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

Extension of Time Period for Commission Action

Date Expires

19b-4(f)(1) 19b-4(f)(4)
19b-4(f)(2) 19b-4(f)(5)
19b-4(f)(3) 19b-4(f)(6)

Description

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

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 Jurij Last Name Trypupenko
Title Director
E-mail jurij.trypupenko@phlx.com
Telephone (215) 496-5019 Fax (215) 496-6729

Signature

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 12/08/2005
By Jurij Trypupenko Director

(Note)

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.
<table>
<thead>
<tr>
<th>Form 19b-4 Information</th>
<th>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.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exhibit 1 - Notice of Proposed Rule Change</td>
<td>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).</td>
</tr>
<tr>
<td>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</td>
<td>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.</td>
</tr>
<tr>
<td>Exhibit 3 - Form, Report, or Questionnaire</td>
<td>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.</td>
</tr>
<tr>
<td>Exhibit 4 - Marked Copies</td>
<td>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.</td>
</tr>
<tr>
<td>Exhibit 5 - Proposed Rule Text</td>
<td>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.</td>
</tr>
<tr>
<td>Partial Amendment</td>
<td>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.</td>
</tr>
</tbody>
</table>
1. **Text of the Proposed Rule Change**

The Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to amend Phlx Rule 1101A (Terms of Option Contracts) to indicate that the Exchange may set strike price intervals of $5 or greater for options on indexes, and may set strike prices at $2.50 or greater for listed index options or in response to customer interest or specialist request. The proposal would also delete language that is no longer necessary.

A notice of the proposed rule change for publication in the *Federal Register* is attached hereto as Exhibit 1. The amended text of Phlx Rule 1101A indicating additions to and deletions from the immediately preceding filing is attached hereto as Exhibit 4. The text of amended Phlx Rule 1101A is set forth below.

**Rule 1101A.**

**Terms of Option Contracts**

(a) The Exchange shall determine fixed point intervals of exercise prices for index options (options on indexes). Generally, the exercise (strike) price intervals \[shall\] will be \[$2.50 for the three consecutive near-term months,\] no less than $5; provided, that \[for the fourth month and $10 for the fifth. However,\] the Exchange may determine to list strike prices at \[no less than \$2.50 intervals \[in response to demonstrated customer interest or specialist request\] for options on the following indexes (which may also be known as sector indexes):

(i) PHLX Computer Box Maker Index,
(ii) PHLX Defense Index,
(iii) PHLX Drug Index,
(iv) PHLX Europe Index,
(v) PHLX Gold/Silver Index.


The Exchange may also determine to list strike prices at no less than $2.50 intervals in the listed index options in response to demonstrated customer interest or specialist request. For purposes of this paragraph, demonstrated customer interest includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account. [The Exchange may also determine to list strike prices at wider intervals.]

(b) through (c), Commentary - No change.

2. **Procedures of the Self-Regulatory Organization**

The Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission ("SEC" or "Commission") on June 3, 2005.

Questions and comments on the proposed rule change may be directed to Jurij Trypupenko, Director and Counsel, New Products Group and Legal Department, Phlx, at
(215) 496-5019 or Edith Hallahan, Senior Vice President and Deputy General Counsel, Phlx, at (215) 496-5179.

3. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of the proposed rule change is to provide the Exchange with the ability to set strike prices for options on indexes at $2.50 or greater, in keeping with Exchange needs, specialist and customer requests, and market conditions and practices.

Rule 1101A currently indicates the Exchange generally shall determine set strike intervals for options on indexes, which are also known as index options of sector index options, as follows: $2.50 for three consecutive near-term months, $5.00 for the fourth month, and $10.00 for the fifth month.

The Exchange has found that the index strike pricing formulation, which generally requires set pricing intervals according to whether options are in the first three consecutive months, the fourth month, or the fifth month, does not afford the flexibility to set strike prices at appropriate intervals commensurate with market conditions and index prices set by other exchanges, often for similar products. Moreover, Phlx specialists and customers have expressed on numerous occasions that the current index strike pricing approach is too restrictive and does not allow for efficient pricing of index options, thereby putting them at a competitive disadvantage.

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The Exchange therefore proposes to amend Rule 1101A to indicate that the Exchange shall determine fixed point strike price intervals for index options (also known as sector index options) as follows:

- no less than $5.00,
- provided that the Exchange may list strike prices at no less than $2.50 intervals
  a) in the index options that are listed in Phlx Rule 1101A(a), and b) in response to demonstrated customer interest or specialist request.

For purposes of Rule 1101A, specialist request includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but does not include interest expressed by a registered options trader (“ROT”) with respect to trading for the ROT's own account.

The Exchange believes that proposed Rule 1101A, as amended, would provide the flexibility needed for more efficient index options pricing, would tend to maximize trading opportunities, and would be analogous in function to index strike pricing rules of other option exchanges.4

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act5 in general, and furthers the objectives of Section 6(b)(5) of the Act6 in particular, in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in

4 See e.g. CBOE Rule 24.9 and AMEX Rule 903A.
securities, to remove impediments to and perfect the mechanism of a free and open
market and a national market system, and, in general, to protect investors and the public
interest. The Exchange believes that the proposed rule should allow the Exchange to set
strike prices at levels that would maximize pricing efficiency and trading opportunities.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any
burden on competition not necessary or appropriate in furtherance of the purposes of the
Act.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule
Change Received from Members, Participants, or Others

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

The Exchange does not consent to an extension of the time period for
Commission action.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated
Effectiveness Pursuant to Section 19(b)(2)

The Exchange requests accelerated approval pursuant to Section 19(b)(2)\(^7\) of the
Act such that in setting strike prices for options overlying developing and current index
products on the exchange, the proposed amendments would ensure sufficient flexibility to
promote a fair, orderly, and competitive options market.

8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission. However the proposed rule is similar in function to various subsections of CBOE Rule 24.9, ISE Rule 2009(2), and AMEX Rule 903A.

9. **Exhibits**

   1. Notice of proposed rule for publication in the Federal Register.
   4. Amended text of Phlx Rule 1101A indicating additions to and deletions from the immediately preceding filing.
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2005-43)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Index Strike Prices

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act") \(^1\), and Rule 19b-4 \(^2\) thereunder, notice is hereby given that on ______________________ 2005, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Phlx. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

Phlx, pursuant to Section 19(b)(1) and Rule 19b-4 thereunder, \(^3\) proposes to amend Phlx Rule 1101A (Terms of Option Contracts) to indicate that the Exchange may set strike price intervals of $5 or greater for options on indexes, and may set strike prices at $2.50 or greater for listed index options or in response to customer interest or specialist request. The proposal would also delete language that is no longer necessary.

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\(^3\) 17 CFR 240.19b-4.
Rule 1101A.

Terms of Option Contracts

(a) The Exchange shall determine fixed point intervals of exercise prices for index options (options on indexes). Generally, the exercise (strike) price intervals shall be $2.50 for the three consecutive near-term months, no less than $5; provided, that for the fourth month and $10 for the fifth. However, the Exchange may determine to list strike prices at no less than $2.50 intervals [in response to demonstrated customer interest or specialist request] for options on the following indexes (which may also be known as sector indexes):

(i) PHLX Computer Box Maker Index,
(ii) PHLX Defense Index,
(iii) PHLX Drug Index,
(iv) PHLX Europe Index,
(v) PHLX Gold/Silver Index,
(vi) PHLX Housing Index,
(vii) PHLX Oil Service Index,
(viii) PHLX Semiconductor Index,
(ix) PHLX Utility Index,
(x) PHLX World Energy Index,
(xi) SIG Investment Managers Index™,
(xii) SIG Cable, Media & Entertainment Index™,
(xiii) SIG Casino Gaming Index™,
(xiv) SIG Semiconductor Equipment Index™,
(xv) SIG Semiconductor Device Index™,
(xvi) SIG Specialty Retail Index™,
(xvii) SIG Steel Producers Index™,
(xviii) SIG Footwear & Athletic Index™,
(xix) SIG Education Index™,
(xx) SIG Restaurant Index™,
(xxi) SIG Coal Producers Index™,
(xxii) SIG Oil Exploration & Production Index™,
(xxiii) PHLX/KBW Bank Index,
(xxiv) KBW Capital Markets Index,
(xxv) KBW Insurance Index,
(xxvi) KBW Mortgage Finance Index,
(xxvii) KBW Regional Banking Index,
(xxviii) TheStreet.com Internet Sector,
(xxix) Wellspring Bioclinical Trials Index™.
The Exchange may also determine to list strike prices at no less than $2.50 intervals in the listed index options in response to demonstrated customer interest or specialist request. For purposes of this paragraph, demonstrated customer interest includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account. [The Exchange may also determine to list strike prices at wider intervals.]

(b) through (c), Commentary - No change.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to provide the Exchange with the ability to set strike prices for options on indexes at $2.50 or greater, in keeping with Exchange needs, specialist and customer requests, and market conditions and practices.

Rule 1101A currently indicates the Exchange generally shall determine set strike intervals for options on indexes, which are also known as index options of sector index options, as follows: $2.50 for three consecutive near-term months, $5.00 for the fourth month, and $10.00 for the fifth month.

The Exchange has found that the index strike pricing formulation, which generally requires set pricing intervals according to whether options are in the first three
consecutive months, the fourth month, or the fifth month, does not afford the flexibility to set strike prices at appropriate intervals commensurate with market conditions and index prices set by other exchanges, often for similar products. Moreover, Phlx specialists and customers have expressed on numerous occasions that the current index strike pricing approach is too restrictive and does not allow for efficient pricing of index options, thereby putting them at a competitive disadvantage.

The Exchange therefore proposes to amend Rule 1101A to indicate that the Exchange shall determine fixed point strike price intervals for index options (also known as sector index options) as follows:

- no less than $5.00,
- provided that the Exchange may list strike prices at no less than $2.50 intervals
  a) in the index options that are listed in Phlx Rule 1101A(a), and b) in response to demonstrated customer interest or specialist request.

For purposes of Rule 1101A, specialist request includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but does not include interest expressed by a registered options trader (“ROT”) with respect to trading for the ROT's own account.

The Exchange believes that proposed Rule 1101A, as amended, would provide the flexibility needed for more efficient index options pricing, would tend to maximize

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trading opportunities, and would be analogous in function to index strike pricing rules of other option exchanges.\(^5\)

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^6\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^7\) in particular, in that it is designed to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange believes that the proposed rule should allow the Exchange to set strike prices at levels that would maximize pricing efficiency and trading opportunities.

B. **Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

C. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

No written comments were either solicited or received.

III. **Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

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\(^5\) See e.g. CBOE Rule 24.9 and AMEX Rule 903A.


\(^7\) 15 U.S.C. 78f(b)(5).
The Exchange requests accelerated approval pursuant to Section 19(b)(2)\(^8\) of the Act such that in setting strike prices for options overlying developing and current index products on the exchange, the proposed amendments would ensure sufficient flexibility to promote a fair, orderly, and competitive options market.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s Internet comment form
  (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2005-43 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-Phlx-2005-43. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed

with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission’s Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2005-43 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority. 9

Margaret H. McFarland
Deputy Secretary

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EXHIBIT 4

Changes to the immediately preceding rule text that was filed are indicated as follows: Double underlining indicates new additions, and brackets in bold indicate new deletions.

Rule 1101A.  

Terms of Option Contracts

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The Exchange may also determine to list strike prices at no less than $2.50 intervals in the listed index options in response to demonstrated customer interest or specialist request. For purposes of this paragraph, demonstrated customer interest includes institutional (firm) corporate or customer interest expressed directly to the Exchange or through the customer's floor brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account. [The Exchange may also determine to list strike prices at wider intervals.]

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