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

[ ] 19b-4(f)(1) [ ] 19b-4(f)(4)
[ ] 19b-4(f)(2) [ ] 19b-4(f)(5)
[ ] 19b-4(f)(3) [ ] 19b-4(f)(6)

Exhibit 2 Sent As Paper Document Exhibit 3 Sent As Paper Document

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 Carla Last Name Behnfeldt
Title Director
E-mail Carla.behnfeldt@phlx.com
Telephone (215) 496-5208 Fax (215) 496-6729

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

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

Date 12/15/2006
By Cynthia Hoekstra Vice President

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.
<table>
<thead>
<tr>
<th>Exhibit 1 - Notice of Proposed Rule Change</th>
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<tr>
<td>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).</td>
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<th>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</th>
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<tr>
<td>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.</td>
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<th>Exhibit 3 - Form, Report, or Questionnaire</th>
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<td>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.</td>
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<th>Exhibit 4 - Marked Copies</th>
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<td>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.</td>
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<th>Exhibit 5 - Proposed Rule Text</th>
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<td>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.</td>
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<th>Partial Amendment</th>
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<td>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.</td>
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PARTIAL AMENDMENT

SR-Phlx-2006-34
Amendment No. 3

The Philadelphia Stock Exchange, Inc. (the “Phlx” or the “Exchange”) hereby amends the above captioned filing, as previously amended by Amendments No. 1 and No. 2, as follows:

1. The words “on-floor” are proposed to be deleted from the term “on-floor Governor” in Rule 1014(g), as proposed to be amended, as the “on-floor Governor” category has previously been eliminated from the Exchange’s by-laws. The words to be deleted are bracketed and in bold type below:

Rule 1014.
Obligations and Restrictions Applicable to Specialists and Registered Options Traders

* * * * *

(g) Equity Option, [and] Index Option and U.S. dollar-settled Foreign Currency Option
Priority and Parity

(i) (A) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, [and] index option and U.S. dollar-settled foreign currency option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (2) below.

For the purpose of paragraph (g) of this Rule, "Initiating Order" means an incoming contra-side order.

(1) – (2) No Change.

(B) No Change.

(ii) Enhanced Specialist Participation --In equity option, [and] index option and U.S. dollar-settled foreign currency options classes, when the registered specialist is on parity with a controlled account as defined in subparagraph (i) above, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the specialist is entitled to receive 60% of the Remainder of the Order; or (2) where there are two
controlled accounts on parity, in which case, the specialist is entitled to receive 40% of the Remainder of the Order. Enhanced Specialist Participation will be effective for: (a) all newly listed issues, (b) all index options and U.S. dollar-settled foreign currency options and (c) such issues selected by the specialist and approved by the Allocation, Evaluation and Securities Committee pursuant to section (A) below.

(A) – (C) No Change.

(iii) New Unit/New Option Enhanced Specialist Participation --To encourage the establishment of new specialist units to trade equity option[and] index option and U.S. dollar-settled foreign currency option classes that heretofore have never been listed on the Exchange ("New Options Classes"), when such units are on parity with controlled accounts in such classes, the new specialist units will be entitled, for a period of six months following commencement of trading in New Option Classes, to the following Enhanced Specialist Participation in any such parity trade: (1) Fifty percent (50%) where there is one controlled account on parity and (2) Forty percent (40%) where there are two or more controlled accounts on parity. The Allocation, Evaluation and Securities Committee may extend such Enhanced Specialist Participation for each applicable option beyond the initial six month period for one additional six month period upon petition by the specialist unit and a determination by the Committee that such extension is consistent with the promotion of just and equitable principles of trade and the public interest. Additionally, the Committee after granting such extension may at any time terminate such Enhanced Specialist Participation for any particular options class if the Committee determines that such action is consistent with the promotion of just and equitable principles of trade and the public interest.

(A) – (D) No Change.

(iv) – (vi) No Change.

(vii) No Change.

(A) – (B) No Change.

(1) (a) No Change.

(b) Respecting orders for greater than 5 contracts (regardless of whether the specialist is quoting at the Exchange's disseminated price), or orders for 5 contracts or fewer when the specialist is not quoting at the Exchange's disseminated price, inbound electronic orders shall be allocated pursuant to the following allocation algorithm:

\[
\text{Equal percentage based on the number of Phlx XL Participants quoting or with limit orders at BBO} + \text{ Pro rata percentage based on size of Phlx XL participant}
\]
(Component A) \( \text{quotes/limit orders} \)

\[ \frac{(Component B) \ x \ \text{Incoming Order Size}}{2} \]

**Where:**

**Component A:** The percentage to be used for Component A shall be an equal percentage, derived by dividing 100 by the number of Phlx XL participants quoting at the BBO.

**Component B:** Size Pro Rata Allocation. The percentage to be used for Component B of the allocation algorithm formula is that percentage that the size of each Phlx XL Participant's quote at the best price represents relative to the total number of contracts in the disseminated quote.

**Final Weighting:** The final weighting formula for equity options, which shall be determined by a three-member special committee of the Board of Governors, chaired by the Chairman of the Board, and including the Chairman of the Options Committee and one [on-floor] Governor (the "Special Committee"), and apply uniformly across all equity options, shall be a weighted average of the percentages derived for Components A and B multiplied by the size of the incoming order. Initially, the weighting of components A and B shall be equal, represented mathematically by the formula: \((\text{Component A Percentage} + \text{Component B Percentage})/2) \times \text{incoming order size}\).

The final weighting formula for index options and options on Exchange Traded Fund Shares (as defined in Rule 1000(b)(42.) shall be established by the Special Committee. The final weighting formula for options on U.S. dollar-settled foreign currency options shall be established by a three-member special committee of the Board of Governors, chaired by the Chairman of the Board, and including the Chairman of the Foreign Currency Options Committee and one [on-floor] Governor. The final weighting formula may vary by product. Changes made to the percentage weightings of Components A and B shall be announced to the membership via Regulatory Circular at least one day before implementation of the change.

(c) – (e) No Change.

(2) – (3) No Change.

(viii) No Change.

(A) No Change.

(B) Thereafter, contracts remaining in the Directed Order, if any, shall be allocated automatically as follows:
(1) No Change.

(a) – (c) No Change.

(d) Thereafter, SQTs and RSQTs quoting at the disseminated price, and non-SQT ROTs that have placed limit orders on the limit order book via electronic interface at the Exchange's disseminated price shall be allocated contracts according to the following formula:

\[
\text{Equal percentage based on the Number of SQTs, RSQTs and Non-SQT ROTs quoting or with limit orders at BBO (Component A)} + \text{Pro rata percentage based on size of SQT, RSQT and Non-SQT quotes and limit orders (Component B)} \times \text{Remaining Order Size}
\]

Where:

Component A: The percentage to be used for Component A shall be an equal percentage, derived by dividing 100 by the number of SQTs, RSQTs and non-SQTs quoting or with limit orders at the BBO.

Component B: Size Pro Rata Allocation. The percentage to be used for Component B of the allocation algorithm formula is that percentage that the size of each SQT, RSQT or non-SQT ROT’s quote or limit order at the best price represents relative to the total number of contracts in the disseminated quote.

Final Weighting: The final weighting formula shall be determined by a three-member special committee of the Board of Governors, chaired by the Chairman of the Board, and including the Chairman of the Options Committee (in the case of equity options and index options) or the Chairman of the Foreign Currency Options Committee (in the case of foreign currency options) and one [on-floor] Governor (the "Special Committee"), and shall be a weighted average of the percentages derived for Components A and B multiplied by the size of the incoming order.

(2) (a) – (b) No Change.

(c) Thereafter, the specialist, SQTs and RSQTs (excluding the Directed SQT or RSQT) quoting at the disseminated price, and non-SQT ROTs that have placed limit orders on the limit order book via electronic interface at the Exchange's disseminated price, shall be allocated a number of contracts according to the following formula:

\[
\text{Equal percentage based on the Number of SQTs, RSQTs, specialist and remaining ROTs quoting at BBO (Component A)} + \text{Pro rata percentage based on size of SQT, RSQT, x Remaining Order Size}
\]
Non-SQT ROTs quoting or specialist and with limit orders at BBO Non-SQT quotes and limit orders (Component A) (Component B)

Where:

Component A: The percentage to be used for Component A shall be an equal percentage, derived by dividing 100 by the number of SQTs, RSQTs (other than the Directed SQT or RSQT) specialist and non-SQTs quoting or with limit orders at the BBO.

Component B: Size Pro Rata Allocation. The percentage to be used for Component B of the allocation algorithm formula is that percentage that the size of each SQT, RSQT RSQTs (other than the Directed SQT or RSQT), specialist or non-SQT ROT's quote or limit order at the best price represents relative to the total number of contracts in the disseminated quote.

Final Weighting: The final weighting formula shall be determined by a three-member special committee of the Board of Governors, chaired by the Chairman of the Board, and including the Chairman of the Options Committee (in the case of equity options and index options) or the Chairman of the Foreign Currency Options Committee (in the case of foreign currency options) and one [on-floor] Governor (the "Special Committee"), and shall be a weighted average of the percentages derived for Components A and B multiplied by the size of the incoming order.

(3) If any contracts remain to be allocated after the specialist, SQTs, RSQTs and non-SQT ROTs with limit orders on the limit order book have received their respective allocations, off-floor broker-dealers (as defined in Rule 1080(b)(i)(C)) that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the aggregate size associated with off-floor broker-dealer limit orders on the limit order book at the disseminated price represented by the size of the limit order they have placed on the limit order book.

(C) – (D) No Change.

* * * * *

2. Rule 1034(a), as proposed to be amended, is further amended as set forth below. New language is underlined and in bold type.

**Rule 1034. Minimum Increments**

(a) All options on stocks, index options, and Exchange Traded Options quoting in decimals at $3.00 or higher shall have a minimum increment of $.10, and all options on
stocks and index options quoting in decimals under $3.00 shall have a minimum increment of $.05. All U.S. dollar-settled FCO quoting at $0.0300 (expressed as $3.00) or higher shall have a minimum trading increment of $.0010 per unit of the foreign currency, expressed as .10 per unit of the foreign currency, which equals a $10.00 minimum increment per contract consisting of 10,000 Euros or 10,000 British pounds. The minimum increment for U.S. dollar-settled FCO quoting under $0.0300 (expressed as $3.00) shall be $.0005 per unit of the foreign currency, expressed as .05 per unit of the foreign currency, which equals a $5.00 minimum increment per contract consisting of 10,000 Euros or 10,000 British pounds.

* * * * *

3. Footnote 23 of the proposing release is amended to read as follows. (1) to reflect that the minimum increment when the bid equals or exceeds $0.0300 (expressed as $3.00) is $.0010 (expressed as 10 cents), not $.0005 (expressed as 5 cents), as the example erroneously implied as originally drafted, (2) to reduce the size of the bid in the example from an unrealistic $1.00 (expressed as $100.00) range to a more realistic $0.0300 (expressed as $3.00) range while continuing to illustrate the same underlying concepts, (3) to note that the maximum quote spread parameters do vary depending on the size of the prevailing bid and whether the bid/offer is made on PHLX XL as opposed to open outcry. New language is set forth in bold type and deleted language is struck through.

23 To facilitate trading on Phlx XL, strike prices would be expressed without reference to the first two decimal places. Minimum quoting increments and maximum quote spreads would also reflect this convention (see below for a fuller discussion of minimum increments and maximum quote spreads). For example, assuming that the actual spot value of the Euro is $1.00, a strike could be listed at $1.0050 and would be expressed as $100.50. Similarly, the minimum quoting increment would be $.0005 (expressed as $.05), if the bid is less than $.0300 (expressed as $3.00) or $.0010, expressed as $.10, if the bid equals or exceeds $.0300 (expressed as $3.00). Bids could be made at $1.0045, $.0330 (expressed as $100.45 $3.30), $.0340 (expressed as $100.40 $3.40), and so forth. Offers could be made at $1.0055, $.0350 (expressed as $100.55 $3.50), at $1.0060, $.0360 (expressed as $100.60 $3.60), and so forth. Maximum quote spread parameters for bids and offers made in open outcry would be range from $.0025 (expressed as $.25), to $.0100 (expressed as $1.00), depending upon the size of the prevailing bid. Thus, a market maker could bid $1.0030, $.0330 (expressed as $100.30 $3.30, and offer at $1.0055, $.0370 (expressed as $100.55 $3.70). Following open rotation, however, quotes may be made electronically with a difference not to exceed $.0500 (expressed as $5.00) between the bid and the offer regardless of the price of the bid. Prior to commencement of trading of U.S. dollar-settled options on the Currencies as proposed herein, the Exchange intends to issue an informational memorandum to members and member organizations which explains this strike price and quoting convention.
4. The Phlx represents that it will integrate U.S. dollar-settled foreign currency options into existing Phlx market surveillance programs for equity and index options as well as for physical delivery foreign currency options and it intends to apply those same program procedures to the new U.S. dollar-settled foreign currency options. The Exchange represents that these surveillance programs for U.S. dollar settled FCOs will be adequate to monitor exchange trading of U.S. dollar settled FCOs and detect violation of Exchange rules, thereby deterring manipulation.