Proposed Rule Change by Philadelphia Stock Exchange

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial Amendment Withdrawal Section 19(b)(2) Section 19(b)(3)(A) Section 19(b)(3)(B) Rule

Pilot Extension of Time Period for Commission Action Date Expires

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 02/15/2006

By Angela Saccomandi Dunn
(Director and Counsel)

Signature

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Angela Dunn, angela.dunn@phlx.com

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

First Name Angela Last Name Dunn
Title Director and Counsel
E-mail angela.dunn@phlx.com
Telephone (215) 496-5692 Fax (215) 496-6729

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Extension of Time Period for Commission Action

Rule


Signature

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Date 02/15/2006

By Angela Saccomandi Dunn
(Director and Counsel)
### Form 19b-4 Information

The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

### Exhibit 1 - Notice of Proposed Rule Change

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

### Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

### Exhibit 3 - Form, Report, or Questionnaire

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

### Exhibit 4 - Marked Copies

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

### Exhibit 5 - Proposed Rule Text

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

### Partial Amendment

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission’s permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e., partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.
Partial Amendment

The purpose of this amendment is to make clarifying changes to the rule text, to remove reference in the description to a maximum amount of five persons on the Audit Committee, and to change the term independent director to Independent Governor.

Exhibit 4

Brackets indicate deletions, underlining indicates new text added since the immediately preceding filing.

Amended Text

PHLX BY-LAW Article 10, Sec. 10-9, Audit Committee

SEC. 10-9.

(a) The Audit Committee shall consist of at least three (3) members, the exact number to be determined from time to time by the Board of Governors. [who] All members shall [all] be [public] [independent non-industry Governors] who have no material business relationship with the Exchange. A majority of the members, but not less than three (3) members shall be public Governors. [Independent Governors, directors who have no material relationship with the Exchange; [Audit Committee members shall not serve in a management capacity with the Exchange or any affiliate thereof and must be free of any other relationships that, by decision of the Board of Governors, would interfere with the exercise of independent judgment.] The term “Independent Governor/director” will be defined as a Governor/director who has no material relationship with the Exchange or any affiliate of the Exchange, any Member of the Exchange or any affiliate of such Member, or any issuer of securities that are listed or traded on the Exchange or a facility of the Exchange. The term “material relationship” will be defined as a relationship, whether compensatory or otherwise, that reasonably could affect the independent judgment or decision-making of the Governor/director.
(b) The Audit Committee shall have responsibility for dealings with the Exchange’s [independent public accountants including] external auditors, which includes: (i) [making recommendations to the Board of Governors as to] sole responsibility for the appointment, retention and [dismissal of such public accountants] replacement of such auditors; (ii) direct oversight over such auditors; (iii) review, at least annually, of the qualification and performance of such auditors; [reviewing the scope of their services and fees; (iii) reviewing the audit plan;] (iv) direct authority to resolve disagreements between management and such auditors regarding financial reporting [reviewing internal controls]; (v) responsibility to ensure the rotation of the lead and concurrent auditors every five years and certain other auditors every seven years, with time out periods; (vi) evaluation of the independence of external auditors, including ensuring that, other than deferred tax and compliance services, external auditors do not engage in certain non-audit services, as identified in the Audit Committee Charter, when they conduct audits for the Exchange, and approval of non-audit services where appropriate; (vii) [reviewing] review of the “management letter” and reply thereto; and (viii) [(vi) having] the ability to meet with [the public accountants] external auditors without Exchange officers or employees.

The Audit Committee shall have responsibility for the Exchange’s Internal Audit Department, which shall report to the Audit Committee. Such responsibility will include review of policies and procedures for and significant reports produced by the Internal Audit Department.

The Audit Committee shall review any legal matters that may materially impact the Exchange’s financial statements and all examination, inspection or other reports made by any regulatory agency with regulatory oversight for the Exchange and the Exchange’s responses thereto.
The Audit Committee shall review, at least annually, compliance with the Exchange’s Code of Conduct with the assistance of the General Counsel’s office.

The Audit Committee shall have the authority to conduct special reviews of any alleged improper conduct with respect to Exchange related activity, operations, finance or regulation.

The Audit Committee shall establish procedures for the receipt, retention, and treatment of complaints received by the Exchange regarding accounting, internal accounting controls, or other auditing matters and confidential anonymous submissions by Exchange employees regarding questionable accounting practices.

The Audit Committee may select and engage its own [counsel, consultants, accountants or other experts] advisor(s) to assist [in such reviews] it in carrying out its duties.

The Audit Committee shall determine the appropriate amount of funding to be provided by the Exchange for the purpose of paying: (i) compensation to external auditors retained by the Audit Committee to prepare or issue an audit report; (ii) compensation to adviser(s) employed by the Audit Committee that it determines are necessary to carry out its duties; and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate to carry out its duties in respect of external auditors.

The Audit Committee shall have the authority to compel to appear and/or provide documents or other information, by Members, [participants, member and participant organizations and] Member Organizations, associated persons [and employees] of [such persons and] Member Organizations, members of the Board of Governors, committee members, Exchange officers or Exchange employees.

(c) The Audit Committee shall meet at least once every calendar quarter.
Exhibit 5

Brackets indicate deletions, underlining indicates new text added.

Amended Text

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(b) The Audit Committee shall have responsibility for dealings with the Exchange’s [independent public accountants including] external auditors, which includes: (i) [making recommendations to the Board of Governors] sole responsibility for the appointment, retention and [dismissal of such public accountants] replacement of such auditors; (ii) direct oversight over such auditors; (iii) review, at least annually, of the qualification and performance of such auditors; [reviewing the scope of their services and fees] (iii) reviewing the audit plan; [reviewing the scope of their services and fees] (iv) direct authority to resolve disagreements between management and such auditors regarding
financial reporting [reviewing internal controls]; (v) responsibility to ensure the rotation of the lead and concurrent auditors every five years and certain other auditors every seven years, with time out periods; (vi) evaluation of the independence of external auditors, including ensuring that, other than deferred tax and compliance services, external auditors do not engage in certain non-audit services, as identified in the Audit Committee Charter, when they conduct audits for the Exchange, and approval of non-audit services where appropriate; (vii) [reviewing] review of the “management letter” and reply thereto; and (viii) [(vi) having] the ability to meet with [the public accountants] external auditors without Exchange officers or employees.

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