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

01/19/2006

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  01/19/2006  

By  Jurij Trypupenko  

(Name)

Director  

(Title)

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.

Jurij TRypupenko,
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.

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)

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.

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.

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.

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.

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")\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to amend Phlx Rules 101, 1012, 1047, 1047A, and 1101A and Phlx Floor Procedure Advice ("OFPA") G-2, to indicate that equity options and narrow-based index options may trade until 4:00 p.m. and not 4:02 p.m. (Eastern Standard Time or EST).

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. The amended text of Phlx Rules 101, 1012, 1047, 1047A, and 1101A and Phlx Floor Procedure Advice ("OFPA") G-2 is set forth below.

*New material underlined; Deleted material bracketed*

**Rule 101.**

**Hours of Business**

Except as otherwise ordered by the Board of Governors, the Exchange shall be open for the entrance of members upon every business day, at 8:00 A.M. The Exchange shall conform with daylight savings time when effective in the City of Philadelphia. The Board of Governors shall determine by resolution the hours during which business may be transacted on the Exchange. The Board of Governors has resolved that no option series shall freely trade after 4:00 P.M., except that broad-based (market) index options and the Super Cap Index option shall freely trade until 4:15 P.M. each business day, as specified in Rule 1101A, Commentary .01. The Board of Governors has resolved that except under unusual conditions as may be determined by the Board (or the Foreign Currency Options Committee or the Exchange official or officials designated by the Board) foreign currency option trading sessions shall be conducted at such times as the Board of Governors shall specify between 6:00 P.M. Sundays and 3:00 P.M. Fridays.

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Supplementary Material:

.01 Options Trading after 4:0[2]0 P.M. A trading rotation in any class of option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:0[2]0 P.M. provided such rotation is conducted pursuant to Rule 1047 or Rule 1047A. Options on any series of Exchange-Traded Fund Shares so designated by the Exchange may be traded on the Exchange until 4:15 P.M. each business day. The Exchange may close trading at an early time to coincide with the close of trading in a related futures contract on the last business day of the month, or any other day when a related futures contract closes earlier than 4:15 P.M.

.02, .03 -- No Change.

Rule 1012.

Series Of Options Open For Trading

(a) -- No Change.

(b) Rotation. On the business day prior to the expiration date of particular series of options, a closing rotation (as defined in Commentary .01 to Rule 1047) for such series shall commence at 4:0[2]0 p.m. in the case of options on stocks or 4:15 p.m. in the case of options on designated Exchange-Traded Fund Shares.

Rest of Rule 1012 -- No Change.

Rule 1047.

Trading Rotations, Halts and Suspensions

(a) through (c) -- No Change.

Commentary .01

(a), (b) – No Change.

(c) Closing Rotations at Expiration --On the last trading day with respect to expiring stock [or Exchange-Traded Fund Share] option contracts a closing rotation in each series of expiring options shall be commenced at 4:0[2]0 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by two Floor Officials, with the concurrence of a Market Surveillance officer, the specialist may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance
where two Floor Officials, with the concurrence of a Market Surveillance officer, determine to conduct a closing rotation on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time.

(d) **Quarterly Rotations** -- On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:00 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:00 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

.02 – No Change.

.03 Stock or Exchange-Traded Fund Share Options Trading after 4:00 p.m. With the prior approval of two Floor Officials and the concurrence of a Market Regulation officer, a trading rotation in any class of stock [or Exchange-Traded Fund Share] option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., provided:

(a), (b) -- No Change.

(c) If prior to 4:00 p.m. a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Regulation officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m.

**Rule 1047A.**

**Trading Rotations, Halts or Reopenings**

(a) through (e) – No Change.

(f) Index Options Trading after 4:00 p.m.: With the prior approval of two Floor Officials, with the concurrence of a Market Surveillance officer, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m. provided:

(i), (ii) – No Change.

(iii) If prior to 4:00 p.m., a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Surveillance officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m. Any trading rotation
commenced after 4:0[2]0 P.M. must be approved by two Floor Officials, with the concurrence of a Market Surveillance officer.

(iv) – No Change.

Rule 1101A.  
Terms of Option Contracts

(a), (b) – No Change.

(c) On the last trading day prior to the expiration of a particular series of index options, such option shall freely trade until 4:0[2]0 P.M., unless the Board of Governors has established different hours of trading for certain index options.

Commentary

.01 Transactions in broad-based (market) index options traded on the Exchange, Value Line Composite Index options, National Over-the-Counter Index options, U.S. Top 100 Index options and the OTC Industrial Average Index options, may be effected on the Exchange until 4:15 P.M. each business day, through the last trading day prior to expiration.

OFPA G-2.  
Trading Rotations, Halts or Reopenings

(a) through (e) – No Change.

(f) Index Options Trading after 4:0[2]0 P.M. - With the prior approval of two Floor Officials, with the concurrence of a Market Surveillance officer, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:0[2]0 P.M. provided:

(i), (ii) – No Change.

(iii) If prior to 4:0[2]0 P.M., a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Surveillance officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:0[2]0 P.M. Any trading rotation commenced after 4:0[2]0 P.M. must be approved by two Floor Officials, with the concurrence of a Market Surveillance officer.

(iv) – 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 November 23, 2005.

Questions and comments on the proposed rule change may be directed to Jurij Trypupenko, Director and Counsel, New Products Group and Legal Department, at (215) 496-5019, or Edith H. Hallahan, First 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 this proposed rule change is to amend the Phlx rules governing the hours of trading in equity options and narrow-based index options. Specifically, Phlx proposes to amend its rules to change the close of the normal trading hours in equity options and in narrow-based (industry) index options from 4:02 p.m. to 4:00 p.m. (EST). After the change, the time of the close of trading in these Phlx options will correspond to the normal time set for the close of trading on the primary exchanges listing the stocks underlying the Phlx options. The primary exchanges generally close at 4:00 p.m. (EST).

   Phlx notes that in 1997, the closing time for equity options and narrow-based index options was changed from 4:10 p.m. to 4:02 p.m. (EST). The rationale to continue trading options for some limited period of time after the close of trading of the primary markets for the underlying securities was that the extended period allowed for options traders to respond to late reports of closing prices over the consolidated tape. If the price
of a late reported trade on an underlying security was substantially different from the previous reported price, the extended trading session gave options traders the opportunity to bring options quotes in line with the closing price of the underlying security.

However, because of improvements in the processing and reporting of transactions, Phlx believes that there are no longer significant delays in the reporting of closing prices; and therefore, a two minute session is no longer needed to trade options after the underlying securities close trading. Additionally, the Exchange believes that pricing aberrations can occur if an option is traded when the underlying stock is no longer trading, since there is a close relationship in the price of the underlying stock and the overlying option. As a result, the Exchange believes that it is difficult for the market to price options accurately when the underlying security is not trading.

The Exchange is not at this time proposing to change the closing time of 4:15 p.m. (EST) for broad-based (market) index options because it does not believe that a significant news announcement by the issuer of one component stock of a broad-based index is likely to have a significant effect on the price of that broad-based index. The Exchange recognizes, however, that indexes that are narrow-based may be subject to the same pricing problems as options on individual stocks and, as noted above, proposes to change the relevant closing time to 4:00 p.m. (EST).

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3 Nor is the Exchange proposing to change the closing time of 4:15 p.m. (EST) for Exchange-Traded Fund Share options. The Exchange is proposing technical changes in the noted rules to clarify that options on Exchange-Traded Fund Shares and broad-based index options may trade to 4:15 p.m.

4 That is, a significant news announcement on one component of such an index could have a significant effect on the index.
Accordingly, Phlx proposes to amend Phlx Rules 101, 1012, 1047, 1047A, and 1101A and OFPA G-2 to change references to times from 4:02 p.m. to 4:00 p.m. (EST) for equity options and certain index options as described.5

The Exchange notes that if it, or some but not all options exchanges, were to unilaterally modify its closing time, the existence of dissimilar closing times applicable to the different options exchanges would likely lead to confusion for options investors and broker-dealers. It is Phlx’s understanding that all options exchanges have determined to change their respective rules to revise the closing time in equity options and narrow-based index options from 4:02 p.m. to 4:00 p.m. (EST). It is Phlx’s further understanding that the options exchanges have collectively determined that they would implement the new closing time on or about February 1, 2006.

b. Statutory Basis

The Exchange believes that the proposed rule change 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 promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, 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.

5 A reference to a 4:10 p.m. closing time in Phlx Rule 101 will likewise be changed to 4:00 p.m.


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)\(^8\) of the Act because it is Phlx’s understanding that the options exchanges have collectively determined that they would implement the new closing time on or about February 1, 2006.

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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

9. Exhibits

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

4. Amended text of Phlx Rules 1012, 1047 and 1101A indicating additions to and deletions from the immediately preceding filing.

9 As noted previously, the options exchanges have determined to submit filings to change their respective rules to adjust closing times in options on individual stocks and narrow-based indexes. The Commission has approved the rule filing of Chicago Board Options Exchange to change its trading times. See Securities Exchange Act Release No. 34-52949 (December 13, 2005), 70 FR 75513 (December 20, 2005)(SR-CBOE-2005-104).
SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2006-01)

Self-Regulatory Organizations; Notice of Filing and Accelerated Approval of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. to Amend the Phlx Rules Governing the Hours of Trading in Equity Options and Narrow-Based Index Options From 4:02 P.M. to 4:00 P.M. (EST)

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 ______________________ 2006, 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) of the Act\(^3\) and Rule 19b-4 thereunder,\(^4\) proposes to amend Phlx Rules 101, 1012, 1047, 1047A, and 1101A and Phlx Floor Procedure Advice ("OFPA") G-2, to indicate that equity options and narrow-based index options may trade until 4:00 p.m. and not 4:02 p.m. (Eastern Standard Time or EST).

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\(^4\) 17 CFR 240.19b-4
The amended text of Phlx Rules 101, 1012, 1047, 1047A, and 1101A and Phlx Floor Procedure Advice ("OFPA") G-2 is set forth below.

New material underlined; Deleted material bracketed

Rule 101.

Hours of Business

Except as otherwise ordered by the Board of Governors, the Exchange shall be open for the entrance of members upon every business day, at 8:00 A.M. The Exchange shall conform with daylight savings time when effective in the City of Philadelphia. The Board of Governors shall determine by resolution the hours during which business may be transacted on the Exchange. The Board of Governors has resolved that no option series shall freely trade after 4:10 P.M., except that broad-based (market) index options and the Super Cap Index option shall freely trade until 4:15 P.M. each business day, as specified in Rule 1101A, Commentary .01. The Board of Governors has resolved that except under unusual conditions as may be determined by the Board (or the Foreign Currency Options Committee or the Exchange official or officials designated by the Board) foreign currency option trading sessions shall be conducted at such times as the Board of Governors shall specify between 6:00 P.M. Sundays and 3:00 P.M. Fridays.

Supplementary Material:

.01 Options Trading after 4:0[2]0 P.M. A trading rotation in any class of option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:0[2]0 P.M. provided such rotation is conducted pursuant to Rule 1047 or Rule 1047A. Options on any series of Exchange-Traded Fund Shares so designated by the Exchange may be traded on the Exchange until 4:15 P.M. each business day. The Exchange may close trading at an early time to coincide with the close of trading in a related futures contract on the last business day of the month, or any other day when a related futures contract closes earlier than 4:15 P.M.

.02, .03 -- No Change.

Rule 1012.

Series Of Options Open For Trading

(a) -- No Change.

(b) Rotation. On the business day prior to the expiration date of particular series of options, a closing rotation (as defined in Commentary .01 to Rule 1047) for such series shall commence at 4:0[2]0 p.m. in the case of options on stocks or 4:15 p.m. in the case of options on designated Exchange-Traded Fund Shares.
Rest of Rule 1012 -- No Change.

Rule 1047.  
Trading Rotations, Halts and Suspensions

(a) through (c) -- No Change.

Commentary .01

(a), (b) – No Change.

(c) Closing Rotations at Expiration -- On the last trading day with respect to expiring stock [or Exchange-Traded Fund Share] option contracts a closing rotation in each series of expiring options shall be commenced at 4:0[2]0 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by two Floor Officials, with the concurrence of a Market Surveillance officer, the specialist may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance where two Floor Officials, with the concurrence of a Market Surveillance officer, determine to conduct a closing rotation on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time.

(d) Quarterly Rotations -- On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:0[2]0 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:0[2]0 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

.02 – No Change.

.03 Stock or Exchange-Traded Fund Share Options Trading after 4:0[2]0 p.m. With the prior approval of two Floor Officials and the concurrence of a Market Regulation officer, a trading rotation in any class of stock [or Exchange-Traded Fund Share] option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:0[2]0 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., provided:

(a), (b) -- No Change.
(c) If prior to 4:00 p.m. a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Regulation officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m.

**Rule 1047A.**

**Trading Rotations, Halts or Reopenings**

(a) through (e) – No Change.

(f) Index Options Trading after 4:00 P.M.: With the prior approval of two Floor Officials, with the concurrence of a Market Surveillance officer, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. provided:

(i), (ii) – No Change.

(iii) If prior to 4:00 P.M., a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Surveillance officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 P.M. Any trading rotation commenced after 4:00 P.M. must be approved by two Floor Officials, with the concurrence of a Market Surveillance officer.

(iv) – No Change.

**Rule 1101A.**

**Terms of Option Contracts**

(a), (b) – No Change.

(c) On the last trading day prior to the expiration of a particular series of index options, such option shall freely trade until 4:15 P.M., unless the Board of Governors has established different hours of trading for certain index options.

**Commentary**

.01 Transactions in broad-based (market) index options traded on the Exchange, Value Line Composite Index options, National Over-the-Counter Index options, U.S. Top 100 Index options and the OTC Industrial Average Index options, may be effected on the Exchange until 4:15 P.M. each business day, through the last trading day prior to expiration.
Trading Rotations, Halts or Reopenings

(a) through (e) – No Change.

(f) Index Options Trading after 4:0[2]0 P.M. - With the prior approval of two Floor Officials, with the concurrence of a Market Surveillance officer, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:0[2]0 P.M. provided:

(i), (ii) – No Change.

(iii) If prior to 4:0[2]0 P.M., a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Surveillance officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:0[2]0 P.M. Any trading rotation commenced after 4:0[2]0 P.M. must be approved by two Floor Officials, with the concurrence of a Market Surveillance officer.

(iv) – 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 this proposed rule change is to amend the Phlx rules governing the hours of trading in equity options and narrow-based index options. Specifically, Phlx proposes to amend its rules to change the close of the normal trading hours in equity
options and in narrow-based (industry) index options from 4:02 p.m. to 4:00 p.m. (EST). After the change, the time of the close of trading in these Phlx options will correspond to the normal time set for the close of trading on the primary exchanges listing the stocks underlying the Phlx options. The primary exchanges generally close at 4:00 p.m. (EST).

Phlx notes that in 1997, the closing time for equity options and narrow-based index options was changed from 4:10 p.m. to 4:02 p.m. (EST). The rationale to continue trading options for some limited period of time after the close of trading of the primary markets for the underlying securities was that the extended period allowed for options traders to respond to late reports of closing prices over the consolidated tape. If the price of a late reported trade on an underlying security was substantially different from the previous reported price, the extended trading session gave options traders the opportunity to bring options quotes in line with the closing price of the underlying security.

However, because of improvements in the processing and reporting of transactions, Phlx believes that there are no longer significant delays in the reporting of closing prices; and therefore, a two minute session is no longer needed to trade options after the underlying securities close trading. Additionally, the Exchange believes that pricing aberrations can occur if an option is traded when the underlying stock is no longer trading, since there is a close relationship in the price of the underlying stock and the overlying option. As a result, the Exchange believes that it is difficult for the market to price options accurately when the underlying security is not trading.

The Exchange is not at this time proposing to change the closing time of 4:15 p.m. (EST) for broad-based (market) index options because it does not believe that a significant news announcement by the issuer of one component stock of a broad-based
index is likely to have a significant effect on the price of that broad-based index.\(^5\) The Exchange recognizes, however, that indexes that are narrow-based may be subject to the same pricing problems as options on individual stocks\(^6\) and, as noted above, proposes to change the relevant closing time to 4:00 p.m. (EST).

Accordingly, Phlx proposes to amend Phlx Rules 101, 1012, 1047, 1047A, and 1101A and OFPA G-2 to change references to times from 4:02 p.m. to 4:00 p.m. (EST) for equity options and certain index options as described.\(^7\)

The Exchange notes that if it, or some but not all options exchanges, were to unilaterally modify its closing time, the existence of dissimilar closing times applicable to the different options exchanges would likely lead to confusion for options investors and broker-dealers. It is Phlx’s understanding that all options exchanges have determined to change their respective rules to revise the closing time in equity options and narrow-based index options from 4:02 p.m. to 4:00 p.m. (EST). It is Phlx’s further understanding that the options exchanges have collectively determined that they would implement the new closing time on or about February 1, 2006.

2. **Statutory Basis**

   The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,\(^8\) in general, and furthers the objectives of Section 6(b)(5) of the Act.\(^9\) in

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\(^5\) Nor is the Exchange proposing to change the closing time of 4:15 p.m. (EST) for Exchange-Traded Fund Share options. The Exchange is proposing technical changes in the noted rules to clarify that options on Exchange-Traded Fund Shares and broad-based index options may trade to 4:15 p.m.

\(^6\) That is, a significant news announcement on one component of such an index could have a significant effect on the index.

\(^7\) A reference to a 4:10 p.m. closing time in Phlx Rule 101 will likewise be changed to 4:00 p.m.
particular, in that it is designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts, 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.

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 Exchange requests accelerated approval pursuant to Section 19(b)(2)\(^8\) of the Act because it is Phlx’s understanding that the options exchanges have collectively determined that they would implement the new closing time on or about February 1, 2006.

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:

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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-2006-01 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-2006-01. 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-2006-01 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.\textsuperscript{11}

Margaret H. McFarland  
Deputy Secretary

\textsuperscript{11} 17 CFR 200.30-3(a)(12).
Exhibit 4

Changes to the immediately preceding rule text that was filed are indicated as follows:
Double underlining indicates new additions. Bolded bracketing indicates new deletions.

New material underlined; Deleted material bracketed

Rule 101.

Hours of Business

Except as otherwise ordered by the Board of Governors, the Exchange shall be open for
the entrance of members upon every business day, at 8:00 A.M. The Exchange shall
conform with daylight savings time when effective in the City of Philadelphia. The Board
of Governors shall determine by resolution the hours during which business may be
transacted on the Exchange. The Board of Governors has resolved that no option series
shall freely trade after 4:15 P.M., except that broad-based (market) index options and
the Super Cap Index option shall freely trade until 4:15 P.M. each business day, as
specified in Rule 1101A, Commentary .01. The Board of Governors has resolved that
except under unusual conditions as may be determined by the Board (or the Foreign
Currency Options Committee or the Exchange official or officials designated by the
Board) foreign currency option trading sessions shall be conducted at such times as the
Board of Governors shall specify between 6:00 P.M. Sundays and 3:00. P.M. Fridays.

Supplementary Material:

.01 Options Trading after 4:0[2]0 P.M. A trading rotation in any class of option
contracts may be effected even though employment of the rotation will result in the
transaction on the Exchange after 4:0[2]0 P.M. provided such rotation is conducted
pursuant to Rule 1047 or Rule 1047A. Options on any series of Exchange-Traded
Fund Shares so designated by the Exchange may be traded on the Exchange until
4:15 P.M. each business day. The Exchange may close trading at an early time to
coincide with the close of trading in a related futures contract on the last business
day of the month, or any other day when a related futures contract closes earlier than
4:15 P.M.

.02, .03 -- No Change.

Rule 1012.

Series Of Options Open For Trading

(a) -- No Change.

(b) Rotation. On the business day prior to the expiration date of particular series of
options, a closing rotation (as defined in Commentary .01 to Rule 1047) for such series
shall commence at 4:00 p.m. in the case of options on stocks or 4:15 p.m. in the case of options on designated Exchange-Traded Fund Shares.

Rest of Rule 1012 -- No Change.

Rule 1047.  
Trading Rotations, Halts and Suspensions

(a) through (c) -- No Change.

Commentary .01

(a), (b) – No Change.

(c) Closing Rotations at Expiration -- On the last trading day with respect to expiring stock [or Exchange-Traded Fund Share] option contracts a closing rotation in each series of expiring options shall be commenced at 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by two Floor Officials, with the concurrence of a Market Surveillance officer, the specialist may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance where two Floor Officials, with the concurrence of a Market Surveillance officer, determine to conduct a closing rotation on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time.

(d) Quarterly Rotations -- On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:00 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:00 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

.02 – No Change.

.03 Stock or Exchange-Traded Fund Share Options Trading after 4:00 p.m. With the prior approval of two Floor Officials and the concurrence of a Market Regulation officer, a trading rotation in any class of stock [or Exchange-Traded Fund Share] option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund
Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m.,
provided:
(a), (b) -- No Change.
(c) If prior to 4:02 p.m. a trading rotation is in progress and two Floor Officials, with
the concurrence of a Market Regulation officer, determine that a final trading rotation is
needed to assure a fair and orderly market, the rotation in progress shall be halted and
such final rotation begun as promptly as possible after 4:02 p.m.

Rule 1047A.
Trading Rotations, Halts or Reopenings

(a) through (e) – No Change.
(f) Index Options Trading after 4:02 P.M.: With the prior approval of two Floor
Officials, with the concurrence of a Market Surveillance officer, a trading rotation in any
class of index option contracts may be effected even though employment of the rotation
will result in the transaction on the Exchange after 4:02 P.M. provided:
(i), (ii) – No Change.
(iii) If prior to 4:02 P.M., a trading rotation is in progress and two Floor Officials, with
the concurrence of a Market Surveillance officer, determine that a final trading rotation is
needed to assure a fair and orderly market, the rotation in progress shall be halted and
such final rotation begun as promptly as possible after 4:02 P.M. Any trading rotation
commenced after 4:02 P.M. must be approved by two Floor Officials, with the
concurrence of a Market Surveillance officer.
(iv) – No Change.

Rule 1101A.
Terms of Option Contracts

(a), (b) – No Change.
(c) On the last trading day prior to the expiration of a particular series of index options,
such option shall freely trade until 4:02 P.M., unless the Board of Governors has
established different hours of trading for certain index options.

Commentary [.01 – No Change.]
Transactions in broad-based (market) index options traded on the Exchange, Value Line Composite Index options, National Over-the-Counter Index options, U.S. Top 100 Index options and the OTC Industrial Average Index options, may be effected on the Exchange until 4:15 P.M. each business day, through the last trading day prior to expiration.

OFPA G-2.

Trading Rotations, Halts or Reopenings

(a) through (e) – No Change.

(f) Index Options Trading after 4:0[2]0 P.M. - With the prior approval of two Floor Officials, with the concurrence of a Market Surveillance officer, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:0[2]0 P.M. provided:

(i), (ii) – No Change.

(iii) If prior to 4:0[2]0 P.M., a trading rotation is in progress and two Floor Officials, with the concurrence of a Market Surveillance officer, determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:0[2]0 P.M. Any trading rotation commenced after 4:0[2]0 P.M. must be approved by two Floor Officials, with the concurrence of a Market Surveillance officer.

(iv) – No Change.