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
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).

The Exchange proposes exchange to exchange under the NMS Linkage Plan.

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 John Last Name Dayton
Title Director and Counsel
E-mail john.dayton@phlx.com
Telephone (215) 496-5162 Fax

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 09/18/2006
By John Dayton

Director and Counsel

(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.

John DAyton, john.dayton@phlx.com
### Form 19b-4 Information

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.

### Exhibit 1 - Notice of Proposed Rule Change

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).

### Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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.

### Exhibit 3 - Form, Report, or Questionnaire

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.

### Exhibit 4 - Marked Copies

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.

### Exhibit 5 - Proposed Rule Text

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.

### Partial Amendment

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 enter into arrangements with other Participants in the proposed “Plan for the Purpose of Creating and Operating an Intermarket Communications Linkage” to directly bill, and to accept direct billing from, any such Participants that are unable to implement Sponsoring Member billing, as described herein, on October 1, 2006. This proposal does not require changes to the Exchange’s rule text.

   A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1.

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 August 30, 2006.

   Questions and comments on the proposed rule change may be directed to John Dayton, Director and Counsel, at (215) 496-5162 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**

   On July 17, 2006, the American Stock Exchange LLC, the Boston Stock Exchange, Inc., the Chicago Board Options Exchange, Inc., the Chicago Stock Exchange, Inc., the Chicago Board of Trade, Inc., the Chicago Board of Trade of Chicago, Inc., the Chicago Mercantile Exchange Group, Inc., the Chicago Stock Exchange, Inc., and the Cincinnati Stock Exchange, Inc., pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\) and Rule 19b-4 thereunder,\(^2\) propose to enter into arrangements with other Participants in the proposed “Plan for the Purpose of Creating and Operating an Intermarket Communications Linkage” to directly bill, and to accept direct billing from, any such Participants that are unable to implement Sponsoring Member billing, as described herein, on October 1, 2006. This proposal does not require changes to the Exchange’s rule text.

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Inc., the Nasdaq Stock Market LLC, the National Stock Exchange, the New York Stock Exchange LLC, and the NYSE Arca, Inc., executed and filed with the Commission a “Plan for the Purpose of Creating and Operating an Intermarket Communications Linkage Pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934” (“Act”). Phlx subsequently executed the Linkage Plan on August 1, 2006. This “Linkage Plan” or “Plan” was filed with the Commission pursuant to Rule 608 of Regulation NMS under the Act. The purpose of the proposed Linkage Plan is to enable the Plan Participants to act jointly in planning, developing, operating and regulating the NMS Linkage System (“System”) that will electronically link the Plan Participant Markets to one another, as described in the Linkage Plan. Following approval by the Commission, the Plan would become operative on October 1, 2006. The Plan would run concurrently with the ITS Plan on such date with all current ITS Participants. The Plan would terminate on June 30, 2007; however, Participants that wished to extend the term could agree to do so, subject to Commission approval.

The Linkage Plan provides that orders must be sent to a Participant market through the auspices of a member of that Participant (“Sponsoring Member”). An order entered through the System would be required to specify the member of the destination

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4 The Participants expect to request the Commission to grant appropriate exemptions from the ITS Plan to accommodate this result.

5 Upon implementation of SEC Rule 611 on February 5, 2007, the ITS Plan will terminate (which will be the subject of a separate filing by the ITS Participants). The National Association of Securities Dealers, Inc. will not participate in the Linkage Plan at any time.
market (either clearing member or default Sponsoring Member). Each market will maintain within the facilities of the Securities Industry Automation Corporation (“SIAC”), the System’s facilities manager, a database of default Sponsoring Members for after hours processing and billing for orders sent to a market where the originating firm is not a member of the market to which the order is sent for execution (the “destination market”).

Historically, ITS Participants have not imposed transaction charges for executions of commitments delivered through ITS, although the ITS Plan does not prohibit such charges. Under the Linkage Plan, each Participant would be accessed through its own members and could charge for orders executed in their market through the Linkage. The destination market would bill the clearing or Sponsoring Member for executions in that market, pursuant to such market’s transaction fee schedule, based on the monthly reports provided by SIAC.\(^6\) Certain markets, however, may be unable to supply clearing or Sponsoring Member information on orders routed through the Linkage to other markets by October 1, 2006. In this case, the Linkage Participants have agreed to bill each other directly, based on data supplied by SIAC.\(^7\)

\(^6\) The member of the destination market will be identified by a unique clearing number. If the clearing number provided by the originating Participant Market does not identify a member of the destination market, SIAC will identify the default Sponsoring Member of the originating market at the destination market for the security in question and that Sponsoring Member’s identification information will be included on the order to the destination market on all reports sent to the destination market, including any report for billing purposes. The member identified on the order will be responsible for any fees in the destination market. SIAC will provide to Participants a key to match the clearing number to the member’s name.

\(^7\) In lieu of direct billing to or by the NASD, Linkage Plan Participants would directly bill Alternative Display Facility (“ADF”) market participants and would be directly billed by ADF market participants, based upon data supplied by SIAC.
Example: A member of SRO A that is not a member of SRO B sends an order through the Linkage to SRO B for execution. In routing the transaction through the Linkage, SRO A is unable to include Sponsoring Member information on such report. Such transaction will be included in a monthly report provided to SRO B by SIAC (without identifying Sponsoring Member information), and SRO B may bill SRO A directly for such transaction in accordance with SRO B’s transaction fee schedule applicable to Linkage orders. 8

b. **Statutory Basis**

The proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the requirements of Section 6(b) 9 of the Act. Specifically, the Exchange believes the proposed rule change is consistent with the requirements of Section 6(b)(5) 10 of the Act that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, and, in general, to protect investors and the public interest. In addition, the Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b)(4), 11 which requires that the rules of an exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities.

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8 SRO A, in turn, may bill its member entering the order in accordance with its fee schedule.


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 that the Commission find good cause pursuant to Section 19(b)(2)\(^\text{12}\) of the Act for approving the proposed rule change prior to the 30\(^{\text{th}}\) day after publication of the proposed rule change in the Federal Register. The Linkage Plan is scheduled to become operative on October 1, 2006, following approval by the Commission. Accelerated approval will permit the Exchange and other Linkage Participants to implement exchange to exchange billing procedures described herein at the start of the Plan’s operation.

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

   The proposed rule change is based on the rules of the New York Stock Exchange, LLC and the American Stock Exchange, LLC.\(^{13}\)

9. **Exhibits**

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

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\(^{13}\) See SR-NYSE-2006-72 and SR-AMEX-2006-85.
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-58)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the
Philadelphia Stock Exchange, Inc. Relating to Exchange to Exchange Billing under the
NMS Linkage Plan

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 enter into arrangements with other Participants in the proposed “Plan for the
Purpose of Creating and Operating an Intermarket Communications Linkage” to directly
bill, and to accept direct billing from, any such Participants that are unable to implement
Sponsoring Member billing, as described herein, on October 1, 2006. This proposal does
not require changes to the Exchange’s rule text.

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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

On July 17, 2006, the American Stock Exchange LLC, the Boston Stock Exchange, Inc., the Chicago Board Options Exchange, Inc., the Chicago Stock Exchange, Inc., the Nasdaq Stock Market LLC, the National Stock Exchange, the New York Stock Exchange LLC, and the NYSE Arca, Inc., executed and filed with the Commission a “Plan for the Purpose of Creating and Operating an Intermarket Communications Linkage Pursuant to Section 11A(a)(3)(B) of the Securities Exchange Act of 1934” (“Act”). Phlx subsequently executed the Linkage Plan on August 1, 2006. This “Linkage Plan” or “Plan” was filed with the Commission pursuant to Rule 608 of Regulation NMS under the Act. The purpose of the proposed Linkage Plan is to enable the Plan Participants to act jointly in planning, developing, operating and regulating the NMS Linkage System (“System”) that will electronically link the Plan Participant Markets to one another, as described in the Linkage Plan. Following approval by the

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Commission, the Plan would become operative on October 1, 2006. The Plan would run concurrently with the ITS Plan on such date with all current ITS Participants. The Plan would terminate on June 30, 2007; however, Participants that wished to extend the term could agree to do so, subject to Commission approval.

The Linkage Plan provides that orders must be sent to a Participant market through the auspices of a member of that Participant (“Sponsoring Member”). An order entered through the System would be required to specify the member of the destination market (either clearing member or default Sponsoring Member). Each market will maintain within the facilities of the Securities Industry Automation Corporation (“SIAC”), the System’s facilities manager, a database of default Sponsoring Members for after hours processing and billing for orders sent to a market where the originating firm is not a member of the market to which the order is sent for execution (the “destination market”).

Historically, ITS Participants have not imposed transaction charges for executions of commitments delivered through ITS, although the ITS Plan does not prohibit such charges. Under the Linkage Plan, each Participant would be accessed through its own members and could charge for orders executed in their market through the Linkage. The destination market would bill the clearing or Sponsoring Member for executions in that market, pursuant to such market’s transaction fee schedule, based on

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6 The Participants expect to request the Commission to grant appropriate exemptions from the ITS Plan to accommodate this result.

7 Upon implementation of SEC Rule 611 on February 5, 2007, the ITS Plan will terminate (which will be the subject of a separate filing by the ITS Participants). The National Association of Securities Dealers, Inc. will not participate in the Linkage Plan at any time.
the monthly reports provided by SIAC.\textsuperscript{8} Certain markets, however, may be unable to supply clearing or Sponsoring Member information on orders routed through the Linkage to other markets by October 1, 2006. In this case, the Linkage Participants have agreed to bill each other directly, based on data supplied by SIAC.\textsuperscript{9}

Example: A member of SRO A that is not a member of SRO B sends an order through the Linkage to SRO B for execution. In routing the transaction through the Linkage, SRO A is unable to include Sponsoring Member information on such report. Such transaction will be included in a monthly report provided to SRO B by SIAC (without identifying Sponsoring Member information), and SRO B may bill SRO A directly for such transaction in accordance with SRO B’s transaction fee schedule applicable to Linkage orders.\textsuperscript{10}

2. \textbf{Statutory Basis}

The proposed rule change is consistent with the Act and the rules and regulations under the Act applicable to a national securities exchange and, in particular, the

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\textsuperscript{8}The member of the destination market will be identified by a unique clearing number. If the clearing number provided by the originating Participant Market does not identify a member of the destination market, SIAC will identify the default Sponsoring Member of the originating market at the destination market for the security in question and that Sponsoring Member’s identification information will be included on the order to the destination market on all reports sent to the destination market, including any report for billing purposes. The member identified on the order will be responsible for any fees in the destination market. SIAC will provide to Participants a key to match the clearing number to the member’s name.

\textsuperscript{9}In lieu of direct billing to or by the NASD, Linkage Plan Participants would directly bill Alternative Display Facility (“ADF”) market participants and would be directly billed by ADF market participants, based upon data supplied by SIAC.

\textsuperscript{10}SRO A, in turn, may bill its member entering the order in accordance with its fee schedule.
requirements of Section 6(b)\textsuperscript{11} of the Act. Specifically, the Exchange believes the proposed rule change is consistent with the requirements of Section 6(b)(5)\textsuperscript{12} of the Act that the rules of an exchange be designed to promote just and equitable principles of trade, to prevent fraudulent and manipulative acts and practices, and, in general, to protect investors and the public interest. In addition, the Exchange believes that the proposed rule change is consistent with the provisions of Section 6(b)(4),\textsuperscript{13} which requires that the rules of an exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities.

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 that the Commission find good cause pursuant to Section 19(b)(2)\textsuperscript{14} of the Act for approving the proposed rule change prior to the 30\textsuperscript{th} day after

\textsuperscript{11} 15 U.S.C. 78f(b).

\textsuperscript{12} 15 U.S.C. 78f(b)(5).


publication of the proposed rule change in the Federal Register. The Linkage Plan is
scheduled to become operative on October 1, 2006, following approval by the
Commission. Accelerated approval will permit the Exchange and other Linkage
Participants to implement exchange to exchange billing procedures described herein at
the start of the Plan’s operation.

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-2006-58 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-2006-58. 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

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-2006-58 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.\(^\text{15}\)

Nancy M. Morris  
Secretary

\(^{15}\) 17 CFR 200.30-3(a)(12).