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

19b-4(f)(1) 19b-4(f)(4)

19b-4(f)(2) 19b-4(f)(5)

19b-4(f)(3) 19b-4(f)(6)

Extension of the Specialist Option Transaction Charge Credit Pilot Program

Cynthia Hoekstra, 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.
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 extend for a one-year period, until July 31, 2007, the Exchange’s current pilot program that provides for an option transaction charge credit of $0.21 per contract for Exchange options specialist units\(^3\) that incur Phlx option transaction charges when a customer order is delivered to the limit order book via the Exchange’s Options Floor Broker Management System ("FBMS")\(^4\) and is then sent to an away market and executed via the Intermarket Option Linkage ("Linkage") under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Plan")\(^5\) as a Principal Acting as Agent Order. ("P/A Order")\(^6\)

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\(^3\) The Exchange uses the terms “specialist” and “specialist unit” interchangeably in this proposed rule change.

\(^4\) The FBMS is a component of the Exchange’s Automated Options Market (AUTOM) System designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Phlx Rule 1080, Commentary .06.


\(^6\) A P/A order is an order for the principal account of a specialist (or equivalent entity on another participant exchange that is authorized to represent public customer orders),
The pilot program in effect is currently scheduled to expire on July 31, 2006.\(^7\) A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and a copy of the 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.

Questions and comments on the proposed rule change may be directed to Cynthia Hoekstra, Director, at (215) 496-5066 or Edith Hallahan, Deputy General Counsel, at (215) 496-5179.

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

a. Purpose

Currently, the Exchange provides an option transaction charge credit of $0.21 per contract for Exchange options specialist units that incur Phlx option transaction charges when a customer order is delivered to the limit order book via FBMS and is then sent to an away market and executed via Linkage under the Plan as a P/A Order.

The purpose of this proposal is to continue to alleviate the potential economic burden of multiple transaction charges imposed on Exchange specialist units by reflecting the terms of a related unexecuted public customer order for which the specialist is acting as agent. See Phlx Rule 1083(k)(i).

establishing a credit for Exchange option transaction charges incurred by an Exchange specialist unit when a customer limit order placed on the limit order book by a Floor Broker results in an execution of a P/A Order that is sent to another exchange via Linkage. The Exchange believes that continuing to give an options transaction charge credit of $0.21 per contract should encourage the use of Linkage and should allow the Exchange to remain competitive with other exchanges with respect to the assessment of Linkage-related fees. 9

This proposal is to remain in effect as a pilot program until July 31, 2007. 10

b. Statutory Basis

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act in general, and furthers the objectives of Section 6(b)(4) of the Act. 11

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8 A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the FBMS. See Exchange Rule 1063, Commentary .01. See also, Phlx Rule 1080, Commentary .02(b).


the Act\textsuperscript{12} in particular, in that it is an equitable allocation of reasonable fees and other charges 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 foregoing proposed rule change establishes or changes a due, fee, or other charge applicable only to a member pursuant to Section 19(b)(3)(A)(ii) of the Act\textsuperscript{13} and Rule 19b-4(f)(2)\textsuperscript{14} thereunder. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.


\textsuperscript{14} 17 CFR 240.19b-4(f)(2).
8. **Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

   The proposed rule change is based on a similar fee credit (rebate) that is currently in effect on the NYSE Arca, Inc. (formerly the Pacific Exchange, Inc.) and the Chicago Board Options exchange Incorporated.\(^{15}\)

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.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4 thereunder,² notice is hereby given that on ______________________ 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 Act³ and Rule 19b-4 thereunder,⁴ proposes to extend for a one-year period, until July 31, 2007, the Exchange’s current pilot program that provides for an option transaction charge credit of $0.21 per contract for Exchange options specialist units⁵ that incur Phlx option transaction charges when a

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⁵ The Exchange uses the terms “specialist” and “specialist unit” interchangeably in this proposed rule change.
customer order is delivered to the limit order book via the Exchange’s Options Floor Broker Management System (“FBMS”) \(^6\) and is then sent to an away market and executed via the Intermarket Option Linkage (“Linkage”) under the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (“Plan”) \(^7\) as a Principal Acting as Agent Order. ("P/A Order") \(^8\)

The pilot program in effect is currently scheduled to expire on July 31, 2006.\(^9\)


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

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\(^6\) The FBMS is a component of the Exchange’s Automated Options Market (AUTOM) System designed to enable Floor Brokers and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders represented and executed by Floor Brokers on the Exchange, such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. See Phlx Rule 1080, Commentary .06.


\(^8\) A P/A order is an order for the principal account of a specialist (or equivalent entity on another participant exchange that is authorized to represent public customer orders), reflecting the terms of a related unexecuted public customer order for which the specialist is acting as agent. See Phlx Rule 1083(k)(i).

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

   Currently, the Exchange provides an option transaction charge credit of $0.21 per
contract for Exchange options specialist units that incur Phlx option transaction charges
when a customer order is delivered to the limit order book via FBMS and is then sent to
an away market and executed via Linkage under the Plan as a P/A Order.

   The purpose of this proposal is to continue to alleviate the potential economic
burden of multiple transaction charges imposed on Exchange specialist units by
establishing a credit for Exchange option transaction charges incurred by an Exchange
specialist unit when a customer limit order placed on the limit order book by a Floor
Broker\textsuperscript{10} results in an execution of a P/A Order that is sent to another exchange via
Linkage. The Exchange believes that continuing to give an options transaction charge
credit of $0.21 per contract should encourage the use of Linkage and should allow the
Exchange to remain competitive with other exchanges with respect to the assessment of
Linkage-related fees.\textsuperscript{11} 

\textsuperscript{10} A Floor Broker who wishes to place a limit order on the limit order book must submit
such a limit order electronically through the FBMS. See Exchange Rule 1063,
Commentary .01. See also, Phlx Rule 1080, Commentary .02(b).

\textsuperscript{11} See Securities Exchange Act Release Nos. 53372 (February 24, 2006), 71 FR 11003
(March 3, 2006) (SR-CBOE-2006-10) (rebate of certain transaction fees to Designated
Primary Market Makers related to the execution of outbound P/A orders); and 53526
This proposal is to remain in effect as a pilot program until July 31, 2007.\footnote{12}

2. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\footnote{13} in general, and furthers the objectives of Section 6(b)(4) of the Act\footnote{14} in particular, in that it is an equitable allocation of reasonable fees and other charges 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**


\footnote{13} 15 U.S.C. 78f(b).

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act\textsuperscript{15} and paragraph (f)(2) of Rule 19b-4\textsuperscript{16} thereunder. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

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

Electronic comments:

- Use the Commission’s Internet comment form [http://www.sec.gov/rules/sro.shtml]; or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-46 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-2006-46. 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-2006-46 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{17}

Nancy M. Morris
Secretary

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

New Text Underlined; Deleted Text Bracketed

SUMMARY OF EQUITY OPTION CHARGES (p. 1/6)

OPTION COMPARISON CHARGE (applicable to all trades – except specialist trades)

- Registered Option Trader: $.03 per contract
- Firm / Proprietary +: $.04 per contract
- Customer Executions, Broker-Dealer Orders: No charge

OPTION TRANSACTION CHARGE

- Customer Executions: No charge
- Firm / Proprietary +: $.20 per contract
- Firm / Proprietary Facilitation +: $.10 per contract
- Registered Option Trader (on-floor) *: $.19 per contract
- Specialist *: $.21 per contract
- Broker/Dealer (AUTOM-delivered): $.45 per contract
- Broker/Dealer (non-AUTOM-delivered):
  - Up to 2,000 contracts: $.35 per contract
  - Between 2,001 and 3,000 contracts: $.25 per contract (for all contracts)
  - Residual above 3,000 contracts: $.20 per contract above 3,000 contracts (with the first 3,000 contracts charged $.25 per contract)

+ Subject to a maximum fee of $60,000, except for certain license fees which are assessed per contract side – see $60,000 “Firm Related” Equity Option and Index Option Cap.
* ROTs are eligible for a $.08/contract side rebate and specialists are eligible for a $.07/contract side rebate for trades occurring as part of a dividend, merger or short stock interest strategy. The net transaction and comparison charges after the rebate is applied will be capped at $1,000 for short stock interest strategies and at $1,750 for merger strategies executed on the same trading day in the same options class. The net transaction and comparison charges after the rebate is applied will be capped at $1,750 for dividend strategies on the same day in the same options class, except for a security with a declared dividend or distribution less than $0.25. In that instance, the net transaction and comparison charges after the rebate will be capped at $1,000 for dividend strategies on the same day in the same options class. A $0.05 per contract side license fee is imposed for dividend and short stock interest strategies in connection with certain products that carry license fees. For a complete list of these product symbols, see the $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule. The license fee is assessed on every transaction and is not subject to the $1,750 or $1,000 cap, nor does it count towards reaching the caps. The $1,000 and $1,750 caps and the $0.05 per contract side license fee are subject to a maximum fee of $60,000, except for certain license fees which are assessed per contract side – see $60,000 “Firm Related” Equity Option and Index Option Cap.
ϑ A fee credit of $0.21 per contract applies to specialists that incur option transaction charges when a customer order is delivered to the limit order book via the Exchange’s Options Floor Broker Management System and is then sent and executed via the Intermarket Options Linkage as a P/A Order. The fee credit is scheduled to expire on July 31, 2006.

For the purpose of this Summary of Equity Option Charges, the Firm / Proprietary comparison or transaction charge applies to member organizations for orders for the proprietary account of any member or non-member broker-dealer that derives more than 35% of its annual, gross revenues from commissions and principal transactions with customer. Member organizations will be required to verify this amount to the Exchange by certifying that they have reached this threshold and by submitting a copy of their annual report, which was prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). In the event that a firm has not been in business for one year, the most recent quarterly reports, prepared in accordance with GAAP, will be accepted.

See footnote 9

For the purpose of this Summary of Equity Option Charges, this charge applies to members for transactions, received from other than the floor of the Exchange, for any account (i) in which the holder of beneficial interest is a member or non-member broker-dealer or (ii) in which the holder of beneficial interest is a person associated with or employed by a member or non-member broker-dealer. This includes transactions for the account of an ROT entered from off-floor.

See footnote 11.