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)

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Extension of Time Period for Commission Action Date Expires ☐ ☐

Rule 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).

Delete Rule 454.

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

Name Carla Behnfeldt
Title Director

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.
| **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. |
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| **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) |
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| **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. |
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| **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. |
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| **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. |
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| **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. |
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| **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. |
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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") and Rule 19b-4 thereunder, proposes to delete Rule 454, Limitations on Members’ Trading Because of Options, etc.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The text of Rule 454 is set forth below in italics, with brackets indicating its proposed deletion.

[Rule 454. Limitations on Members' Trading Because of Options, etc.

No member, while on the floor, shall initiate the purchase or sale on the Exchange for his own account or for any account in which he, or the organization of which he is a partner or officer, or any partner or officer of such organization, is directly or indirectly interested, of any security in which he holds or has granted any put, call, straddle or option, or in which he has knowledge that the organization of which he is a partner or officer, or any partner or officer of such organization holds or has granted any put, call, straddle or option, unless such put, call, straddle or option position is in an exchange-traded option issued by the Options Clearing Corporation and is immediately reported to the Exchange.

***Supplementary Material: ...***

.01 A member who issues a commitment to trade from the Exchange through ITS or any other Application of the System shall, as a consequence thereof, be deemed to be initiating a purchase or a sale of a security on the Exchange as referred to in this Rule.]

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
March 3, 2005. Questions and comments on the proposed rule change may be directed to Carla Behnfeldt, Director, Legal Department New Product Development Group, 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**

   Rule 454 prohibits a member on the floor from initiating the purchase or sale of stock on the Exchange for his own or a related account if he or a related account holds or has granted an option on it. According to a 1976 Commission approval order, Rule 454 was originally adopted at the urging of the Commission in 1935, for the purpose of deterring options-related manipulation of underlying stock by specialists, odd-lot dealers and floor traders. The rule change approved by this 1976 approval order carved out The Options Clearing Corporation ("OCC")-issued options from the coverage of the rule. The approval order stated that since Phlx’s share of the total market volume in securities for which options trading would be permitted by the proposed rule change averaged less than 1.7 percent, the manipulative potential inherent in changing the restrictions appeared insignificant.³

   The Exchange is now proposing to delete Rule 454 in its entirety because the likelihood that any options-related manipulation of underlying stock could occur through an equities trade initiated on the Phlx floor is extremely remote. The Exchange believes that the costs of manipulating the price of a security to produce a gain in a pre-established options position would outweigh the benefits due to the capital that would be required to

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manipulate the price of a security in the National Market System today. The Exchange is required to take into account the consolidated national best bid and offer (“NBBO”) quotations of the national market system. As such, any attempt to manipulate the price of a security would involve moving the price not only on the Phlx but on other exchanges as well. Even in less liquid securities this seems unlikely, and there are other rules and mechanisms to capture such activity. As with the 1976 proposed rule change, the manipulative potential inherent in eliminating Rule 454’s restrictions appears insignificant. The Exchange notes that it has found no comparable rule for Nasdaq market makers, who can have over-the-counter or “OTC” (non-OCC-issued, non-exchange traded) options on either Nasdaq or listed stocks. Furthermore, Rule 454 does not in any event prohibit the Phlx member from buying stock first, prior to obtaining an OTC option on it. Thus, the Exchange believes that the rule is of little real usefulness and therefore unnecessarily restricts its floor members from engaging in productive business on the floor of the Exchange.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

4 Note that Phlx Rule 213, Puts and Calls, will continue to apply to Phlx specialists. Rule 213 provides that “[n]o specialist, no organization of which he is a partner or officer and no partner or officer of such organization shall acquire, hold or grant, directly or indirectly, any interest in any put, call, straddle, or option in any security in which such specialist is registered by the Exchange, unless such put, call, straddle or option position is in an exchange-traded option issued by the Options Clearing Corporation and is immediately reported to the Exchange.”


that it eliminates an outdated prohibition which imposes an unnecessary burden on floor members and serves no real useful purpose. Lifting the prohibition should result in enhanced market depth and liquidity, which should benefit investors.

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

   The Phlx does not believe that the proposed rule change will impose any inappropriate burden on competition.

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.

9. **Exhibits**

   1. Notice of proposed rule for publication in the Federal Register.
SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2005-70)


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 delete Rule 454, Limitations on Members’ Trading Because of Options, etc. The text of Rule 454 is set forth below in italics, with brackets indicating its proposed deletion.

[Rule 454. Limitations on Members' Trading Because of Options, etc.

No member, while on the floor, shall initiate the purchase or sale on the Exchange for his own account or for any account in which he, or the organization of which he is a partner or officer, or any partner or officer of such organization, is directly or indirectly interested, of any security in which he holds or has granted any put, call, straddle or option, or in which he has knowledge that the organization of which he is a partner or officer, or any partner or officer of such

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\(^3\) 17 CFR 240.19b-4.
organization holds or has granted any put, call, straddle or option, unless such put, call, straddle or option position is in an exchange-traded option issued by the Options Clearing Corporation and is immediately reported to the Exchange.

***Supplementary Material: ...

.01 A member who issues a commitment to trade from the Exchange through ITS or any other Application of the System shall, as a consequence thereof, be deemed to be initiating a purchase or a sale of a security on the Exchange as referred to in this Rule.]

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

Rule 454 prohibits a member on the floor from initiating the purchase or sale of stock on the Exchange for his own or a related account if he or a related account holds or has granted an option on it. According to a 1976 Commission approval order, Rule 454 was originally adopted at the urging of the Commission in 1935, for the purpose of deterring options-related manipulation of underlying stock by specialists, odd-lot dealers and floor traders. The rule change approved by this 1976 approval order carved out The Options Clearing Corporation (“OCC”)-issued options from the coverage of the rule. The approval order stated that since Phlx’s share of the total market volume in securities for which options trading would be permitted by the proposed rule change averaged less than
1.7 percent, the manipulative potential inherent in changing the restrictions appeared insignificant.

The Exchange is now proposing to delete Rule 454 in its entirety because the likelihood that any options-related manipulation of underlying stock could occur through an equities trade initiated on the Phlx floor is extremely remote. The Exchange believes that the costs of manipulating the price of a security to produce a gain in a pre-established options position would outweigh the benefits due to the capital that would be required to manipulate the price of a security in the National Market System today. The Exchange is required to take into account the consolidated national best bid and offer (“NBBO”) quotations of the national market system. As such, any attempt to manipulate the price of a security would involve moving the price not only on the Phlx but on other exchanges as well. Even in less liquid securities this seems unlikely, and there are other rules and mechanisms to capture such activity. As with the 1976 proposed rule change, the manipulative potential inherent in eliminating Rule 454’s restrictions appears insignificant. The Exchange notes that it has found no comparable rule for Nasdaq market makers, who can have over-the-counter or “OTC” (non-OCC-issued, non-exchange traded) options on either Nasdaq or listed stocks. Furthermore, Rule 454 does not in any event prohibit the Phlx member from buying stock first, prior to obtaining an OTC option on it. Thus, the Exchange believes that the rule is of little real usefulness and therefore unnecessarily restricts its floor members from engaging in productive business on the floor of the Exchange.
2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular, in that it eliminates an outdated prohibition which imposes an unnecessary burden on floor members and serves no real useful purpose. Lifting the prohibition should result in enhanced market depth and liquidity, which should benefit investors.

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**

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-2005-70 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-2005-70. 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-2005-70 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.4

Margaret H. McFarland
Deputy Secretary

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4 17 CFR 200.30-3(a)(12).