### Proposed Rule Change by Philadelphia Stock Exchange

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

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**Pilot**

**Extension of Time Period for Commission Action**

Date Expires

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**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** 04/12/2006  
**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 TTrypupenko,
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 1000A (Applicability and Definitions), 1001A (Position Limits) and 1009A (Designation of the Index) to adopt generic listing standards and position limits for broad-based index options.

   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 1000A, 1001A and 1009A are set forth below.

   *New material underlined; Deleted material bracketed*

### Rule 1000A.

**Applicability and Definitions**

(a) -- No Change.

(b)(1) - (10) -- No Change.

(11) The terms "market index" and "broad-based index"["industry index"] mean [respectively] an index designed to be representative of [general price movements in the stock market and an index designed to be representative of price movements in particular categories of stocks] a stock market as a whole or of a range of companies in unrelated industries.

(12) The terms “industry index” and “narrow-based index” mean an index designed to be representative of a particular industry or a group of related industries.

(1[2]3) The term "European option" means an option contract that can be exercised only on the day it expires.

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The term "expiration date" means, in the case of options on stock indexes, 11:59 P.M. Eastern Time, on the Saturday immediately following the third Friday of the expiration month, except quarterly expiring options shall expire at 11:59 P.M. Eastern Time, on the first business day of the month following the end of the quarter.

**Rule 1001A.  Position Limits**

(a) Except as otherwise indicated, the position limit for a broad-based (market) index option shall be 25,000 contracts on the same side of the market. All other broad-based (market) index options contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in this section (a). [Position limits for options on market indexes shall be as follows,] except certain positions must be aggregated in accordance with paragraph (d) or (e) below:

Remainder of (a) – No Change.

(b)(i) In determining compliance with Rule 1001, option contracts on a(n) narrow-based (industry) index shall, subject to the procedures specified in subparagraph (iii) of this rule, be subject to the following position limits:

Remainder of (b) – No Change.

(c) - (e) – No Change.

**Commentary .01 - .02** – No Change.

* * *

**Rule 1009A.  Designation of the Index**

(a) – No change.

(b)(1) - (b)(7) – No Change.

(b)(8) [All] Each component security[ies] must be [are "reported securities" as defined in Rule 11Aa3-1] an “NMS Stock” as defined in Rule 600 of Regulation NMS under the Exchange Act;

Remainder of (b) – No Change.

(c) – No change.
(d) Notwithstanding paragraph (a) above, the Exchange may trade options on a broad-based (market) index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Rule 1000A(b)(11);

(2) Options on the index are designated as A.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Rule 1009 applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an “NMS Stock” as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange;

(12) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a
calculation of the Exchange's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index:

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter:

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index:

(15) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The conditions set forth in subparagraphs (d)(1), (2), (3), (9), (10), (11), (12), (13), (14) and (15) must continue to be satisfied. The conditions set forth in subparagraphs (d)(5), (6), (7) and (8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

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 February 28, 2006.

Questions and comments on the proposed rule change may be directed to Jurij Trypupenko, Director and Counsel, New Products Group and Legal Department, at
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 Phlx rules to adopt generic listing standards and position limits for broad-based index options. In particular, the Exchange proposes to: (i) adopt Phlx Rule 1009A(d), which contains generic initial listing standards for broad-based index options; (ii) adopt Phlx Rule 1009A(e), which contains generic maintenance standards for broad-based index options listed pursuant to proposed Phlx Rule 1009A(d); (iii) amend Phlx Rule 1001A to provide position limits for broad-based index options listed pursuant to proposed Phlx Rule 1009A(d); (iv) amend Phlx Rule 1000A to clarify the definitions of broad-based (market) indexes as well as narrow-based (industry) indexes, and (v) make other conforming technical language changes.

   The proposed rule change would enable the Exchange to list broad-based index options pursuant to Rule 19b-4(e)\(^3\) under the Act if each of the conditions set forth in Phlx Rule 1009A(d) are satisfied. The proposed rule change would further provide

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\(^3\) 17 CFR 240.19b-4(e). Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization ("SRO") shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to Section 19(b) of the Act, the SRO's trading rules, procedures and listing standards for the product class that include the new derivative securities product and the SRO has a surveillance program for the product class. When relying on Rule 19b-4(e), the SRO must submit Form 19b-4(e) to the Commission within five business days after the exchange begins trading the new derivative securities products. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998).
ongoing maintenance standards and position limits for broad-based index options listed pursuant to proposed Phlx Rules 1009A(d). Such options would, in all other respects, be traded pursuant to the Exchange's trading rules and procedures applicable to index options and be covered under the Exchange's surveillance program for index options.

The Exchange notes that it and other options exchanges currently have rules that contain "generic" listing standards pursuant to Rule 19b-4(e) and position limits for narrow-based index options. The Exchange also notes that CBOE currently has rules that contain generic listing standards and position limits for micro narrow-based index options. The standards contained in these proposed generic listing standards and position limits for broad-based index options are based on the standards contained in the generic listing standards and position limits for narrow-based index options and micro narrow-based index options that were previously approved by the Commission, but have been adapted to reflect the characteristics of broad-based index options.

Generic Initial Listing Standards for Broad-Based Index Options

In order to list broad-based index options pursuant to the generic Rule 19b-4(e) listing standards, the underlying index must satisfy all of the conditions contained in proposed Phlx Rule 1009A(d). If the underlying index does not satisfy all of the

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4 See Phlx Rules 1009A(b), 1009A(c) and 1001A(b); International Securities Exchange ("ISE") Rules 2002(b), 2002(c) and 2005; Chicago Board Options Exchange ("CBOE") Rules 24.2(b), 24.2(c) and 24.4A; American Stock Exchange Rules 901C Commentary .03 and 904C(c); and Pacific Exchange Rules 5.13 and 5.16.

5 See CBOE Rules 24.2(d), 24.2(e) and 24.4B.

6 See, for example, current Phlx Rule 1009(A)(b) for the conditions that must be satisfied for the Exchange to list options on a narrow-based index pursuant to Commission Rule 19b-4(e).
conditions, the Exchange would be required to file a proposed rule change with the Commission on Form 19b-4 pursuant to Section 19(b)(2) of the Act\(^7\) and obtain Commission approval in order to list options on that index. Following are the conditions contained in proposed Phlx Rule 1009A(d).

Under proposed Phlx Rule 1009A(d)(1), the index must be "broad-based," as defined in Phlx Rule 1000A(b)(11). Rule 1000A(b)(11) with amendments proposed herein defines the term "broad-based" as an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.\(^8\)

Under proposed Phlx Rule 1009A(d)(2),\(^9\) options on the index must be designated as A.M.-settled.

Under proposed Phlx Rule 1009A(d)(3),\(^10\) the index must be capitalization-weighted, price-weighted, modified capitalization-weighted, or equal dollar-weighted.

Under proposed Phlx Rule 1009A(d)(4),\(^11\) the index must consist of 50 or more component securities. The Exchange believes that a 50 component minimum is reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes that are sufficiently broad-based in scope and not readily subject to manipulation. The Exchange notes that there are currently a


\(^8\) The Exchange proposes to likewise define “industry index” and “narrow-based index” in Phlx Rule 1000A(b)(12) to mean an index designed to be representative of a particular industry or a group of related industries.

\(^9\) Proposed Phlx Rule 1009A(d)(2) is based on Phlx Rule 1009A(b)(1).

\(^10\) Proposed Phlx Rule 1009A(d)(3) is based on Phlx Rule 1009A(b)(2).

\(^11\) Proposed Phlx Rule 1009A(d)(4) is based on Phlx Rule 1009A(b)(2).
number of broad-based indexes that consist of fewer than 50 components, such as, the Dow Jones Industrial Average Index (30 components) and the Amex Major Market Index (20 components). The Exchange further notes that, while broad-based index options generally have more components than narrow-based index options, the generic listing standards for narrow-based index options are more liberal, requiring an index to consist of only 10 or more component securities.

Under proposed Phlx Rule 1009A(d)(5), component securities comprising at least 95 percent of the index, by weight, must have a minimum market capitalization of $75 million. In addition, component securities comprising at least 65 percent of the index, by weight, must have a minimum market capitalization of $100 million.

Under proposed Phlx Rule 1009A(d)(6), component securities that account for at least eighty percent (80%) of the weight of the index must satisfy the requirements of Phlx Rule 1009. That is, those securities must be "options eligible," meaning they must have, for example, at least a 7 million share float, 2000 holders, total annual trading volume of 2,400,000 shares, a minimum price of $3 per share if a “covered security” as defined in section 18(b)(1)(A) of the Securities Act of 1933, and the issuer must be in compliance with its obligations under the Act. The Exchange believes that an 80% weighting is reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes that contain components that are sufficiently liquid and not readily subject to manipulation. The Exchange notes that broad-based indexes may consist of thousands of components (such as, for example, the

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12 Proposed Phlx Rule 1009A(d)(5) is based on Phlx Rule 1009A(b)(3).

13 Proposed Phlx Rule 1009A(d)(6) is based on Phlx Rule 1009A(b)(7).
Russell 2000® and Russell 3000® indexes), and the components comprising the bottom 10% to 20% of the weight of the index generally are the smallest capitalized stocks and tend not to meet the requirements of Phlx Rule 1009. The Exchange further notes that the generic listing standards pursuant to Rule 19b-4(e) for narrow-based index options in Phlx Rule 1009A(b) are less liberal, requiring a 90% weighting.

Under proposed Phlx Rule 1009A(d)(7), each component security that accounts for at least one percent (1%) of the weight of the index must have an average daily trading volume (“ADTV”), of at least 90,000 shares over the prior six month period. The Exchange believes that 90,000 ADTV is reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes in which the more-heavily weighted components are sufficiently liquid and not readily subject to manipulation.

Under proposed Phlx Rule 1009A(d)(8), no single component security may account for more than ten percent (10%) of the weight of an index, and the five highest weighted component securities in the index may not, in the aggregate, account for more than thirty-three percent (33%) of the weight of an index. The Exchange believes that the 10% and 33% weighting concentration caps are reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes that are not unreasonably dominated by a few heavily-weighted components.

Proposed Phlx Rule 1009A(d)(7) is based on Phlx Rule 1009A(b)(4).

Proposed Phlx Rule 1009A(d)(8) is based on Phlx Rule 1009A(b)(6).

There are a number of broad-based indexes with component weighting concentrations that approach or exceed the limits proposed by the Exchange. See, for example, as of February 17, 2006: FTSE/Xinhua China 25 Index - 25 components, top 5 components
Exchange notes that the generic listing standards for narrow-based index options in Phlx Rule 1009A(b) are more liberal, establishing 30% and 50% weighting concentration caps.

Under proposed Phlx Rule 1009A(d)(9),\textsuperscript{17} all component securities must be “NMS Stocks” as defined in Rule 600 of Regulation NMS under the Exchange Act.\textsuperscript{18}

Under proposed Phlx Rule 1009A(d)(10),\textsuperscript{19} no more than 20 percent (20\%) of the securities in the index, by weight, may be comprised of foreign securities or American Depository Receipts ("ADRs") overlying foreign securities that are not subject to comprehensive surveillance sharing agreements.

Under proposed Phlx Rule 1009A(d)(11),\textsuperscript{20} the current index value must be widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors\textsuperscript{21} during the time options on the index are traded on the Exchange.

account for 39.82\%; Morgan Stanley Multinational Company Index - 50 components, top 5 account for 33.09\%; Dow Jones Industrial Average Index - 30 components, top 5 account for 26.75\%; and Amex Major Market Index - 20 components, top 5 account for 37.29\%.

\textsuperscript{17}Proposed Phlx Rule 1009A(d)(9) is based on Phlx Rule 1009A(b)(8).

\textsuperscript{18}17 CFR 242.600. Rule 600 of Regulation NMS defines an "NMS stock" to mean "any NMS security other than an option." An "NMS security" is "any security or class of securities for which transaction reports are collected, processed, and made available pursuant to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options." See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005)(S7-10-04). For purposes of consistency, the Exchange is also proposing to amend Phlx Rule 1009A(b)(8), which indicates conditions that an underlying index must satisfy for the Exchange to list narrow-based index options pursuant to the generic Rule 19b-4(e) listing standards, to reference “NMS stock” as defined in Rule 600 of Regulation NMS under the Exchange Act.

\textsuperscript{19}Proposed Phlx Rule 1009A(d)(10) is based on Phlx Rule 1009A(b)(9).

\textsuperscript{20}Proposed Phlx Rule 1009A(d)(11) is based on Phlx Rule 1009A(b)(10).
Under proposed Phlx Rule 1009A(d)(12), the Exchange must reasonably believe that it has adequate system capacity to support the trading of options on the index. That belief must be based on the performance of a calculation by the Exchange that takes into account the Exchange's current Independent System Capacity Advisor ("ISCA") allocation and the number of new peak messages per second expected to be generated by options on such index.

Under proposed Phlx Rule 1009A(d)(13), an equal dollar-weighted index must be rebalanced at least once every calendar quarter.

Under proposed Phlx Rule 1009A(d)(14), if the index is maintained by a broker-dealer, it must be calculated by a third-party who is not a broker-dealer. Further, the broker-dealer must establish appropriate procedures to ensure that the broker-dealer will not possess or be able to misuse any informational advantages with respect to changes in, and adjustments to, an index. Such procedures must include, for example, the establishment of appropriate informational barriers.

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21 “Major market data vendor” for the purposes of Phlx Rule 1009A(d)(11) includes, but is not limited to, the Options Price Reporting Authority, the Consolidated Tape Association (administrers the Consolidated Tape and Consolidated Quotation Plans), Nasdaq Index Dissemination Service, and securities information vendors such as Bloomberg and Reuters.

22 Proposed Phlx Rule 1009A(d)(12) is not based on a current Phlx rule, but generally reflects the practice with respect to the listing of index options under its current rules.

23 Proposed Phlx Rule 1009A(d)(13) is based on Phlx Rule 1009A(b)(11).

24 Proposed Phlx Rule 1009A(d)(14) is based on Phlx Rule 1009A(b)(12).
Under proposed Phlx Rule 1009A(d)(15), the Exchange must have written surveillance procedures in place with respect to surveillance of trading of options on the index.

**Generic Maintenance Standards for Broad-Based Index Options Listed Pursuant to Proposed Phlx Rule 1009A(d)**

Following the listing of a broad-based index option pursuant to proposed Phlx Rule 1009A(d), the underlying index must continue to satisfy the maintenance standards contained in proposed Phlx Rule 1009A(e), which are based on Rule 1009A(d) criteria. If the underlying index fails to satisfy the maintenance standards, the Exchange may not open for trading any additional series of options on that class of index options unless the continued listing of that class of index options has been approved by the Commission pursuant to Section 19(b)(2) of the Act. Following are the maintenance standards contained in proposed Phlx Rule 1009A(e).

Under proposed Phlx Rule 1009A(e)(1), the requirements of proposed Phlx Rule 1009A(d)(1) through (3) and (9) through (15) must continue to be satisfied. In addition, the requirements of proposed Phlx Rule 1009A(d)(5) through (8) must be satisfied only as of the first day of January and July of each year. The Exchange believes that these maintenance standards are reasonable for broad-based indexes in as much as they strike an appropriate balance between the obligation to continually monitor and maintain critical attributes of the index, and the obligation to, at certain intervals, monitor

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25 Proposed Phlx Rule 1009A(d)(15) is not based on a current Phlx rule, but generally reflects the practice with respect to the listing of index options under its current rules.

26 Proposed Phlx Rule 1009A(e)(1) is based on Phlx Rule 1009A(c)(1).
and maintain non-critical attributes of the index, especially in light of the number of component securities that comprise broad-based indexes.

Under proposed Phlx Rule 1009A(e)(2), the number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. The Exchange believes that this maintenance standard is reasonable for broad-based indexes, and, when applied in conjunction with the other maintenance requirements, will result in indexes that remain sufficiently broad-based and not readily subject to manipulation. The Exchange notes that the generic maintenance standards for narrow-based index options in Phlx Rule 1009A(b) are more liberal, establishing a 33 1/3% increase or decrease maximum.

Position Limits for Broad-Based Index Options Listed Pursuant to Proposed Phlx Rule 1009A(d)

Following the listing of a broad-based index option pursuant to proposed Phlx Rule 1009A(d), trading in the broad-based index option shall be subject to position limits established in Phlx Rule 1001A. If the Exchange sought to apply a different position limit, the Exchange would be required to file a proposed rule change with the Commission on Form 19b-4 pursuant to Section 19(b)(2) of the Act and obtain Commission approval in order to apply the different position limit. Under proposed Phlx Rule 1001A(a) the position limit for broad-based index options shall be 25,000 contracts on the same side of the market. The Exchange believes that these position limits are

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27 Proposed Phlx Rule 1009A(e)(2) is based on Phlx Rule 1009A(c)(2).
reasonable for broad-based indexes and will result in indexes that are not readily subject
to manipulation.

b. **Statutory Basis**

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,\(^28\) in general, and furthers the objectives of Section 6(b)(5) of the Act,\(^29\) 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.

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 effectiveness pursuant to Section 19(b)(2) of the Act\(^{30}\) so that, for competitive purposes, it has generic listing standards and position limits for broad-based index options that are similar to standards in use by other options exchanges.

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

The proposed rule change is based generally on a rule filing of the ISE relating to generic listing standards for broad-based index options.\(^{31}\)

9. **Exhibits**

Notice of proposed rule for publication in the Federal Register

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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 and Rule 19b-4 thereunder, proposes to amend Phlx Rules 1000A (Applicability and Definitions), 1001A (Position Limits) and 1009A (Designation of the Index) to adopt generic listing standards and position limits for broad-based index options.
The amended text of Phlx Rules 1000A, 1001A and 1009A are set forth below.

*New material underlined; Deleted material bracketed*

**Rule 1000A.**

**Applicability and Definitions**

(a) -- No Change.

(b)(1) - (10) -- No Change.

(11) The terms "market index" and "broad-based index"["industry index"] mean [respectively] an index designed to be representative of [general price movements in the stock market and an index designed to be representative of price movements in particular categories of stocks] a stock market as a whole or of a range of companies in unrelated industries.

(12) The terms “industry index” and “narrow-based index” mean an index designed to be representative of a particular industry or a group of related industries.

(13) The term "European option" means an option contract that can be exercised only on the day it expires.

(14) The term "expiration date" means, in the case of options on stock indexes, 11:59 P.M. Eastern Time, on the Saturday immediately following the third Friday of the expiration month, except quarterly expiring options shall expire at 11:59 P.M. Eastern Time, on the first business day of the month following the end of the quarter.

**Rule 1001A.**

**Position Limits**

(a) Except as otherwise indicated, the position limit for a broad-based (market) index option shall be 25,000 contracts on the same side of the market. All other broad-based (market) index options contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in this section (a), [Position limits for options on market indexes shall be as follows,] except certain positions must be aggregated in accordance with paragraph (d) or (e) below:

Remainder of (a) – No Change.
(b)(i) In determining compliance with Rule 1001, option contracts on a[n] narrow-based (industry) index shall, subject to the procedures specified in subparagraph (iii) of this rule, be subject to the following position limits:

Remainder of (b) – No Change.

(c) - (e) – No Change.

Commentary .01 - .02 – No Change.

* * *

**Rule 1009A.**

**Designation of the Index**

(a) – No change.

(b)(1) - (b)(7) – No Change.

(b)(8) [All] Each component security[ies] must be [are] "reported securities" as defined in Rule 11Aa3-1] an “NMS Stock” as defined in Rule 600 of Regulation NMS under the Exchange Act;

Remainder of (b) – No Change.

(c) – No change.

(d) Notwithstanding paragraph (a) above, the Exchange may trade options on a broad-based (market) index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Rule 1000A(b)(11);

(2) Options on the index are designated as A.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $ 75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $ 100 million;
(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Rule 1009 applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an “NMS Stock” as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange;

(12) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:
The conditions set forth in subparagraphs (d)(1), (2), (3), (9), (10), (11), (12), (13), (14) and (15) must continue to be satisfied. The conditions set forth in subparagraphs (d)(5), (6), (7) and (8) must be satisfied only as of the first day of January and July in each year;

The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

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 Phlx rules to adopt generic listing standards and position limits for broad-based index options. In particular, the Exchange proposes to: (i) adopt Phlx Rule 1009A(d), which contains generic initial listing standards for broad-based index options; (ii) adopt Phlx Rule 1009A(e), which contains generic maintenance standards for broad-based index options listed pursuant to proposed Phlx Rule 1009A(d); (iii) amend Phlx Rule 1001A to provide position limits for broad-based index options listed pursuant to proposed Phlx Rule 1009A(d); (iv) amend
Phlx Rule 1000A to clarify the definitions of broad-based (market) indexes as well as narrow-based (industry) indexes, and (v) make other conforming technical language changes.

The proposed rule change would enable the Exchange to list broad-based index options pursuant to Rule 19b-4(e) under the Act if each of the conditions set forth in Phlx Rule 1009A(d) are satisfied. The proposed rule change would further provide ongoing maintenance standards and position limits for broad-based index options listed pursuant to proposed Phlx Rules 1009A(d). Such options would, in all other respects, be traded pursuant to the Exchange's trading rules and procedures applicable to index options and be covered under the Exchange's surveillance program for index options.

The Exchange notes that it and other options exchanges currently have rules that contain "generic" listing standards pursuant to Rule 19b-4(e) and position limits for narrow-based index options. The Exchange also notes that CBOE currently has rules that contain generic listing standards and position limits for micro narrow-based index

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5 17 CFR 240.19b-4(e). Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by a self-regulatory organization ("SRO") shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to Section 19(b) of the Act, the SRO's trading rules, procedures and listing standards for the product class that include the new derivative securities product and the SRO has a surveillance program for the product class. When relying on Rule 19b-4(e), the SRO must submit Form 19b-4(e) to the Commission within five business days after the exchange begins trading the new derivative securities products. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998).

6 See Phlx Rules 1009A(b), 1009A(c) and 1001A(b); International Securities Exchange ("ISE") Rules 2002(b), 2002(c) and 2005; Chicago Board Options Exchange ("CBOE") Rules 24.2(b), 24.2(c) and 24.4A; American Stock Exchange Rules 901C Commentary .03 and 904C(c); and Pacific Exchange Rules 5.13 and 5.16.
options. The standards contained in these proposed generic listing standards and position limits for broad-based index options are based on the standards contained in the generic listing standards and position limits for narrow-based index options and micro narrow-based index options that were previously approved by the Commission, but have been adapted to reflect the characteristics of broad-based index options.  

*Generic Initial Listing Standards for Broad-Based Index Options*

In order to list broad-based index options pursuant to the generic Rule 19b-4(e) listing standards, the underlying index must satisfy all of the conditions contained in proposed Phlx Rule 1009A(d). If the underlying index does not satisfy all of the conditions, the Exchange would be required to file a proposed rule change with the Commission on Form 19b-4 pursuant to Section 19(b)(2) of the Act and obtain Commission approval in order to list options on that index. Following are the conditions contained in proposed Phlx Rule 1009A(d).

Under proposed Phlx Rule 1009A(d)(1), the index must be "broad-based," as defined in Phlx Rule 1000A(b)(11). Rule 1000A(b)(11) with amendments proposed herein defines the term "broad-based" as an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

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7 See CBOE Rules 24.2(d), 24.2(e) and 24.4B.

8 See, for example, current Phlx Rule 1009(A)(b) for the conditions that must be satisfied for the Exchange to list options on a narrow-based index pursuant to Commission Rule 19b-4(e).


10 The Exchange proposes to likewise define “industry index” and “narrow-based index” in Phlx Rule 1000A(b)(12) to mean an index designed to be representative of a particular industry or a group of related industries.
Under proposed Phlx Rule 1009A(d)(2), options on the index must be designated as A.M.-settled.

Under proposed Phlx Rule 1009A(d)(3), the index must be capitalization-weighted, price-weighted, modified capitalization-weighted, or equal dollar-weighted.

Under proposed Phlx Rule 1009A(d)(4), the index must consist of 50 or more component securities. The Exchange believes that a 50 component minimum is reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes that are sufficiently broad-based in scope and not readily subject to manipulation. The Exchange notes that there are currently a number of broad-based indexes that consist of fewer than 50 components, such as, the Dow Jones Industrial Average Index (30 components) and the Amex Major Market Index (20 components). The Exchange further notes that, while broad-based index options generally have more components than narrow-based index options, the generic listing standards for narrow-based index options are more liberal, requiring an index to consist of only 10 or more component securities.

Under proposed Phlx Rule 1009A(d)(5), component securities comprising at least 95 percent of the index, by weight, must have a minimum market capitalization of

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11 Proposed Phlx Rule 1009A(d)(2) is based on Phlx Rule 1009A(b)(1).
12 Proposed Phlx Rule 1009A(d)(3) is based on Phlx Rule 1009A(b)(2).
13 Proposed Phlx Rule 1009A(d)(4) is based on Phlx Rule 1009A(b)(2).
14 Proposed Phlx Rule 1009A(d)(5) is based on Phlx Rule 1009A(b)(3).
$75 million. In addition, component securities comprising at least 65 percent of the
index, by weight, must have a minimum market capitalization of $100 million.

Under proposed Phlx Rule 109A(d)(6), component securities that account for
at least eighty percent (80%) of the weight of the index must satisfy the requirements of
Phlx Rule 1009. That is, those securities must be "options eligible," meaning they must
have, for example, at least a 7 million share float, 2000 holders, total annual trading
volume of 2,400,000 shares, a minimum price of $3 per share if a “covered security” as
defined in section 18(b)(1)(A) of the Securities Act of 1933, and the issuer must be in
compliance with its obligations under the Act. The Exchange believes that an 80%
weighting is reasonable for broad-based indexes, and, when applied in conjunction with
the other listing requirements, will result in indexes that contain components that are
sufficiently liquid and not readily subject to manipulation. The Exchange notes that
broad-based indexes may consist of thousands of components (such as, for example, the
Russell 2000® and Russell 3000® indexes), and the components comprising the bottom
10% to 20% of the weight of the index generally are the smallest capitalized stocks and
tend not to meet the requirements of Phlx Rule 1009. The Exchange further notes that
the generic listing standards pursuant to Rule 19b-4(e) for narrow-based index options in
Phlx Rule 109A(b) are less liberal, requiring a 90% weighting.

Under proposed Phlx Rule 109A(d)(7), each component security that accounts
for at least one percent (1%) of the weight of the index must have an average daily
trading volume ("ADTV"), of at least 90,000 shares over the prior six month period. The

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15 Proposed Phlx Rule 109A(d)(6) is based on Phlx Rule 109A(b)(7).
16 Proposed Phlx Rule 109A(d)(7) is based on Phlx Rule 109A(b)(4).
Exchange believes that 90,000 ADTV is reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes in which the more-heavily weighted components are sufficiently liquid and not readily subject to manipulation.

Under proposed Phlx Rule 1009A(d)(8), no single component security may account for more than ten percent (10%) of the weight of an index, and the five highest weighted component securities in the index may not, in the aggregate, account for more than thirty-three percent (33%) of the weight of an index. The Exchange believes that the 10% and 33% weighting concentration caps are reasonable for broad-based indexes, and, when applied in conjunction with the other listing requirements, will result in indexes that are not unreasonably dominated by a few heavily-weighted components. The Exchange notes that the generic listing standards for narrow-based index options in Phlx Rule 1009A(b) are more liberal, establishing 30% and 50% weighting concentration caps.

Under proposed Phlx Rule 1009A(d)(9), all component securities must be “NMS Stocks” as defined in Rule 600 of Regulation NMS under the Exchange Act.

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17 Proposed Phlx Rule 1009A(d)(8) is based on Phlx Rule 1009A(b)(6).

18 There are a number of broad-based indexes with component weighting concentrations that approach or exceed the limits proposed by the Exchange. See, for example, as of February 17, 2006: FTSE/Xinhua China 25 Index - 25 components, top 5 components account for 39.82%; Morgan Stanley Multinational Company Index - 50 components, top 5 account for 33.09%; Dow Jones Industrial Average Index - 30 components, top 5 account for 26.75%; and Amex Major Market Index - 20 components, top 5 account for 37.29%.

19 Proposed Phlx Rule 1009A(d)(9) is based on Phlx Rule 1009A(b)(8).

20 17 CFR 242.600. Rule 600 of Regulation NMS defines an "NMS stock" to mean "any NMS security other than an option." An "NMS security" is "any security or class of securities for which transaction reports are collected, processed, and made available
Under proposed Phlx Rule 1009A(d)(10), no more than 20 percent (20%) of the securities in the index, by weight, may be comprised of foreign securities or American Depository Receipts ("ADRs") overlying foreign securities that are not subject to comprehensive surveillance sharing agreements.

Under proposed Phlx Rule 1009A(d)(11), the current index value must be widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange.

Under proposed Phlx Rule 1009A(d)(12), the Exchange must reasonably believe that it has adequate system capacity to support the trading of options on the index. That belief must be based on the performance of a calculation by the Exchange that takes into account the Exchange’s current Independent System Capacity Advisor ("ISCA")

due to an effective transaction reporting plan, or an effective national market system plan for reporting transactions in listed options." See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005)(S7-10-04). For purposes of consistency, the Exchange is also proposing to amend Phlx Rule 1009A(b)(8), which indicates conditions that an underlying index must satisfy for the Exchange to list narrow-based index options pursuant to the generic Rule 19b-4(e) listing standards, to reference “NMS stock” as defined in Rule 600 of Regulation NMS under the Exchange Act.

21 Proposed Phlx Rule 1009A(d)(10) is based on Phlx Rule 1009A(b)(9).

22 Proposed Phlx Rule 1009A(d)(11) is based on Phlx Rule 1009A(b)(10).

23 “Major market data vendor” for the purposes of Phlx Rule 1009A(d)(11) includes, but is not limited to, the Options Price Reporting Authority, the Consolidated Tape Association (administers the Consolidated Tape and Consolidated Quotation Plans), Nasdaq Index Dissemination Service, and securities information vendors such as Bloomberg and Reuters.

24 Proposed Phlx Rule 1009A(d)(12) is not based on a current Phlx rule, but generally reflects the practice with respect to the listing of index options under its current rules.
allocation and the number of new peak messages per second expected to be generated by options on such index.

Under proposed Phlx Rule 1009A(d)(13), an equal dollar-weighted index must be rebalanced at least once every calendar quarter.

Under proposed Phlx Rule 1009A(d)(14), if the index is maintained by a broker-dealer, it must be calculated by a third-party who is not a broker-dealer. Further, the broker-dealer must establish appropriate procedures to ensure that the broker-dealer will not possess or be able to misuse any informational advantages with respect to changes in, and adjustments to, an index. Such procedures must include, for example, the establishment of appropriate informational barriers.

Under proposed Phlx Rule 1009A(d)(15), the Exchange must have written surveillance procedures in place with respect to surveillance of trading of options on the index.

**Generic Maintenance Standards for Broad-Based Index Options Listed Pursuant to Proposed Phlx Rule 1009A(d)**

Following the listing of a broad-based index option pursuant to proposed Phlx Rule 1009A(d), the underlying index must continue to satisfy the maintenance standards contained in proposed Phlx Rule 1009A(e), which are based on Rule 1009A(d) criteria. If the underlying index fails to satisfy the maintenance standards, the Exchange may not open for trading any additional series of options on that class of index options unless the

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25 Proposed Phlx Rule 1009A(d)(13) is based on Phlx Rule 1009A(b)(11).

26 Proposed Phlx Rule 1009A(d)(14) is based on Phlx Rule 1009A(b)(12).

27 Proposed Phlx Rule 1009A(d)(15) is not based on a current Phlx rule, but generally reflects the practice with respect to the listing of index options under its current rules.
continued listing of that class of index options has been approved by the Commission pursuant to Section 19(b)(2) of the Act. Following are the maintenance standards contained in proposed Phlx Rule 1009A(e).

Under proposed Phlx Rule 1009A(e)(1), the requirements of proposed Phlx Rule 1009A(d)(1) through (3) and (9) through (15) must continue to be satisfied. In addition, the requirements of proposed Phlx Rule 1009A(d)(5) through (8) must be satisfied only as of the first day of January and July of each year. The Exchange believes that these maintenance standards are reasonable for broad-based indexes in as much as they strike an appropriate balance between the obligation to continually monitor and maintain critical attributes of the index, and the obligation to, at certain intervals, monitor and maintain non-critical attributes of the index, especially in light of the number of component securities that comprise broad-based indexes.

Under proposed Phlx Rule 1009A(e)(2), the number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. The Exchange believes that this maintenance standard is reasonable for broad-based indexes, and, when applied in conjunction with the other maintenance requirements, will result in indexes that remain sufficiently broad-based and not readily subject to manipulation. The Exchange notes that the generic maintenance standards for narrow-based index options in Phlx Rule 1009A(b) are more liberal, establishing a 33 1/3% increase or decrease maximum.

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28 Proposed Phlx Rule 1009A(e)(1) is based on Phlx Rule 1009A(c)(1).

29 Proposed Phlx Rule 1009A(e)(2) is based on Phlx Rule 1009A(c)(2).
Position Limits for Broad-Based Index Options Listed Pursuant to Proposed Phlx Rule 1009A(d)

Following the listing of a broad-based index option pursuant to proposed Phlx Rule 1009A(d), trading in the broad-based index option shall be subject to position limits established in Phlx Rule 1001A. If the Exchange sought to apply a different position limit, the Exchange would be required to file a proposed rule change with the Commission on Form 19b-4 pursuant to Section 19(b)(2) of the Act and obtain Commission approval in order to apply the different position limit. Under proposed Phlx Rule 1001A(a) the position limit for broad-based index options shall be 25,000 contracts on the same side of the market. The Exchange believes that these position limits are reasonable for broad-based indexes and will result in indexes that are not readily subject to manipulation.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act,\(^{30}\) in general, and furthers the objectives of Section 6(b)(5) of the Act,\(^{31}\) 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


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 effectiveness pursuant to Section 19(b)(2) of the Act\(^{32}\) so that, for competitive purposes, it has generic listing standards and position limits for broad-based index options that are similar to standards in use by other options exchanges.

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](http://www.sec.gov/rules/sro.shtml); or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-17 on the subject line.

Paper comments:

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2006-17. 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-2006-17 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. 33

Nancy M. Morris
Secretary

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 1000A.

Applicability and Definitions

(a) -- No Change.

(b)(1) - (10) -- No Change.

(11) The terms "market index" and “broad-based index”["industry index"] mean [respectively] an index designed to be representative of [general price movements in the stock market and an index designed to be representative of price movements in particular categories of stocks] a stock market as a whole or of a range of companies in unrelated industries.

(12) The terms “industry index” and “narrow-based index” mean an index designed to be representative of a particular industry or a group of related industries.

(1[2]3) The term "European option" means an option contract that can be exercised only on the day it expires.

(1[3]4) The term "expiration date" means, in the case of options on stock indexes, 11:59 P.M. Eastern Time, on the Saturday immediately following the third Friday of the expiration month, except quarterly expiring options shall expire at 11:59 P.M. Eastern Time, on the first business day of the month following the end of the quarter.

Rule 1001A.

Position Limits

(a) Except as otherwise indicated, the position limit for a broad-based (market) index option shall be 25,000 contracts on the same side of the market. All other broad-based (market) index options contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in this section (a). [Position limits for options on market indexes shall be as follows,] except certain positions must be aggregated in accordance with paragraph (d) or (e) below.

Remainder of (g[i] - (iii)) – No Change.
(iv) Respecting the Russell 200® Index, the Russell 200® Value Index, the Russell 200® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.

(v) Respecting the Russell 1000® Index, the Russell 1000® Value Index, the Russell 1000® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.

(vi) Respecting the Russell 2000® Index, the Russell 2000® Value Index, the Russell 2000® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.

(vii) Respecting the Russell 2500® Index, the Russell 2500® Value Index, the Russell 2500® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.

(viii) Respecting the Russell 3000® Index, the Russell 3000® Value Index, the Russell 3000® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.

(ix) Respecting the Russell SmallCap Completeness® Index, the Russell SmallCap Completeness® Value Index, the Russell SmallCap Completeness® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.

(x) Respecting the Russell MidCap® Index, the Russell MidCap® Value Index, the Russell MidCap® Growth Index (1) 50,000 contracts total for full-size options, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for mini size options, with 300,000 contracts total in the nearest expiration month.]

(b) In determining compliance with Rule 1001, option contracts on a[n] narrow-based (industry) index shall, subject to the procedures specified in subparagraph (iii) of this rule, be subject to the following position limits:

Remainder of (b) – No Change.

(c) - (d|e) – No Change.

[ (e) Aggregation -- Full value, reduced value, long term and quarterly expiring options based on the same index shall be aggregated.

(i) - (iii) – No Change.
(iv) For aggregation purposes, one full-size Russell index option contract is the equivalent of 10 mini size Russell index option contracts delineated in (a) of this rule.

Commentary .01 - .02 – No Change.

* * *

Rule 1009A. Designation of the Index

(a) – No change.

(b)(1) - (b)(7) – No Change.

(b)(8) [All] Each component security[ies] must be [are] [“reported securities” as defined in Rule 11Aa3-1]an “NMS Stock[s]” as defined in Rule 600 of Regulation NMS under the Exchange Act;

Remainder of (b) – No Change.

(c) – No change.

(d) Notwithstanding paragraph (a) above, the Exchange may trade options on a broad-based (market) index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Rule 1000(b)(11);

(2) Options on the index are designated as A.M.-settled index options;

(3) The index is capitalization-weighted, price-weighted, modified capitalization-weighted or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least $75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least $100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Rule 1009 applicable to individual underlying securities;
(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be "reported securities" as defined in Rule 11Aa3-1 and "NMS Stocks" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by one or more major market data vendors during the time options on the index are traded on the Exchange;

(12) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current Independent System Capacity Advisor (ISCA) allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The conditions set forth in subparagraphs (d)(1), (2), (3), (9), (10), (11), (12), (13), (14) and (15) must continue to be satisfied. The
conditions set forth in subparagraphs (d)(5), (6), (7) and (8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the [SEC]Commission under Section 19(b)(2) of the Exchange Act.