Proposed Rule Change by Philadelphia Stock Exchange

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

<table>
<thead>
<tr>
<th>Initial</th>
<th>Amendment</th>
<th>Withdrawal</th>
</tr>
</thead>
<tbody>
<tr>
<td>☑</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
<th>Section 19(b)(3)(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>☑</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Pilot</th>
<th>Extension of Time Period for Commission Action</th>
<th>Date Expires</th>
</tr>
</thead>
<tbody>
<tr>
<td>☑</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide a brief description of the proposed rule change (limit 250 characters).</td>
</tr>
</tbody>
</table>

Didivend and Merger Spread Strategy Rebate Form Submission

<table>
<thead>
<tr>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Name</td>
</tr>
<tr>
<td>Last Name</td>
</tr>
<tr>
<td>Title</td>
</tr>
<tr>
<td>E-mail</td>
</tr>
<tr>
<td>Telephone</td>
</tr>
<tr>
<td>Fax</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Signature</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pursuant to the requirements of the Securities Exchange Act of 1934,</td>
</tr>
</tbody>
</table>

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

Date 11/30/2005

By Cynthia Hoekstra Director

(Title)
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**

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 amend the time in which dividend spread and merger spread strategy rebate request forms must be submitted to the Exchange. Rebate request forms will now be due three business days after the end of each month.

**Background:**

Currently, the Exchange provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend spread strategy or merger spread strategy. Specifically, for those options contracts executed pursuant to a dividend spread strategy or merger spread strategy, the Exchange rebates $0.08 per contract side for Registered Options Trader ("ROT") executions and $0.07 per contract side for specialist executions on the business day before the underlying stock’s ex-date.

---

3 For purposes of this proposal, the Exchange defines a “dividend spread” transaction as any trade done within a defined time frame pursuant to a strategy in which a dividend arbitrage can be achieved between any two deep-in-the-money options.
4 For purposes of this proposal, the Exchange defines a “merger spread” transaction as a transaction executed pursuant to a merger spread strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but different strike prices, followed by the exercise of the resulting long options position, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock. See Securities Exchange Act Release No. 51596 (April 21, 2005), 70 FR 22381 (April 29, 2005) (SR-Phlx-2005-19).
The ex-date is the date on or after which a security is traded without a previously declared dividend or distribution.\(^5\)

Currently, the Exchange uses a manual procedure to process rebate requests.\(^6\) Specifically, to qualify a transaction for the rebate process, a written rebate request, along with supporting documentation, must be submitted to the Exchange within 30 calendar days of the billing period (i.e. within thirty days from the issue date of the invoice).\(^7\) After the appropriate verification and subsequent acceptance, the Exchange credits the member’s account for the amount of the rebate (either $0.08 or $0.07 per contract side) on contracts executed in transactions occurring as part of a merger spread strategy or dividend spread strategy.

The Exchange now proposes to reduce the time period in which dividend spread strategy and merger spread strategy rebate request forms must be submitted to the Exchange from 30 calendar days to three business days following the end of the previous month, e.g. for merger spread and dividend spread transactions settling in November.

\(^5\) The Exchange also imposes a fee cap on equity option transaction and comparison charges on merger spread transactions and dividend spread transactions executed on the same trading day in the same options class. These fee caps are implemented after any applicable rebates are applied to ROT and specialist equity option transaction and comparison charges. The fee caps are in effect as a pilot program that is currently set to expire on March 1, 2006. See Securities Exchange Act Release No. 52380 (September 2, 2005), 70 FR 53828 (September 12, 2005) (SR-Phlx-2005-56).


\(^7\) Members who wish to benefit from the fee cap submit to the Exchange the same written rebate request form with supporting documentation to receive the cap.
2005, rebate request forms for those transactions must be submitted by the third business day in December 2005 (December 5, 2005).\footnote{No new fees are being proposed, nor are any fees being imposed retroactively. Rather, the rebate request form for December 2005, which covers transactions occurring in November 2005, is now due at an earlier date.}

This proposal would be effective beginning with rebate request forms that will be due in December 2005, which reflect trades settling on or after November 1, 2005.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1.

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 November 10, 2005.

Questions and comments on the proposed rule change may be directed to Cynthia Hoekstra, Director, at (215) 496-5066 or Edith Hallahan, 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 reducing the time in which to submit the rebate request form is to allow for enough time to process the request and have the rebate be applied to the member’s invoice to coincide with the National Securities Clearing Corporation’s collection of fees on behalf of the Exchange.\footnote{The NSCC will collect Exchange fees, on behalf of the Exchange, on a monthly basis. At this time, the NSCC intends to debit the clearing firm accounts for members and}
period has been reduced, the ROTs and specialists should be able to meet the proposed
deadline.

b. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent
with Section 6(b) of the Act\textsuperscript{10} in general, and furthers the objectives of Section 6(b)(4) of
the Act\textsuperscript{11} in particular, in that it is an equitable allocation of reasonable fees among
Exchange members.

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.

\textsuperscript{10} 15 U.S.C. 78f(b).

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

The foregoing proposed rule change has been designated as a fee change pursuant to Section 19(b)(3)(A)(ii) of the Act and Rule 19b-4(f)(2) thereunder. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

The proposed rule change is similar to fee cap programs implemented by Chicago Board Options Exchange, Inc., Pacific Exchange, Inc. and American Stock Exchange LLC.

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

---


Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.       ; File No. SR-Phlx-2005-75)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of
Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Dividend
Spread and Merger Spread Strategy Rebate Request Forms

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\), and
Rule 19b-4 thereunder,\(^2\) 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 the time in which dividend spread and merger spread strategy rebate request forms
must be submitted to the Exchange. Rebate request forms will now be due three business
days after the end of each month.

\(^3\) 17 CFR 240.19b-4.
Background:

Currently, the Exchange provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend spread strategy or merger spread strategy. Specifically, for those options contracts executed pursuant to a dividend spread strategy or merger spread strategy, the Exchange rebates $0.08 per contract side for Registered Options Trader (“ROT”) executions and $0.07 per contract side for specialist executions on the business day before the underlying stock’s ex-date. The ex-date is the date on or after which a security is traded without a previously declared dividend or distribution.

Currently, the Exchange uses a manual procedure to process rebate requests. Specifically, to qualify a transaction for the rebate process, a written rebate request, along

---

4 For purposes of this proposal, the Exchange defines a “dividend spread” transaction as any trade done within a defined time frame pursuant to a strategy in which a dividend arbitrage can be achieved between any two deep-in-the-money options.

5 For purposes of this proposal, the Exchange defines a “merger spread” transaction as a transaction executed pursuant to a merger spread strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but different strike prices, followed by the exercise of the resulting long options position, each executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock. See Securities Exchange Act Release No. 51596 (April 21, 2005), 70 FR 22381 (April 29, 2005) (SR-Phlx-2005-19).

6 The Exchange also imposes a fee cap on equity option transaction and comparison charges on merger spread transactions and dividend spread transactions executed on the same trading day in the same options class. These fee caps are implemented after any applicable rebates are applied to ROT and specialist equity option transaction and comparison charges. The fee caps are in effect as a pilot program that is currently set to expire on March 1, 2006. See Securities Exchange Act Release No. 52380 (September 2, 2005), 70 FR 53828 (September 12, 2005) (SR-Phlx-2005-56).

with supporting documentation, must be submitted to the Exchange within 30 calendar
days of the billing period (i.e., within thirty days from the issue date of the invoice).\(^8\)

After the appropriate verification and subsequent acceptance, the Exchange credits the
member’s account for the amount of the rebate (either $0.08 or $0.07 per contract side)
on contracts executed in transactions occurring as part of a merger spread strategy or
dividend spread strategy.

The Exchange now proposes to reduce the time period in which dividend spread
strategy and merger spread strategy rebate request forms must be submitted to the
Exchange from 30 calendar days to three business days following the end of the previous
month, e.g., for merger spread and dividend spread transactions settling in November
2005, rebate request forms for those transactions must be submitted by the third business
day in December 2005 (December 5, 2005).\(^9\)

This proposal would be effective beginning with rebate request forms that will be
due in December 2005, which reflect trades settling on or after November 1, 2005.

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

\(^8\) Members who wish to benefit from the fee cap submit to the Exchange the same written
rebate request form with supporting documentation to receive the cap.

\(^9\) No new fees are being proposed, nor are any fees being imposed retroactively. Rather,
the rebate request form for December 2005, which covers transactions occurring in
November 2005, is now due at an earlier date.
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 reducing the time in which to submit the rebate request form is to
allow for enough time to process the request and have the rebate be applied to the
member’s invoice to coincide with the National Securities Clearing Corporation’s
collection of fees on behalf of the Exchange.\footnote{10} The Exchange believes that while the
time period has been reduced, the ROTs and specialists should be able to meet the
proposed deadline.

2. Statutory Basis

The Exchange believes that its proposal to amend its schedule of fees is consistent
with Section 6(b) of the Act\footnote{11} in general, and furthers the objectives of Section 6(b)(4) of
the Act\footnote{12} in particular, in that it is an equitable allocation of reasonable fees among
Exchange members.

\footnote{10} The NSCC will collect Exchange fees, on behalf of the Exchange, on a monthly basis.
At this time, the NSCC intends to debit the clearing firm accounts for members and
member organizations at NSCC on the 23\textsuperscript{rd} day of each month, or the next business day if
the 23\textsuperscript{rd} is a weekend or holiday. The Exchange will continue to collect fees from
Exchange members and member organizations who do not have a clearing firm account
and Stock Clearing Corporation of Philadelphia (“SCCP”) will collect fees from
Exchange members and member organizations who have a margin account at SCCP.

\footnote{11} 15 U.S.C. 78f(b).

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

The foregoing proposed rule change has been designated as a fee change pursuant to Section 19(b)(3)(A)(ii) of the Act\(^\text{13}\) and Rule 19b-4(f)(2)\(^\text{14}\) thereunder. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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-2005-75 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-2005-75. 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-2005-75 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. ¹⁵

Margaret H. McFarland
Deputy Secretary