotations of all ROTs in that option unless a ROT has expressly indicated otherwise in a clear and audible manner, respecting either a specific series, the class or the option (specifying LEAPS), and with sufficient time for the specialist to take action to update the quote if necessary.

(d) If options trading systems throttle quotations for at least three minutes, the Chairman of the Board of Governors or his designee may, for capacity management purposes, mandate that the Auto-Quote or specialized quote feed be set to update quotations based on a certain minimum movement in the underlying security for: (i) all options; (ii) index options only; or (iii) certain specified options, taking into account certain factors that may include, but are not limited to, the price of the underlying security, volatility in the underlying security, or whether there has been any trading volume over the last two trading days. Such mandated minimum setting may continue for a period of 15 minutes, and may be continued every 15 minutes thereafter, provided that the Exchange's options trading systems are throttling quotations at the end of each such 15-minute period.

.02 - .03 No change.

.04 [Price-improving ROT and specialist price-improving orders via electronic interface with AUTOM.] ROT Limit Orders. Respecting Streaming Quote Options, [O]n-floor orders for the proprietary accounts of non-SQT ROTs [or specialists that result in an improvement in the then prevailing market disseminated by the Exchange (i.e., raise the bid or lower the offer)] may be entered for delivery through AUTOM, through the use of Exchange approved proprietary systems to interface with AUTOM ("interface") to be placed on the [specialist's] limit order book. Respecting non-Streaming Quote Options, on-floor orders for the proprietary account(s)

of ROTs or specialists may also be entered through the interface. Such orders shall be for a minimum of 10 contracts in both Streaming Quote Options and non-Streaming Quote Options.

[In order to be displayed, on-floor price-improving orders for the proprietary accounts of ROTs or specialists delivered via electronic interface with AUTOM shall be for a minimum size of at least the lesser of the AUTO-X guarantee for the option that is the subject of such an order, or 20 contracts.]

Respecting non-Streaming Quote Options, [I]nbound orders eligible for execution against price-improving ROT [or specialist price-improving] orders entered into AUTOM via electronic interface and orders that match such [price-improving] orders via electronic interface with AUTOM, shall be executed by the specialist and shall be allocated by the person required to do so pursuant to Exchange [r]Rule[s] 1014(g)(vi). Respecting Streaming Quote Options, inbound AUTOM orders or electronic quotations eligible for execution against non-SQT ROT limit orders entered into AUTOM via electronic interface shall be automatically executed and shall be allocated automatically pursuant to Exchange rules. The Exchange will make electronic interface with AUTOM available to member firms, and will notify all members on the Options Floor when it has completed the development of appropriate interfaces for such proprietary systems on the Options Floor, and when the use of such electronic interfaces may commence. Thereafter, ROTs and specialists must connect with these interfaces with their own proprietary devices.

* * * * *

.05 Off-floor broker-dealer limit orders delivered through AUTOM must be represented on the Exchange Floor by a floor member. Off-floor broker-dealer orders delivered via AUTOM shall

be for a minimum size of one (1) contract. Off-floor broker-dealer limit orders are subject to the following other provisions:

(i) The restrictions and prohibitions concerning electronically generated orders and off-floor market makers set forth in Rules 1080(i) and (j).

(ii) Off-floor broker-dealer limit orders entered via AUTOM establishing a bid or offer may establish priority, and the specialist and crowd may match such a bid or offer and be at parity, [subject to the yield provisions set forth] except as provided in Exchange Rule 1014(g)(i)(A).

(iii) Off-floor broker-dealer limit orders that are eligible for automatic execution [via AUTO-X] entered via AUTOM for the account(s) of the same beneficial owner may not be entered in options on the same underlying security more frequently than every 15 seconds.

[(iv) Off-floor broker-dealer AUTO-X eligible limit orders may be eligible for the Exchange's National Best Bid or Offer ("NBBO") Step-Up Feature on an issue-by-issue basis, subject to the approval of the Options Committee.]

.06-.07 No change.

Firm Quotations

Rule 1082. (a) Definitions.

(i) No change.

(ii) The term “disseminated size” shall mean with respect to the disseminated price for any quoted options series:

(A)[respecting options subject to the Auto-Quote technology operating as of May, 2002 (“current Auto-Quote”) and scheduled to be phased-out by September 2002: the Auto-Quote guarantee for

the quoted option, except that the disseminated size of limit orders on the book shall be ten (10) contracts; or

(B) respecting non-Streaming Quote options (as defined in Rule 1080(k), [subject to the Auto-Quote technology implemented after the effective date of this provision (“new Auto-Quote”) and options subject to a proprietary quoting system provided for in Rule 1080.02 (“Specialized Quote Feed”),] at least the sum of the size associated with: (1) limit orders; and (2) specialists’ quotations generated by Auto-Quote or Specialized Quote Feed as described in Rule 1080, Commentary .01 (which represents the collective quotation size of the specialist and any ROTs bidding or offering at the disseminated price unless an ROT has expressly indicated otherwise in a clear and audible manner) [The specialist and crowd may determine to disseminate a size greater than the sum of limit orders].

(B) respecting Streaming Quote Options, at least the sum of the size associated with limit orders, specialists’ quotations, and Streaming Quote Traders’ quotations.

(C) (1) If an SQT’s quotation size in a particular series in a Streaming Quote Option is exhausted, such SQT’s quotation shall be deleted from the Exchange’s disseminated quotation until the time the SQT revises his/her quotation.

(2) If the Exchange’s disseminated size in a particular series in a Streaming Quote Option is exhausted, the Exchange shall disseminate the next best available quotation. If no specialist or SQT has revised their quotation immediately following the exhaustion of the Exchange’s disseminated size, the Exchange shall automatically disseminate the specialist’s most recent disseminated price prior to the time of such exhaustion with a size of one contract.

(iii) – (iv) No change.

(iv) The terms “customer,” “responsible broker or dealer,” and “specified persons” shall have the meaning set forth in the SEC Quote Rule.

(b) (i) With respect to non-Streaming Quote Options, [E]except as provided in paragraph (c) of this Rule, all quotations made available by the Exchange and displayed by quotation vendors shall be firm for customer and broker-dealer orders at the disseminated price in an amount up to the disseminated size. Responsible brokers or dealers bidding (or offering) at the disseminated price shall be collectively required to execute orders presented to them at such price up to the disseminated size in accordance with Rule 1015, or, if the responsible broker or dealer is representing (as agent) a limit order, such responsible broker or dealer shall be responsible (as agent) up to the size of such limit order, but may be responsible as principal for all or a portion of the excess of the disseminated size over the size of such limit order to the extent provided in Rule 1015.

(ii) With respect to Streaming Quote Options, in the event an SQT or specialist in a Streaming Quote Option has electronically submitted on the Exchange bids or offers for a Streaming Quote Option, each such SQT or specialist member shall be considered a “responsible broker or dealer” for that bid or offer, up to the size associated with such responsible broker or dealer’s bid or offer.

(c)- (d) No change.

Commentary:

.01 Locked Markets. In the event that an SQT and/or specialist’s electronically submitted quotations in Streaming Quote Options interact with the electronically submitted quotations of other SQTs and/or the specialist, resulting in the dissemination of a “locked” quotation (e.g., \$1.00 bid - 1.00 offer), the following shall occur:

(a) The Exchange will disseminate the locked market and both quotations will be deemed “firm” disseminated market quotations;

(b) A “counting period” of one second will begin during which SQTs and/or specialists whose quotations are locked may eliminate the locked market. Provided, however, that in accordance with subparagraph (a) above, such SQT and/or specialist shall be obligated to execute orders at their disseminated quotation. During the “counting period” SQTs and specialists located in the Crowd Area in which the option that is the subject of the locked market is traded will continue to be obligated to respond to Floor Brokers as set forth in Rule 1014, Commentary .05(c), and will continue to be obligated for one contract in open outcry to other SQTs, non-SQT ROTs, and specialists. If at the end of the one-second counting period the quotations remain locked, the locked quotations will automatically execute against each other in accordance with the allocation algorithm set forth in Rule 1014(g)(vii).

The quotation that is locked may be executed by an order during the one-second counting period.

.02 Crossed Markets. The Exchange will not disseminate an internally crossed market (e.g., \$1.10 bid, 1.00 offer). If an SQT or specialist electronically submits a quotation in a Streaming Quote Option (“incoming quotation”) that would cross an existing quotation (“existing quotation”), the Exchange will: (i) change the incoming quotation such that it locks the existing quotation; (ii) send a notice to the SQT or specialist that submitted the existing quotation indicating that its quotation was crossed; and (iii) send a notice to the specialist or SQT that submitted the incoming quotation, indicating that its quotation crossed the existing quotation and was changed. Such a locked market shall be handled in accordance with Commentary .01 above.

During the one-second counting period, if the existing quotation is cancelled subsequent to the time the incoming quotation is changed, the incoming quotation will automatically be restored to its original terms.

Application for Assignment in Streaming Quote Options

Rule 507. (a) When a Streaming Quote Option, as defined in Rule 1080(k), is to be assigned or reassigned by the Committee, the Committee will solicit applications from all eligible Streaming Quote Traders (“SQTs”), as defined in Rule 1014(b)(ii).

(b)(i) An application for assignment in Streaming Quote Options shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name of the SQT applicant and written verification from the Exchange’s Membership Services Department that such SQT applicant is qualified as a Registered Options Trader.

(ii) No application for assignment in Streaming Quote Options shall be approved by the Committee without written certification signed by an officer (Vice President or above) of the Exchange’s Financial Automation Department indicating that (A) the SQT applicant has sufficient technological ability to support his/her continuous quoting requirements as set forth in Rule 1014(b)(ii), and (B) the SQT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.

(iii) This Rule 507 places no limit on the number of qualifying ROTs that may become SQTs; any applicant that is qualified as an ROT in good standing, and that satisfies the technological readiness and testing requirements described in sub-paragraph (b)(ii) above, shall be approved as an SQT. However, based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, the Board may defer, for a period to be determined in the Board’s discretion, approval of qualifying applications for SQT

status pending any action required to address the issue of concern to the Board. The Board may not defer a determination of the approval of the application of any SQT applicant or place any limitation(s) on access to Phlx XL on any SQT applicant unless the basis for such limitation(s) or deferral have been objectively determined by the Board, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Committee shall provide written notification to any SQT applicant whose application is the subject of such limitation(s) or deferral, describing the objective basis for such limitation(s) or deferral.

(c) The Committee shall hold allocation meetings as appropriate. The Exchange's designated staff shall provide Committee members data on the Streaming Quote Option to be assigned, including the number of series in the Streaming Quote Option currently quoted on the Exchange and the number of contracts representing open interest in the Streaming Quote Option, copies of the applications, and any other information that the Committee may deem to be relevant.

Applicants may make and the Committee may request personal appearances.

(d) Decisions concerning applications for assignment in Streaming Quote Options shall be in writing and shall be distributed to all floor members.

(e) If a SQT seeks to withdraw from acting as such in a Streaming Quote Option, it should so notify the Committee at least three business days prior to the desired effective date of such withdrawal.

(f) During the first six months of the Exchange's program to allow SQTs to submit electronic option quotations, an SQT applicant member or member organization that has, for at least the immediately preceding twelve months: (i) been a member of the Exchange; and (ii) maintained a continuous presence as an ROT in the trading crowd associated with the Streaming Quote

Option(s) that are the subject of the application, shall be guaranteed an assignment in the Streaming Quote Option, provided that such member organization has satisfied the requirements set forth in paragraph (b)(ii) of this Rule 507. SQT applicants that have been granted trading privileges in Streaming Quote Options pursuant to this Rule 507(f) shall not be required to re-apply for such privileges after the initial six-month period.

(g) An appeal to the Board of Governors from a decision of the Committee may be taken by a member or member organization interested therein by filing with the Secretary of the Exchange written notice of appeal within ten (10) days after the decision has been rendered, in accordance with Exchange By-Law Article XI, Section 11-1.

Amendments to Option Floor Procedure Advices

A-12 Opening Rotations and SORT Procedures

It is the responsibility of the Specialist to arrange the price at which an option series opens and re-opens on the Exchange. Unless a specific exemption is given by a Floor Official, an opening transaction in an equity option series may only be arranged at a price that does not fall outside of the previous session's closing quote in the option by more than the differential between the closing sale in the underlying security and the opening sale in the underlying security.

The Specialist must accept and include in the opening for equity options all market orders which are placed on the book five minutes or more prior to the opening of the underlying security, unless exempted by a Floor Official. Market orders have precedence over limit orders at an opening regardless of account type (i.e. customer, Firm, market maker, Specialist) except that a limit order to buy which is at a higher limit than the price at which the option is to be opened and a limit order to sell which is at a lower limit than the price at which the option is to be opened are to be treated as market orders in connection with an opening (PHLX Rule 1017). Limit orders at

the opening price are afforded participation on the opening in accordance with the Exchange's parity/priority rule (PHLX Rule 1014).

Openings and re-openings in options are to be conducted by way of rotation procedures or by way of SORT procedures, as provided by Exchange Rule 1047. [r]Rotation procedures allow a brief period of auction pricing for each option series during which bids and offers, including with respect to Streaming Quote Options, bids and offers submitted electronically by SQTs, and transactions for that option class may normally only occur in that series. SORT procedures allow, but do not require, a Specialist in any series for which no opening interest to buy or sell has been received to open such series with a quote without prior auction pricing. To ensure that buy and sell interests are properly represented in those series in which received, Specialists must follow the procedures below:

(i) – (iii) No change.

FINE SCHEDULE No Change.

A-13 Auto Execution Engagement/Disengagement Responsibility (EQUITY OPTION AND INDEX OPTION ONLY)

(a) No change.

(b) [AUTO-X on the NBBO. AUTO-X on the NBBO (the "NBBO Feature") is a feature of AUTOM that automatically executes at the National Best Bid or Offer ("NBBO"). The NBBO Feature will execute AUTO-X eligible orders at the NBBO for certain options designated by the Options Committee as eligible for the NBBO Feature ("automatic step-up options"), provided that the NBBO does not differ from the specialist's best bid or offer by more than the "step-up parameter."

(i) The “step-up parameter” for automatic step-up options shall be the minimum trading increment for options in that series established pursuant to Exchange Rule 1034, or any greater

amount established by the Options Committee in respect of specified automatic step-up options or series of options.

(ii) The Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials) may determine to disengage the NBBO Feature for orders in certain automatic step-up options after notice to AUTOM users in situations in which the Exchange is experiencing communications or systems problems; fast markets; or delays in the dissemination of quotes because of queues on the Options Price Reporting Authority ("OPRA"), which would likely render such quotes stale. Where the NBBO Feature is disengaged, such orders shall be executed manually in accordance with Exchange rules.

(iii) In respect of automatic step-up options (1) where the specialist's best bid or offer is inferior to the current best bid or offer in another market by more than the step-up parameter; or (2) where the NBBO for one of the series of automatic step-up options is crossed (i.e., 2 [1/8].10 bid, 2 asked) or locked (i.e., 2 bid, 2 asked); or (3) in respect of equity options other than automatic step-up options where the specialist's best bid or offer is inferior to the current best bid or offer in another market by any amount, such orders shall be executed manually in accordance with Exchange rules. There may be circumstances in which the specialist's best bid or offer is inconsistent with the Exchange's best bid or offer. In such a circumstance, such an order shall be executed manually.

(iv) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials) determines that quotes in options on the Exchange or another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, as defined in Exchange Rule 1082(a)(iii) (the

"Quote Rule"), customer market orders will receive an automatic execution at the NBBO based on the best bid or offer in markets whose quotes are not subject to relief from the firm quote requirement set forth in the Quote Rule. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are excluded from the calculation of NBBO. The Exchange may determine to exclude quotes from its calculation of NBBO on a series-by-series basis or issue-by-issue basis, or may determine to exclude all options quotes from an exchange, where appropriate. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Such documentation shall include: identification of the option(s) affected by such action; the date and time such action was taken and concluded; identification of the other exchange(s) whose quotes were excluded from the Exchange's calculation of NBBO; identification of the Chairman of the Options Committee, his designee, or two Floor Officials (as applicable) who approved such action; the reasons for which such action was taken; and identification of the specialist and the specialist unit. The Exchange will maintain these documents pursuant to the record retention requirements of the Securities Exchange Act of 1934 and the rule and regulations thereunder.

(v) Where the Chairman of the Options Committee or his designee (or if the Chairman of the Options Committee or his designee is unavailable, two Floor Officials), determines that quotes in options on the Exchange or another market or markets previously subject to relief from the firm

quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from the Option Price Reporting Authority (“OPRA”); and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm. AUTOM customers will be duly notified via electronic message from AUTOM that such quotes are again included in the calculation of NBBO.]

FINE SCHEDULE (Implemented on a one-year running basis).

(a) – (b) No change.

[(c) Failure to receive approval to disengage NBBO Feature:

1st Occurrence \$ 250.00

2nd Occurrence \$ 500.00

3rd Occurrence \$1,000.00

4th Occurrence and Thereafter Sanction is discretionary with Business Conduct Committee]

B-6 Priority of Options Orders for Equity Options and Index Options by Account Type (EQUITY OPTION AND INDEX OPTION ONLY)

Section A

Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. [In addition, e] Equity option and index option orders of controlled accounts are required to yield priority to customer orders when competing at the

same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (ii) below.

For the purposes of this Advice, “Initiating Order” means an incoming contra-side order.

(i) Respecting non-Streaming Quote Options, “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity [,] in accordance with this Advice [Rule 1014(g)(i)]. The Remainder of the Order shall be allocated pursuant to this Advice [Rule 1014]. [An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts.]

(ii) Respecting Streaming Quote Options, an Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Section F of this Advice. “Remainder of the Order” means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (ii).

[Section A

(i) Orders of controlled accounts must yield priority to customer orders.

(ii) Orders of controlled accounts are not required to yield priority to other controlled account orders.]

Section B – E No change.

Section F

Allocation of Automatically Executed Trades in Streaming Quote Options. Solely with respect to Streaming Quote Options approved by the Exchange to be traded on Phlx XL by Streaming Quote Traders (“SQTs”) pursuant to Exchange Rule 1080(k), after public customer market and marketable limit orders have been executed, trades automatically executed in such options shall be allocated among the specialist and crowd participants with orders or quotations at the Exchange’s disseminated price in the following manner:

(i) If the specialist or any crowd participant is quoting alone at the disseminated price and their quote is not matched by another market participant prior to execution, such specialist or crowd participant shall be entitled to receive a number of contracts up to the size associated with his/her quotation.

(ii) Parity. Quotations entered electronically by the specialist or an SQT that do not cause an order resting on the limit order book to become due for execution may be matched at any time by quotations entered electronically by the specialist and/or other SQTs, and by ROT limit orders entered via electronic interface and shall be deemed to be on parity, subject to the requirement that orders of controlled accounts must yield priority to customer orders as set forth in Rule 1014(g)(i)(A).

(A) if the specialist is quoting at the Exchange’s disseminated price:

(1) orders for 5 contracts or fewer shall be allocated first to the specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the 5 contract or fewer order preference set forth in this sub-paragraph (ii)(A)(1), the specialist must be quoting

at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.

(2) Respecting orders for greater than 5 contracts, the specialist shall be entitled to receive a number of contracts that is the greater of: (i) the proportion of the aggregate size associated with the specialist's quote, SQT quotes, and non-SQT ROT limit orders entered on the book via electronic interface at the disseminated price represented by the size of the specialist's quote, or (ii) 60% of the contracts to be allocated if the specialist is on parity with one SQT or one non-SQT ROT that has placed a limit order on the book via electronic interface at the Exchange's disseminated price; (iii) 40% of the contracts to be allocated if the specialist is on parity with two SQTs or non-SQT ROTs that have placed a limit order on the book via electronic interface at the Exchange's disseminated price; and (iv) 30% of the contracts to be allocated if the specialist is on parity with three or more SQTs or non-SQT ROTs that have placed a limit order on the book via electronic interface at the Exchange's disseminated price. In order to be entitled to receive the number of contracts set forth in this sub-paragraph (ii)(A)(2), the specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.

(3) Thereafter, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book via electronic interface at the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the total remaining aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book entered via electronic interface at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size

of the limit order they have placed on the limit order book via electronic interface. Such SQT(s) and non-SQT ROTs shall not be entitled to receive a number of contracts that is greater than the size associated with their quotation or limit order.

(4) If any contracts remain to be allocated after the specialist, SQTs and non-SQT ROTs with limit orders on the limit order book have received their respective allocations, off-floor broker-dealers (as defined in Rule 1080(b)(i)(C)) that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the aggregate size associated with off-floor broker-dealer limit orders on the limit order book at the disseminated price represented by the size of the limit order they have placed on the limit order book. Such off-floor broker-dealers shall not be entitled to receive a number of contracts that is greater than the size that is associated with each such limit order.

(B) If the specialist is not quoting at the Exchange's disseminated price, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book via electronic interface which represent the Exchange's disseminated price shall be entitled to receive a number of contracts equal to the proportion of the aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book entered via electronic interface at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book via electronic interface. Thereafter, off-floor broker-dealers that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts as specified in paragraph (ii)(A)(4) above.

(iii) Notwithstanding the first sentence of Rule 1014(g)(i), neither Rule 119(a)-(d) and (f), nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of automatically executed trades in Streaming Quote Options.

FINE SCHEDULE No change.

F-7 Bids and Offers

All bid and offer prices shall be general ones and shall not be specified for acceptance by particular members.

In the absence of a stated size to any bid or offer voiced or displayed on the Options Floor, the person responsible for such bid and offer is deemed to be quoting for one contract, except in those instances where predetermined volume guarantees are provided for the facilitation of specific account types. Floor traders (Specialists and ROTs) are, however, required to trade more than one contract in connection with the execution of a customer order pursuant to Advice A-11.

The size of any disseminated bid or offer by the Exchange shall be, with respect to the disseminated price for any quoted options series, equal to:

(a)[respecting options subject to the Auto-Quote technology operating as of May, 2002 (“current Auto-Quote”) and scheduled to be phased-out by September 2002: the Auto-Quote guarantee for the quoted option, except that the disseminated size of limit orders on the book shall be ten (10) contracts; or

(b)] respecting non-Streaming Quote options (as defined in Rule 1080(k)), [subject to the Auto-Quote technology implemented after the effective date of this provision (“new Auto-Quote”) and options subject to a proprietary quoting system provided for in Rule 1080.02 (“Specialized Quote Feed”),] at least the sum of the size associated with: (1) limit orders; and (2) specialists’ quotations generated by Auto-Quote or Specialized Quote Feed as described in Rule 1080,

Commentary .01 (which represents the collective quotation size of the specialist and any ROTs bidding or offering at the disseminated price unless an ROT has expressly indicated otherwise in a clear and audible manner) [The specialist and crowd may determine to disseminate a size greater than the sum of limit orders].

(b) respecting Streaming Quote Options, at least the sum of the size associated with limit orders, specialists' quotations, and SQTs' quotations.

F-24 AUTO-X Contra-Party Participation (The Wheel)

(NON-STREAMING QUOTE EQUITY OPTION AND INDEX OPTION ONLY)

(a) – (f) No change.

FINE SCHEDULE No change.

F-32 Solicitation of Quotations

In response to a floor broker's solicitation of a single bid or offer, the members of a trading crowd (including the specialist and ROTs) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the AUTO-X guarantee can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Plan for the Purpose of Creating an Options Intermarket Linkage and Exchange Rules 1083 – 1087 respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the specialist and ROTs).