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)

☑  ☐  ☐

Pilot ☐ 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).

Amend Rule 784.

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 Carla Last Name Behnfeldt
Title Director
E-mail carla.behnfeldt@phlx.com
Telephone (215) 496-5208 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 11/09/2005
By Carla Behnfeldt Director

(Note)

(T(i))

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.
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.
1. **Text of the Proposed Rule Change**


A notice of the proposed rule change for publication in the Federal Register is attached hereto as **Exhibit 1**. The text of Rule 784, as proposed to be amended, is set forth below.

The text to be deleted is bracketed.

**Rule 784, Report of Options**

Each member and member organization shall report to the Exchange such information as may be required with respect to any substantial option relating to listed securities, or securities admitted to unlisted trading privileges on the Exchange, in which such member, member organization or partner or stockholder therein is directly or indirectly interested or of which such member, member organization or partner or stockholder has knowledge by reason of transactions executed by or through such member or organization; provided that this Rule shall not apply to an option which is a matter of record in a prospectus or registration statement filed with the Exchange, or with the Securities and Exchange Commission.

The Exchange may disapprove of the connection of any member, member organization or partner or stockholder therein with any such option which it shall determine to be contrary to the best interest or welfare of the Exchange, or to be likely to create prices which will not fairly reflect market values.

[*** Supplementary Material: ...]

The Committee on Business Conduct, pursuant to such Rule, adopted the following directive:

Each member and member organization is required to report all substantial options, selling agreements and kindred arrangements (excluding purchase


warrants, puts and calls) relating to securities listed on the Exchange, or securities admitted to unlisted trading privileges on the Exchange, in which options they are directly or indirectly interested, or of which they have knowledge by reason of transactions executed by or through them. Such reports are to be made in letter form, addressed to the Committee on Business Conduct, and must be filed as soon as such interest therein or knowledge thereof has been acquired.

Information required in report of options

The report should contain the following information for each option:

(a) The name of the security; if a stock, the number of shares; if a bond, the principal amount thereof;

(b) The duration and terms of the option;

(c) The names of the grantors and grantees;

(d) The names of all persons entitled as of the date of the report to exercise such option; and

(e) Copies of any agreements or instruments in writing relating to the option thus reported.

Only an initial report of each option is required unless changes occur in the terms thereof, in which case such changes should be reported at once to the Committee.

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 October 26, 2005.

Questions and comments on the proposed rule change may be directed to Carla Behnfeldt, Director, at (215) 496-5208, or Edith Hallahan, Senior Vice President and Deputy General Counsel, 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 delete a requirement to provide particular information items regarding over-the-counter options trades to the Exchange. The rule is intended to facilitate the Exchange’s surveillance for and enforcement of rules against manipulation in connection with over-the-counter options trading. However, the Exchange does not believe that the specific information required by the Supplementary Material is always necessary for assessing whether manipulative activity has occurred. The Supplementary Material’s requirement that members and member organizations supply the specified information is therefore needlessly burdensome. The proposed rule change would in any event retain the Exchange’s authority, pursuant to the main text of Rule 784, to require members and member organizations to report to the Exchange such information as the Exchange may require regarding the options that are covered by the rule. The Exchange would thus retain the flexibility to require this and other information at such time or times as the Exchange may determine would be beneficial for the Exchange’s surveillance and enforcement efforts.

   b. **Statutory Basis**

   The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^3\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^4\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and,

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\(^3\) 15 U.S.C. 78f(b).

in general to protect investors and the public interest. Specifically, the proposal would streamline Exchange Rule 784 by eliminating an outdated and superfluous requirement to provide specific items of information which the Exchange does not necessarily need to monitor for manipulation. At the same time, the proposal will retain the Exchange’s ability to require particular information to be provided from time to time as the Exchange may see fit.

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

The Phlx 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)

Not applicable.

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 Exchange notes that American Stock Exchange, LLC (“Amex”) Rule 520, Options and Selling Agreements, and Chapter II, Section 24 of the Boston Stock Exchange, Inc. (“BSE”) rules are similar to Phlx Rule
784, except that they do not contain material comparable to the Supplementary Material which Phlx is proposing to delete. Specifically, the Amex rule provides as follows:

> Each member or member organization shall report to the Exchange, in the form prescribed by the Exchange, all options or selling agreements, whether written or oral, relating to securities dealt in on the Exchange in which such member or member organization has knowledge by reason of transactions executed by or through such member or member organization. The Exchange may in its discretion disapprove of the connection of any such member or member organization with any such option or selling agreement if it shall determine that such connection is contrary to the best interest or to the welfare of the Exchange.

Similarly, the BSE rule provides as follows:

> Each member, allied-member or member-organization shall report to the Exchange such information as may be required with respect to any substantial option relating to listed securities in which such member, allied-member or member-organization is directly or indirectly interested or of which such member, allied-member or member-organization has knowledge by reason of transactions executed by or through such member, allied-member or member-organization.

> The Exchange may disapprove of the connection of any member, allied-member or member-organization with any such option which it shall determine to be contrary to the best interest or welfare of the Exchange or to be likely to create prices which will not fairly reflect market values.

As noted above, neither the Amex nor the BSE rule is accompanied by a Commentary or Supplementary Material section detailing specific information items to be provided with respect to the options covered by the respective rules.

9. **Exhibits**

   1. Notice of proposed rule for publication in the [Federal Register](https://federalregister.gov).
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Amendment of Rule 784, Report of Options

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

The Phlx, pursuant to Section 19(b)(1) and Rule 19b-4 thereunder,\(^3\) proposes to amend Rule 784, Report of Options. The text of Rule 784, as proposed to be amended, is set forth below. The text to be deleted is bracketed.

**Rule 784, Report of Options**

Each member and member organization shall report to the Exchange such information as may be required with respect to any substantial option relating to listed securities, or securities admitted to unlisted trading privileges on the Exchange, in which such member, member organization or partner or stockholder therein is directly or indirectly interested or of which such member, member organization or partner or stockholder has

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\(^3\) 17 CFR 240.19b-4
knowledge by reason of transactions executed by or through such member or organization; provided that this Rule shall not apply to an option which is a matter of record in a prospectus or registration statement filed with the Exchange, or with the Securities and Exchange Commission.

The Exchange may disapprove of the connection of any member, member organization or partner or stockholder therein with any such option which it shall determine to be contrary to the best interest or welfare of the Exchange, or to be likely to create prices which will not fairly reflect market values.

[*** Supplementary Material: ...]

The Committee on Business Conduct, pursuant to such Rule, adopted the following directive:

Each member and member organization is required to report all substantial options, selling agreements and kindred arrangements (excluding purchase warrants, puts and calls) relating to securities listed on the Exchange, or securities admitted to unlisted trading privileges on the Exchange, in which options they are directly or indirectly interested, or of which they have knowledge by reason of transactions executed by or through them. Such reports are to be made in letter form, addressed to the Committee on Business Conduct, and must be filed as soon as such interest therein or knowledge thereof has been acquired.

Information required in report of options

The report should contain the following information for each option:

(a) The name of the security; if a stock, the number of shares; if a bond, the principal amount thereof;

(b) The duration and terms of the option;

(c) The names of the grantors and grantees;

(d) The names of all persons entitled as of the date of the report to exercise such option; and

(e) Copies of any agreements or instruments in writing relating to the option thus reported.

Only an initial report of each option is required unless changes occur in the terms thereof, in which case such changes should be reported at once to the Committee.]
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 delete a requirement to provide particular information items regarding over the counter options trades to the Exchange. The rule is intended to facilitate the Exchange’s surveillance for and enforcement of rules against manipulation in connection with over the counter options trading. However, the Exchange does not believe that the specific information required by the Supplementary Material is always necessary for assessing whether manipulative activity has occurred. The Supplementary Material’s requirement that members and member organizations supply the specified information is therefore needlessly burdensome. The proposed rule change would in any event retain the Exchange’s authority, pursuant to the main text of Rule 784, to require members and member organizations to report to the Exchange such information as the Exchange may require regarding the options that are covered by the rule. The Exchange would thus retain the flexibility to require this and other information
at such time or times as the Exchange may determine would be beneficial for the Exchange’s surveillance and enforcement efforts.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^4\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^5\) in particular, in that it is designed to promote just and equitable principles of trade, 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. Specifically, the proposal would streamline Exchange Rule 784 by eliminating an outdated and superfluous requirement to provide specific items of information which the Exchange does not necessarily need to monitor for manipulation. At the same time, the proposal will retain the Exchange’s ability to require particular information to be provided from time to time as the Exchange may see fit.

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.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which Phlx consents, the Commission shall: (a) by order approve such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

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-2005-69 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-2005-69. 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.
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-2005-69 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.  

Margaret H. McFarland
Deputy Secretary

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