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)

☑ 19b-4(f)(6) ☐ 19b-4(f)(5)

Pilot Extension of Time Period for Commission Action

☑ Date Expires

Rule

☒ 19b-4(f)(1) ☐ 19b-4(f)(4)

☒ 19b-4(f)(2) ☐ 19b-4(f)(5)

☒ 19b-4(f)(3) ☐ 19b-4(f)(6)

Description

Provide a brief description of the proposed rule change (limit 250 characters).

Extend current Linkage Pilot Program

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 Cynthia

Last Name Hoekstra

Title Director

E-mail cynthia.hoekstra@phlx.com

Telephone (215) 496-5066 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 07/17/2006

By Cynthia Hoekstra Director

(Note)

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.

Cynthia Hoekstra,
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Form 19b-4 Information</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Exhibit 1 - Notice of Proposed Rule Change</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 3 - Form, Report, or Questionnaire</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 4 - Marked Copies</strong></td>
<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>
</tr>
<tr>
<td><strong>Exhibit 5 - Proposed Rule Text</strong></td>
<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>
</tr>
<tr>
<td><strong>Partial Amendment</strong></td>
<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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</table>
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 extend, for a one-year period, a pilot relating to transaction fees applicable to the execution of Principal Acting as Agent Orders ("P/A Orders")³ and Principal Orders ("P Orders")⁴ sent to the Exchange via the Intermarket Option Linkage ("Linkage") under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (the “Plan”).⁵ The Exchange proposes to extend the pilot through July 31, 2007.

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the amended applicable section of the Exchange’s Summary of Equity Option Charges is attached hereto as Exhibit 5.

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 July 13, 2006.

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³ A P/A Order is an order for the principal account of a specialist reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent.
⁴ A P Order is an order for the principal account of an Eligible Market Maker and is not a P/A Order. See Exchange Rule 1083(k)(ii).
Questions and comments on the proposed rule change may be directed to Cynthia Hoekstra, Director, at (215) 496-5066 or Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.

3. **Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

   a. **Purpose**

   The purpose of the proposed rule change is to extend the current pilot program for one year, through July 31, 2007.

   The Exchange currently charges $0.25 per option contract for Inbound Linkage P Orders sent to the Exchange via “Linkage” under the Plan. The Exchange currently charges $0.15 per option contract for Inbound Linkage P/A Orders.

   By extending the current pilot program, the Exchange should remain competitive with other exchanges that charge fees for P and P/A Orders. Consistent with current practice, the Exchange will charge the clearing member organization of the sender of Inbound Linkage P and P/A Orders. Also, consistent with current practice, the Exchange will not charge for the execution of Satisfaction Orders sent through Linkage.

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b. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) in particular, in that it is an equitable allocation of reasonable fees among Exchange members.

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

The Phlx does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

5. **Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

No written comments were either solicited or received.

6. **Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period for Commission action.

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 in order to extend the pilot, which is scheduled to expire July 31, 2006, so that it will apply to transactions settling on or after August 1, 2006, thereby ensuring the continuity of the Linkage program.

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\(^7\) 15 U.S.C. 78f(b).

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

The proposed rule change is 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.

5. Applicable section of the Exchange’s Summary of Equity Option Charges.

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to the Extension of a Pilot Program Relating to Transaction Charges Applicable to Linkage “P” and “P/A” Orders

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 extend, for a one-year period, a pilot relating to transaction fees applicable to the execution of Principal Acting as Agent Orders ("P/A Orders")\(^5\) and Principal Orders

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\(^5\) A P/A Order is an order for the principal account of a specialist reflecting the terms of a related unexecuted Public Customer order for which the specialist is acting as agent.
(“P Orders”)\(^6\) sent to the Exchange via the Intermarket Option Linkage (“Linkage”) under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (the “Plan”).\(^7\) The Exchange proposes to extend the pilot through July 31, 2007.


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 the proposed rule change is to extend the current pilot program for one year, through July 31, 2007.

The Exchange currently charges $0.25 per option contract for Inbound Linkage P Orders sent to the Exchange via “Linkage” under the Plan. The Exchange currently charges $0.15 per option contract for Inbound Linkage P/A Orders.

\(^6\) A P Order is an order for the principal account of an Eligible Market Maker and is not a P/A Order. See Exchange Rule 1083(k)(ii).

By extending the current pilot program, the Exchange should remain competitive with other exchanges that charge fees for P and P/A Orders. Consistent with current practice, the Exchange will charge the clearing member organization of the sender of Inbound Linkage P and P/A Orders. Also, consistent with current practice, the Exchange will not charge for the execution of Satisfaction Orders sent through Linkage.

2. **Statutory Basis**

The Exchange believes that its proposal is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(5) of the Act in particular, in that it is an equitable allocation of reasonable fees among Exchange members.

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

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the Act in order to extend the pilot, which is scheduled to expire July 31, 2006, so that it will apply to transactions settling on or after August 1, 2006, thereby ensuring the continuity of the Linkage program.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission’s Internet comment form
  (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-44 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-2006-44. 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-2006-44 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}

Nancy M. Morris
Secretary

\textsuperscript{11} 17 CFR 200.30-3(a)(12).
Exhibit 5

**SUMMARY OF EQUITY OPTION CHARGES (p. 2/6)**

**OPTION TRANSACTION CHARGE**

- **Linkage “P” Orders**
  - $0.25 per contract

- **Linkage “P/A” Orders**
  - $0.15 per contract

**OPTION FLOOR BROKERAGE ASSESSMENT**

<table>
<thead>
<tr>
<th>Monthly Net Floor Brokerage Income</th>
<th>Assessment</th>
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<tbody>
<tr>
<td>$0 to $300,000</td>
<td>5.5%</td>
</tr>
<tr>
<td>$300,001 - $500,000</td>
<td>6.5% (excess &gt; $300,000)</td>
</tr>
<tr>
<td>$500,001 and Over</td>
<td>7.5% (excess &gt; $500,000)</td>
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</tbody>
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Monthly Cap: $100,000

**CANCELLATION FEE**

$1.10 per order for each cancelled AUTOM-delivered order in excess of the number of orders executed on the Exchange by a member organization in a given month. The cancellation fee is not assessed in a month in which fewer than 500 AUTOM-delivered orders are cancelled.

**SPECIALIST DEFICIT (Shortfall) FEE**

$0.35 per contract for specialists trading any top 120 equity option if 12% of the total national monthly contract volume (“volume threshold”) for such top 120 equity option is not effected on the PHLX. The fee shall be limited to the following caps imposed per month per option, subject to the Transition Period described below:

- If Phlx volume in any top 120 equity option, except options on Nasdaq-100 Index Tracking StockSM (traded under the symbol QQQQ), is less than or equal to 50 percent of the current volume threshold (presently 6 percent), a cap of $10,000 will apply,
- If Phlx volume in any top 120 equity option, except options on QQQQ, is greater than 50 percent of the current volume threshold (presently 6 percent) and less than the volume threshold, a cap of $5,000 will apply,
- If Phlx volume in options on QQQQ, is less than or equal to 50 percent of the current volume threshold (presently 6 percent) and less than the volume threshold, a cap of $20,000 will apply,
- If Phlx volume in options on QQQQ, is greater than 50 percent of the current volume threshold (presently 6 percent) and less than the volume threshold, a cap of $10,000 will apply.

When a specialist unit's trading volume in any top 120 equity option, effected on the Exchange in one month, exceeds 15% of the total national contract volume for such top 120 equity option in that same month, a shortfall credit of $0.35 per contract will be applied to such specialist unit's invoice, the dollar amount of which shall (i) directly correspond to the number of contracts of such top 120 equity option in excess of 15% of the total national contract volume for such top 120 equity option, and (ii) offset any shortfall fee charged to such specialist unit with respect to any other top 120 equity option traded in that same month; provided that such shortfall credit shall not (a) exceed the total amount of any shortfall fee charged to such specialist unit with respect to any other top 120 equity option traded in that same month, and (b) be applied against any other Exchange charges on the invoice(s) of such specialist unit or subsidiary of such specialist unit. Any excess shortfall credit will not be carried over to subsequent months.

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13 Fees for Linkage “P” and “P/A” Orders are subject to a pilot program scheduled to expire July 31, 2006.
14 The Nasdaq-100®, Nasdaq-100 Index®, Nasdaq®, The Nasdaq Stock Market®, Nasdaq-100 SharesSM, Nasdaq-100 TrustSM, Nasdaq-100 Index Tracking StockSM, and QQQSM are trademarks or service marks of The Nasdaq Stock Market, Inc. (Nasdaq) and have been licensed for use for certain purposes by the Philadelphia Stock Exchange pursuant to a License Agreement with Nasdaq. The Nasdaq-100 Index® (the Index) is determined, composed, and calculated by Nasdaq without regard to the Licensee, the Nasdaq-100 TrustSM, or the beneficial owners of Nasdaq-100 SharesSM. Nasdaq has complete control and sole discretion in determining, comprising, or calculating the Index or in modifying in any way its method for determining, comprising, or calculating the Index in the future.