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) Yes Section 19(b)(3)(A) Section 19(b)(3)(B)

Pilot Extension of Time Period for Commission Action Date Expires

Section 19(b)(4) Section 19(b)(5) Section 19(b)(6)

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 and Counsel
E-mail jurij.trypupenko@phlx.com
Telephone (215) 496-5019 Fax (215) 435-2799

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 11/22/2006
By Jurij Trypupenko
(Name)

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.

Jurij Trypupenko,
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 1001A (Position Limits), 1079 (FLEX Index and Equity Options) and 1101A (Terms of Options Contracts) so that it can list and trade cash-settled, European-style options, including FLEX options and LEAPS\(^3\), on certain Frank Russell Company ("Russell") indexes, namely the Russell 2000® Index (the "Full Value Russell Index") and the one-tenth value Russell 2000® Index (the "Reduced Value Russell Index") (together known as the “Russell Indexes”).

Amended Phlx Rule 1001A would establish position limits for options on the Full Value Russell Index of 50,000 contracts total on either side of the market, with 30,000 contracts in the nearest expiration month, and position limits for options on the Reduced Value Russell Index of 500,000 contracts total on either side of the market, with 300,000 contracts total in the nearest expiration month. Amended Phlx Rule 1079 would establish similar position limits for FLEX options on the Full Value Russell Index and the Reduced Value Russell Index. Amended Phlx Rule 1101A would establish that options on the Full Value Russell Index and the Reduced Value Russell Index may be affected on the

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\(^3\) FLEX options are customized or flexible index and equity options and LEAPS are Long-term Equity Anticipation Securities or long term options series. See Phlx Rules 1079, 1012 and 1101A. The Exchange does not anticipate listing LEAPS on the Reduced Value Russell Index.
Exchange until 4:15 P.M. each business day, and that Phlx may list $2.50 or higher strike price intervals for options on such indexes if the strike price is less than $200.4

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1. Characteristics of the Russell 2000® Indexes and contract specifications are attached as Exhibit 3. Amended rule text indicating any additions to and deletions from the immediately preceding filing is attached hereto as Exhibit 4.

The text of Phlx Rules 1001A, 1079, and 1101A, as proposed to be amended, is set forth below.

New material underlined; Deleted material bracketed.

Rule 1079.

FLEX Index and Equity Options

A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the specialist post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange rules, this Rule takes precedence with respect to FLEX options.

(a) - (c) -- No Change.

(d) Position Limits.

(1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options (TPX, VLE and XOC); 50,000 contracts on the same side of the market, with 30,000 contracts on the same side of the market in the nearest expiration month, respecting full-size Nasdaq Composite Index® Options and options on the Russell 2000® Index ("Full Value Russell 2000®Index"); 500,000 contracts on the same side of the market, with 300,000 contracts on the same side of the market in the nearest expiration month respecting mini-size Nasdaq Composite Index® Options and options on the one tenth (1/10th) value Russell 2000® Index ("Reduced Value Russell 2000® Index"); 36,000, 48,000, or 60,000 contracts respecting industry

4 Amendment No. 1 supercedes the original proposed rule change in its entirety, makes certain technical corrections, and clarifies certain aspects of the Exchange’s proposal such as for example the need for accelerated approval.
index options, depending on the position limit tier determined pursuant to Rule 1001A(b)(i). However, positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to Rule 1101A(b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. Positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options.

(2) -- No Change.

(e) – (f) -- No Change.

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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), except certain positions must be aggregated in accordance with paragraph (d) or (e) below:

(i) - (iii) -- No Change.

(iv) Respecting the Full Value Russell 2000® Index and the Reduced Value Russell 2000® Index, (1) 50,000 contracts total for options on the full value index on the same side of the market, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for options on the reduced value index on the same side of the market, with 300,000 contracts total in the nearest expiration month.

(b) - (d) -- 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 (1) Full Value Russell 2000® Index option contract is the equivalent of ten (10) Reduced Value Russell 2000® Index option contracts.

Commentary .01 - .02 -- No Change.

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Rule 1101A.  

Terms of Option Contracts

(a) The Exchange shall determine fixed point intervals of exercise prices for index options (options on indexes). Generally, the exercise (strike) price intervals will be no less than $5; provided, that the Exchange may determine to list strike prices at no less than $2.50 intervals for options on the following indexes (some of which may also be known as sector indexes):

(i) - (xxix) -- No Change.

(xxx) Full Value Russell 2000® Index, and related Reduced Value Russell 2000® Index, if the strike price is less than $200.

Remainder of (a) – No Change.

(b) - (c) -- No Change.

Commentary: ...

.01 Transactions in broad-based (market) index options traded on the Exchange, including Value Line Composite Index options, National Over-the-Counter Index options, U.S. Top 100 Index options, and the OTC Industrial Average Index options, Full Value Russell 2000® Index options, and Reduced Value Russell 2000® Index options, may be effected on the Exchange until 4:15 P.M. each business day, through the last trading day prior to expiration.

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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 March 5, 2005.

Questions and comments on the proposed rule change may be directed to Jurij Trypupenko, Director and Counsel, New Products Group and Legal Department, at (215) 496-5019, or Edith Hallahan, First 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 Exchange proposes to amend its Rules 1079 (FLEX Index and Equity Options), 1001A (Position Limits), and 1101A (Terms of Options Contracts) to list and trade on the Exchange cash-settled, European-style index options on the full and reduced values of the Russell 2000® Index.\(^5\)

Each of these Full Value and Reduced Value Russell Indexes is a capitalization-weighted index containing the smallest 2000 companies in the Russell 3000® Index, which includes the largest 3,000 companies incorporated in the United States. All index components are traded on the New York Stock Exchange LLC ("NYSE"), the American Stock Exchange LLC ("AMEX"), and/or the NASDAQ Stock Market LLC ("Nasdaq").

\(^5\) Although Exchange Rule 1109A has generic listing standards for options on broad-based indexes that would be applicable to options on the Russell Indexes, see Securities Exchange Act Release No. 54158 (July 17, 2006), 71 FR 41853 (July 24, 2006)(SR-Phlx-2006-17), the proposed rule change is necessary to establish, among other things, larger position limits on such Russell products.
Options on the Russell 2000® Index and other Russell indexes currently trade on the Chicago Board Options Exchange, Inc. ("CBOE") and other options exchanges. The Exchange also is proposing to be able to list and trade long-term options on the Russell 2000® Index ("Russell LEAPS").

Index Design and Composition

The Russell Indexes are designed to be a comprehensive representation of the investable U.S. equity market. These indexes are capitalization-weighted and include

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6 See Securities Exchange Act Release Nos. 49388 (March 10, 2004), 69 FR 12720 (March 17, 2004)(SR-CBOE-2003-51)(approving listing and trading on CBOE of options, including LEAPS, on the Russell Top 200® Index, Russell Top 200® Growth Index, and the Russell Top 200® Value Index); 48591 (October 2, 2003), 68 FR 58728 (October 10, 2003)(SR-CBOE-2003-17)(approving listing and trading on CBOE of options, including LEAPS, on the Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, and Russell MidCap® Growth Index); and 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992)(SR-CBOE-92-02)(approving listing and trading on CBOE of options, including LEAPS, on the Russell 2000® Index). See also Securities Exchange Act Release Nos. 51619 (April 27, 2005), 70 FR 22947 (May 3, 2005)(SR-ISE-2005-09)(order approving listing and trading on the ISE of options, including LEAPS, on the Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2500® Index, Russell 2500® Value Index, Russell 2500® Growth Index, Russell 2000® Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell Top 200® Index, Russell Top 200® Value Index, Russell Top 200® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, Russell Small Cap® Completeness Index, Russell Small Cap® Completeness Value Index, and Russell Small Cap® Completeness Growth Index); and 53191 (January 30, 2006), 71 FR 6111 (February 6, 2006)(SR-AMEX-2005-061)(order approving listing and trading on the AMEX of options, including LEAPS, on the Russell 1000® Index, Russell 1000® Growth Index, Russell 1000® Value Index, Russell 1000® Index, Russell 1000® Growth Index, Russell 1000® Value Index, Russell 2000® Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell MidCap® Index, Russell MidCap® Growth Index, Russell MidCap® Value Index, and Russell Top 50® Index).

7 Per subsection (b)(iii) of Phlx Rule 1101A, the Exchange may list, with respect to any class of stock index options, series of options having up to 60 months to expiration.
only common stocks belonging to corporations domiciled in the United States that are traded on NYSE, Nasdaq, or AMEX. Stocks are weighted by their "available" market capitalization, which is calculated by multiplying the primary market price by the "available" shares; that is, total shares outstanding less corporate cross-owned shares; shares owned by Employee Stock Ownership Plans ("ESOPs") and Leveraged Employee Stock Ownership Plans ("LESOPs") that comprise 10% or more of shares outstanding; shares that are part of unlisted share classes; and shares held by an individual, a group of individuals acting together, or a corporation not in the index that owns 10% or more of the shares outstanding. The Russell 2000® Index is designed to measure the performance of the 2,000 smallest companies in the Russell 3000® Index, representing approximately 8% of the investable U.S. equity market.\(^8\)

All equity securities listed on NYSE, AMEX, or Nasdaq are considered for inclusion in the Russell Indexes, with the following exceptions: (1) stocks trading at less than $1.00 per share on May 31 of each year, (2) stocks of non-U.S. companies, (3) preferred and convertible preferred stocks, (4) redeemable shares, (5) participating preferred stocks, (6) warrants and rights, (7) trust receipts, (8) royalty trusts, (9) limited liability companies, (10) Bulletin Board and Pink Sheet stocks, (11) closed-end investment companies, (12) limited partnerships, and (13) foreign stocks. The Russell 2000® Index is derived from the smallest 2000 companies in the Russell 3000® Index

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\(^8\) Additional information about the Russell Indexes can also be found at http://www.russell.com/us/indexes/us/definitions.asp.
and represents approximately 8% of the investable U.S. equity market. All of these stocks are “NMS Stocks” as defined in Rule 600 of Regulation NMS under the Act.

As of June 30, 2006, the stocks comprising the Russell 2000® Index had an average market capitalization of $641.69 million, ranging from a high of $2.33 billion (Maverick Tube Corp.) to a low of $305.29 million (Tiens Biotech Group). The number of available shares outstanding averaged 35.80 million, ranging from a high of 482.72 million (Conexant Systems Inc.) to a low of 1.26 million (Seaboard Corp.). The six-month average daily trading volume for Russell 2000® Index components was 461,255 shares per day, ranging from a high of 20.37 million shares per day (Conexant Systems Inc.) to a low of 2,067 shares per day (Arden Group). Stocks that averaged less than 50,000 shares per day for the previous six months accounted for 12% of the index weight of the Russell 2000® Index. Additionally, over 56% of Russell 2000® Index components have options listed on them, representing over 94% of the index weight. The Russell 2000® Index has a total capitalization of $1.54 trillion.

Index Calculation and Index Maintenance

The value of the Russell 2000® Index is currently calculated by Reuters on behalf of Russell and is disseminated every 15 seconds during regular Phlx trading hours to market information vendors via the Options Price Reporting Authority ("OPRA").

The methodology used to calculate the value of the Russell 2000® Index is similar to the methodology used to calculate the value of other well known market-

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9 The Russell 3000® Index in turn measures the performance of the 3,000 largest U.S. companies based on total market capitalization, representing approximately 98% of the investable U.S. equity market.
capitalization-weighted indexes, reflecting the total market value of the component stocks relative to a particular base period and is computed by dividing the total market value of the companies in each index by the respective index divisor. The divisor is adjusted periodically to maintain consistent measurement of the index. The base index value of the Russell 2000® Index was $135.00 on the December 31, 1986 base index date, and the value of the Russell 2000® Index on December 31, 2005 was $673.22.

In recent years, the values of the Russell Indexes have increased significantly. As a result, the premium for options on the Full Value Russell Index has also increased, causing these index options to trade at a level that may be uncomfortably high for retail investors. Therefore, the Exchange also proposes to trade options on the Reduced Value Russell Index. The Exchange believes that listing options on the reduced-value index would attract a greater source of customer business than if options were based only on the Full Value Russell Index. The Exchange further believes that listing options on the reduced-value index would provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the Russell 2000® Index and use this trading vehicle while extending a smaller outlay of capital. The Exchange believes that this should attract additional investors and, in turn, create a more active and liquid trading environment.  

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10 The Exchange believes that options on certain Reduced Value Russell Indexes have generated considerable interest from investors, as measured, for example, by the robust trading volume of options on the reduced value Russell 2000® Index that traded on CBOE and the International Securities Exchange (“ISE”) in 2005 (total 320,876 contracts).
Options on the Russell Indexes would expire on the Saturday following the third Friday of the expiration month ("Expiration Saturday"). Trading in options on the Russell Indexes would normally cease at 4:15 p.m. Eastern Standard Time ("EST") on the Thursday preceding an Expiration Saturday. The exercise settlement value at expiration of each new index option would be calculated by Reuters on behalf of Russell, based on the opening prices of the index's component securities on the last business day prior to expiration ("Settlement Day"). The Settlement Day is normally the Friday preceding Expiration Saturday. If a component security in a Russell Index does not trade on Settlement Day, the last reported sales price in the primary market from the previous trading day would be used to calculate both full and reduced settlement values. Settlement values for the Full and Reduced Value Russell Indexes would be disseminated by OPRA.

The Russell Indexes are monitored and maintained by Russell, which is responsible for making all necessary adjustments to the indexes to reflect component deletions, share changes, stock splits, stock dividends (other than ordinary cash dividends), and stock price adjustments due to restructuring, mergers, or spin-offs involving the underlying components. Some corporate actions, such as stock splits and stock dividends, require simple changes to the available shares outstanding and the stock prices of the underlying components. Other corporate actions, such as share issuances, change the market value of an index and require the use of an index divisor to effect adjustments.

The aggregate exercise value of the option contract is calculated by multiplying the index value by the index multiplier, which is 100.
The Russell Indexes are re-constituted annually on June 30, based on prices and available shares outstanding as of the preceding May 31. New index components are added only as part of the annual re-constitution, after which, should a stock be removed from an index for any reason, it could not be replaced until the next re-constitution.

The Exchange represents that, although it is not involved in the maintenance of any of the Russell Indexes, it would monitor each Russell Index on a quarterly basis and notify the Commission's Division of Market Regulation ("Division") by filing a proposed rule change pursuant to Rule 19b-4 if: (i) the number of securities in any index drops by one-third or more; (ii) 10% or more of the weight of any index is represented by component securities having a market value of less than $75 million; (iii) less than 80% of the weight of any index is represented by component securities that are eligible for options trading pursuant to Phlx Rule 1009; (iv) 10% or more of the weight of any index is represented by component securities trading less than 20,000 shares per day; or (v) the largest component security in any index accounts for more than 15% of the weight of the index, or the largest five components in the aggregate account for more than 50% of the weight of the index.

The Exchange also would notify the Division immediately if Russell ceases to maintain and calculate any of the Russell Indexes on which Phlx is proposing to list and trade options, or if the value of any of these Russell Indexes is not disseminated every 15 seconds by a widely available source. If a Russell Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange would not list any additional series for trading and would limit all
transactions in options on that index to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

**Contract Specifications**

The proposed contract specifications for the options on the Russell Indexes are based on the contract specifications of similar options currently listed on CBOE, ISE and AMEX. The Russell Indexes are broad-based indexes, as defined in Phlx Rule 1000A(b)(11). Options on the Russell Indexes would be European-style and a.m. cash-settled. The Exchange's standard trading hours for index options (9:30 a.m. to 4:15 p.m. EST), as set forth in Commentary .01 to Phlx Rule 1101A, would apply to options on the Russell Indexes (both full and reduced value). Exchange rules that apply to the trading of options on broad-based indexes also would apply to options on both the Full Value and Reduced Value Russell Indexes. The trading of these options also would be subject to, among others, Exchange rules governing margin requirements and trading halt procedures for index options.

For options on the Full Value Russell Indexes, the Exchange proposes to establish in its Rule 1001A(a)(iv) an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series. Full Value Russell Index contracts would be aggregated with Reduced Value Russell Index contracts, where ten (10) Reduced Value Russell Index contracts

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12 See supra note 6.

13 See generally Phlx Rules 1000A through 1106A (Rules Applicable to Trading of Options on Indices) and Phlx Rules 1000 through 1093 (Options Rules of the Phlx).
contracts would equal one (1) Full Value Russell Index contract. These limits are identical to the limits applicable to options based on the Russell Indexes that currently trade on CBOE.

Additionally, Commentary .01 to Phlx Rule 1001A provides that under certain circumstances index options positions may be exempted from established position limits for each contract “hedged” by an equivalent dollar amount of the underlying component securities. Furthermore, Commentary .02 provides that member organizations may receive exemptions of up to two times the applicable position limit where the index options positions are in proprietary accounts used for the purpose of facilitating orders for customers of those member organizations. See Phlx Rule 1001A.

The Exchange proposes to apply existing index margin requirements for the purchase and sale of options on the Russell Indexes. See Phlx Rule 722.

The Exchange proposes to set strike price intervals for index options of at least $2.50 when the strike price of a Russell Index (full or reduced value) is below $200, and at least $5.00 strike price intervals otherwise. The minimum tick size for series trading below $3 would be $0.05, and for series trading at or above $3 would be $0.10. See Phlx Rule 1034 and proposed Rule 1101A.

The Exchange proposes to list series of options on the Full Value and Reduced Value Russell Indexes having up to four consecutive expiration months, with the shortest-term series initially having no more than two (2) months to expiration

14 The same limits that apply to position limits would apply to exercise limits for these products. See Phlx Rule 1002A.

15 See CBOE Rule 24.4(a).
(consecutive month series), and may designate one (1) expiration cycle for each class that shall consist of four (4) calendar months occurring at three-month intervals (cycle month series). Thus, for example, should the Exchange determine to list options on a Russell Index, it could at any time list and trade the following six (6) series: June, July, August, September, December and March. This is done by choosing four consecutive expiration months along with designating one (1) expiration cycle (the March cycle) with four (4) calendar months. It also can be achieved by choosing one (1) expiration cycle (the March cycle) and having up to four consecutive expiration months. In addition, LEAPS having up to 60 months to expiration may be traded. See Phlx Rule 1101A. The trading of long-term options series on the Russell 2000® Index would be subject to the same rules that govern all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

All of the specifications and calculations for options on the Reduced Value Russell Index would be the same as those used for the Full Value Russell Index with position limits adjusted accordingly for options on the Reduced Value Russell Index. The reduced-value options would trade independently of, and in addition to, the full-value options. Options on both of the Russell Indexes would be subject to the same rules that presently govern all Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits.

16 The Exchange is not proposing to list reduced-value LEAPS on the Reduced Value Russell Index.
Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options on the Russell Indexes and intends to apply those same procedures that it applies to the Exchange's other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994. The members of the ISG include all of the national securities exchanges. The ISG members work together to coordinate surveillance and share information regarding the stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.

The Exchange also represents that it has the necessary systems capacity to support the new options series that would result from the introduction of options on the Full and Reduced Value Russell Indexes, including LEAPS on the Full Value Russell Indexes. The Exchange has provided the Commission with system capacity information to support this representation.

b. 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 will permit trading in options on Russell Indexes pursuant to rules designed to

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prevent fraudulent and manipulative practices and to protect investors and the public interest.

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. This proposed rule filing consists of substantially the same provisions and issues addressed by the ISE in a rule filing regarding Russell Indexes (full and reduced value) as discussed herein, which the Commission approved on an accelerated basis. 19 Nothing in this proposed rule filing

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raises any new, unique, or substantively different issues from those raised by ISE in the previously-mentioned filing and, for this reason, the Exchange requests the Commission to grant accelerated approval of the proposal. Accelerated approval of this proposed rule change would enable the Exchange to compete in the trading of options on the full value and reduced-value Russell Indexes that are already listed and traded on 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 on ISE and CBOE filings regarding trading options on Russell indexes that were approved by the Commission.  

9. Exhibits

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


4. Amended rule text indicating any additions to and deletions from the immediately preceding filing.

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20 The higher position limits proposed in this rule change are necessary for the Exchange to effectively compete against other exchanges trading options on the Russell Indexes (e.g. ISE and CBOE) that already have such position limits for these products.

21 Id.
SECURITIES AND EXCHANGE COMMISSION
(Release No.                  ; File No. SR-Phlx-2006-65)

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Russell Indexes

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 Act\(^3\) and Rule 19b-4 thereunder,\(^4\) proposes to amend Phlx Rules 1001A (Position Limits), 1079 (FLEX Index and Equity Options) and 1101A (Terms of Options Contracts) so that it can list and trade cash-settled, European-style options, including FLEX options and LEAPS\(^5\), on certain Frank

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\(5\) FLEX options are customized or flexible index and equity options and LEAPS are Long-term Equity Anticipation Securities or long term options series. See Phlx Rules 1079, 1012 and 1101A. The Exchange does not anticipate listing LEAPS on the Reduced Value Russell Index.
Russell Company ("Russell") indexes, namely the Russell 2000® Index (the "Full Value Russell Index") and the one-tenth value Russell 2000® Index (the "Reduced Value Russell Index")(together known as the “Russell Indexes”).

Amended Phlx Rule 1001A would establish position limits for options on the Full Value Russell Index of 50,000 contracts total on either side of the market, with 30,000 contracts in the nearest expiration month, and position limits for options on the Reduced Value Russell Index of 500,000 contracts total on either side of the market, with 300,000 contracts total in the nearest expiration month. Amended Phlx Rule 1079 would establish similar position limits for FLEX options on the Full Value Russell Index and the Reduced Value Russell Index. Amended Phlx Rule 1101A would establish that options on the Full Value Russell Index and the Reduced Value Russell Index may be affected on the Exchange until 4:15 P.M. each business day, and that Phlx may list $2.50 or higher strike price intervals for options on such indexes if the strike price is less than $200.6

Characteristics of the Russell 2000® Indexes and contract specifications are attached as Exhibit 3. Amended rule text indicating any additions to and deletions from the immediately preceding filing is attached hereto as Exhibit 4.

The text of Phlx Rules 1001A, 1079, and 1101A, as proposed to be amended, is set forth below.

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6 Amendment No. 1 supercedes the original proposed rule change in its entirety, makes certain technical corrections, and clarifies certain aspects of the Exchange’s proposal such as for example the need for accelerated approval.
New material underlined; Deleted material bracketed.

Rule 1079.

FLEX Index and Equity Options

A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the specialist post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange rules, this Rule takes precedence with respect to FLEX options.

(a) - (c) -- No Change.

(d) Position Limits.

(1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options (TPX, VLE and XOC); 50,000 contracts on the same side of the market, with 30,000 contracts on the same side of the market in the nearest expiration month, respecting full-size Nasdaq Composite Index® Options and options on the Russell 2000® Index ("Full Value Russell 2000® Index"); 500,000 contracts on the same side of the market, with 300,000 contracts on the same side of the market in the nearest expiration month respecting mini-size Nasdaq Composite Index® Options and options on the one tenth (1/10) value Russell 2000® Index ("Reduced Value Russell 2000® Index"); 36,000, 48,000, or 60,000 contracts respecting industry index options, depending on the position limit tier determined pursuant to Rule 1001A(b)(i). However, positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to Rule 1101A(b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. Positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options.

(2) -- No Change.

(e) -- (f) -- No Change.

* * * * *
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), except certain positions must be aggregated in accordance with paragraph (d) or (e) below:

(i) - (iii) -- No Change.

(iv) Respecting the Full Value Russell 2000® Index and the Reduced Value Russell 2000® Index, (1) 50,000 contracts total for options on the full value index on the same side of the market, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for options on the reduced value index on the same side of the market, with 300,000 contracts total in the nearest expiration month.

(b) - (d) -- 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 (1) Full Value Russell 2000® Index option contract is the equivalent of ten (10) Reduced Value Russell 2000® Index option contracts.

Commentary .01 - .02 -- No Change.

* * * * *

Rule 1101A.

Terms of Option Contracts

(a) The Exchange shall determine fixed point intervals of exercise prices for index options (options on indexes). Generally, the exercise (strike) price intervals will be no less than $5; provided, that the Exchange may determine to list strike prices at no less than $2.50 intervals for options on the following indexes (some of which may also be known as sector indexes):

(i) - (xxix) -- No Change.

(xxx) Full Value Russell 2000® Index, and related Reduced Value Russell 2000® Index, if the strike price is less than $200.
Transactions in broad-based (market) index options traded on the Exchange, including Value Line Composite Index options, National Over-the-Counter Index options, U.S. Top 100 Index options, [and] the OTC Industrial Average Index options, Full Value Russell 2000® Index options, and Reduced Value Russell 2000® Index options, may be effected on the Exchange until 4:15 P.M. each business day, through the last trading day prior to expiration.


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 Exchange proposes to amend its Rules 1079 (FLEX Index and Equity Options), 1001A (Position Limits), and 1101A (Terms of Options Contracts) to list
and trade on the Exchange cash-settled, European-style index options on the full and reduced values of the Russell 2000® Index.\(^7\)

Each of these Full Value and Reduced Value Russell Indexes is a capitalization-weighted index containing the smallest 2000 companies in the Russell 3000® Index, which includes the largest 3,000 companies incorporated in the United States. All index components are traded on the New York Stock Exchange LLC ("NYSE"), the American Stock Exchange LLC ("AMEX"), and/or the NASDAQ Stock Market LLC ("Nasdaq"). Options on the Russell 2000® Index and other Russell indexes currently trade on the Chicago Board Options Exchange, Inc. ("CBOE") and other options exchanges.\(^8\) The

\(^7\) Although Exchange Rule 1109A has generic listing standards for options on broad-based indexes that would be applicable to options on the Russell Indexes, see Securities Exchange Act Release No. 54158 (July 17, 2006), 71 FR 41853 (July 24, 2006)(SR-Phlx-2006-17), the proposed rule change is necessary to establish, among other things, larger position limits on such Russell products.

\(^8\) See Securities Exchange Act Release Nos. 49388 (March 10, 2004), 69 FR 12720 (March 17, 2004)(SR-CBOE-2003-51)(approving listing and trading on CBOE of options, including LEAPS, on the Russell Top 200® Index, Russell Top 200® Growth Index, and the Russell Top 200® Value Index); 48591 (October 2, 2003), 68 FR 58728 (October 10, 2003)(SR-CBOE-2003-17)(approving listing and trading on CBOE of options, including LEAPS, on the Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, and Russell MidCap® Growth Index); and 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992)(SR-CBOE-92-02)(approving listing and trading on CBOE of options, including LEAPS, on the Russell 2000® Index). See also Securities Exchange Act Release Nos. 51619 (April 27, 2005), 70 FR 22947 (May 3, 2005)(SR-ISE-2005-09)(order approving listing and trading on the ISE of options, including LEAPS, on the Russell 3000® Index, Russell 3000® Growth Index, Russell 2500® Index, Russell 2500® Value Index, Russell 2500® Growth Index, Russell 2000® Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell Top 200® Index, Russell Top 200® Value Index, Russell Top 200® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, Russell MidCap® Growth Index, Russell Small Cap® Completeness Index, Russell Small Cap® Completeness Value Index, and Russell Small Cap® Completeness Growth Index); and
Exchange also is proposing to be able to list and trade long-term options on the Russell 2000® Index ("Russell LEAPS").

**Index Design and Composition**

The Russell Indexes are designed to be a comprehensive representation of the investable U.S. equity market. These indexes are capitalization-weighted and include only common stocks belonging to corporations domiciled in the United States that are traded on NYSE, Nasdaq, or AMEX. Stocks are weighted by their "available" market capitalization, which is calculated by multiplying the primary market price by the "available" shares; that is, total shares outstanding less corporate cross-owned shares; shares owned by Employee Stock Ownership Plans ("ESOPs") and Leveraged Employee Stock Ownership Plans ("LESOPs") that comprise 10% or more of shares outstanding; shares that are part of unlisted share classes; and shares held by an individual, a group of individuals acting together, or a corporation not in the index that owns 10% or more of the shares outstanding. The Russell 2000® Index is designed to measure the performance of the 2,000 smallest companies in the Russell 3000® Index, representing approximately 8% of the investable U.S. equity market.

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9 Per subsection (b)(iii) of Phlx Rule 1101A, the Exchange may list, with respect to any class of stock index options, series of options having up to 60 months to expiration.

10 Additional information about the Russell Indexes can also be found at http://www.russell.com/us/indexes/us/definitions.asp.
All equity securities listed on NYSE, AMEX, or Nasdaq are considered for inclusion in the Russell Indexes, with the following exceptions: (1) stocks trading at less than $1.00 per share on May 31 of each year, (2) stocks of non-U.S. companies, (3) preferred and convertible preferred stocks, (4) redeemable shares, (5) participating preferred stocks, (6) warrants and rights, (7) trust receipts, (8) royalty trusts, (9) limited liability companies, (10) Bulletin Board and Pink Sheet stocks, (11) closed-end investment companies, (12) limited partnerships, and (13) foreign stocks. The Russell 2000® Index is derived from the smallest 2000 companies in the Russell 3000® Index and represents approximately 8% of the investable U.S. equity market.\footnote{11} All of these stocks are “NMS Stocks” as defined in Rule 600 of Regulation NMS under the Act.

As of June 30, 2006, the stocks comprising the Russell 2000® Index had an average market capitalization of $641.69 million, ranging from a high of $2.33 billion (Maverick Tube Corp.) to a low of $305.29 million (Tiens Biotech Group). The number of available shares outstanding averaged 35.80 million, ranging from a high of 482.72 million (Conexant Systems Inc.) to a low of 1.26 million (Seaboard Corp.). The six-month average daily trading volume for Russell 2000® Index components was 461,255 shares per day, ranging from a high of 20.37 million shares per day (Conexant Systems Inc.) to a low of 2,067 shares per day (Arden Group). Stocks that averaged less than 50,000 shares per day for the previous six months accounted for 12% of the index weight of the Russell 2000® Index. Additionally, over 56% of Russell 2000® Index

\footnote{11} The Russell 3000® Index in turn measures the performance of the 3,000 largest U.S. companies based on total market capitalization, representing approximately 98% of the investable U.S. equity market.
components have options listed on them, representing over 94% of the index weight. The Russell 2000® Index has a total capitalization of $1.54 trillion.

Index Calculation and Index Maintenance

The value of the Russell 2000® Index is currently calculated by Reuters on behalf of Russell and is disseminated every 15 seconds during regular Phlx trading hours to market information vendors via the Options Price Reporting Authority ("OPRA").

The methodology used to calculate the value of the Russell 2000® Index is similar to the methodology used to calculate the value of other well known market-capitalization-weighted indexes, reflecting the total market value of the component stocks relative to a particular base period and is computed by dividing the total market value of the companies in each index by the respective index divisor. The divisor is adjusted periodically to maintain consistent measurement of the index. The base index value of the Russell 2000® Index was $135.00 on the December 31, 1986 base index date, and the value of the Russell 2000® Index on December 31, 2005 was $673.22.

In recent years, the values of the Russell Indexes have increased significantly. As a result, the premium for options on the Full Value Russell Index has also increased, causing these index options to trade at a level that may be uncomfortably high for retail investors. Therefore, the Exchange also proposes to trade options on the Reduced Value Russell Index. The Exchange believes that listing options on the reduced-value index would attract a greater source of customer business than if options were based only on the Full Value Russell Index. The Exchange further believes that listing options on the reduced-value index would provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the Russell 2000® Index and
use this trading vehicle while extending a smaller outlay of capital. The Exchange believes that this should attract additional investors and, in turn, create a more active and liquid trading environment.\textsuperscript{12}

Options on the Russell Indexes would expire on the Saturday following the third Friday of the expiration month (“Expiration Saturday”). Trading in options on the Russell Indexes would normally cease at 4:15 p.m. Eastern Standard Time (“EST”) on the Thursday preceding an Expiration Saturday. The exercise settlement value at expiration of each new index option would be calculated by Reuters on behalf of Russell, based on the opening prices of the index’s component securities on the last business day prior to expiration (“Settlement Day”).\textsuperscript{13} The Settlement Day is normally the Friday preceding Expiration Saturday. If a component security in a Russell Index does not trade on Settlement Day, the last reported sales price in the primary market from the previous trading day would be used to calculate both full and reduced settlement values. Settlement values for the Full and Reduced Value Russell Indexes would be disseminated by OPRA.

The Russell Indexes are monitored and maintained by Russell, which is responsible for making all necessary adjustments to the indexes to reflect component deletions, share changes, stock splits, stock dividends (other than ordinary cash dividends), and stock price adjustments due to restructuring, mergers, or spin-offs.

\textsuperscript{12} The Exchange believes that options on certain Reduced Value Russell Indexes have generated considerable interest from investors, as measured, for example, by the robust trading volume of options on the reduced value Russell 2000® Index that traded on CBOE and the International Securities Exchange (“ISE”) in 2005 (total 320,876 contracts).

\textsuperscript{13} The aggregate exercise value of the option contract is calculated by multiplying the index value by the index multiplier, which is 100.
involving the underlying components. Some corporate actions, such as stock splits and stock dividends, require simple changes to the available shares outstanding and the stock prices of the underlying components. Other corporate actions, such as share issuances, change the market value of an index and require the use of an index divisor to effect adjustments.

The Russell Indexes are re-constituted annually on June 30, based on prices and available shares outstanding as of the preceding May 31. New index components are added only as part of the annual re-constitution, after which, should a stock be removed from an index for any reason, it could not be replaced until the next re-constitution.

The Exchange represents that, although it is not involved in the maintenance of any of the Russell Indexes, it would monitor each Russell Index on a quarterly basis and notify the Commission's Division of Market Regulation ("Division") by filing a proposed rule change pursuant to Rule 19b-4 if: (i) the number of securities in any index drops by one-third or more; (ii) 10% or more of the weight of any index is represented by component securities having a market value of less than $75 million; (iii) less than 80% of the weight of any index is represented by component securities that are eligible for options trading pursuant to Phlx Rule 1009; (iv) 10% or more of the weight of any index is represented by component securities trading less than 20,000 shares per day; or (v) the largest component security in any index accounts for more than 15% of the weight of the index, or the largest five components in the aggregate account for more than 50% of the weight of the index.

The Exchange also would notify the Division immediately if Russell ceases to maintain and calculate any of the Russell Indexes on which Phlx is proposing to list and
trade options, or if the value of any of these Russell Indexes is not disseminated every 15 seconds by a widely available source. If a Russell Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange would not list any additional series for trading and would limit all transactions in options on that index to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

**Contract Specifications**

The proposed contract specifications for the options on the Russell Indexes are based on the contract specifications of similar options currently listed on CBOE, ISE and AMEX.\(^{14}\) The Russell Indexes are broad-based indexes, as defined in Phlx Rule 1000A(b)(11). Options on the Russell Indexes would be European-style and a.m. cash-settled. The Exchange's standard trading hours for index options (9:30 a.m. to 4:15 p.m. EST), as set forth in Commentary .01 to Phlx Rule 1101A, would apply to options on the Russell Indexes (both full and reduced value). Exchange rules that apply to the trading of options on broad-based indexes also would apply to options on both the Full Value and Reduced Value Russell Indexes.\(^{15}\) The trading of these options also would be subject to, among others, Exchange rules governing margin requirements and trading halt procedures for index options.

For options on the Full Value Russell Indexes, the Exchange proposes to establish in its Rule 1001A(a)(iv) an aggregate position limit of 50,000 contracts on the same side

\(^{14}\) See supra note 8.

\(^{15}\) See generally Phlx Rules 1000A through 1106A (Rules Applicable to Trading of Options on Indices) and Phlx Rules 1000 through 1093 (Options Rules of the Phlx).
of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series. Full Value Russell Index contracts would be aggregated with Reduced Value Russell Index contracts, where ten (10) Reduced Value Russell Index contracts would equal one (1) Full Value Russell Index contract. These limits are identical to the limits applicable to options based on the Russell Indexes that currently trade on CBOE.

Additionally, Commentary .01 to Phlx Rule 1001A provides that under certain circumstances index options positions may be exempted from established position limits for each contract “hedged” by an equivalent dollar amount of the underlying component securities. Furthermore, Commentary .02 provides that member organizations may receive exemptions of up to two times the applicable position limit where the index options positions are in proprietary accounts used for the purpose of facilitating orders for customers of those member organizations. See Phlx Rule 1001A.

The Exchange proposes to apply existing index margin requirements for the purchase and sale of options on the Russell Indexes. See Phlx Rule 722.

The Exchange proposes to set strike price intervals for index options of at least $2.50 when the strike price of a Russell Index (full or reduced value) is below $200, and at least $5.00 strike price intervals otherwise. The minimum tick size for series trading below $3 would be $0.05, and for series trading at or above $3 would be $0.10. See Phlx Rule 1034 and proposed Rule 1101A.

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16 The same limits that apply to position limits would apply to exercise limits for these products. See Phlx Rule 1002A.

17 See CBOE Rule 24.4(a).
The Exchange proposes to list series of options on the Full Value and Reduced Value Russell Indexes having up to four consecutive expiration months, with the shortest-term series initially having no more than two (2) months to expiration (consecutive month series), and may designate one (1) expiration cycle for each class that shall consist of four (4) calendar months occurring at three-month intervals (cycle month series). Thus, for example, should the Exchange determine to list options on a Russell Index, it could at any time list and trade the following six (6) series: June, July, August, September, December and March. This is done by choosing four consecutive expiration months along with designating one (1) expiration cycle (the March cycle) with four (4) calendar months. It also can be achieved by choosing one (1) expiration cycle (the March cycle) and having up to four consecutive expiration months. In addition, LEAPS having up to 60 months to expiration may be traded. See Phlx Rule 1101A. The trading of long-term options series on the Russell 2000® Index would be subject to the same rules that govern all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

All of the specifications and calculations for options on the Reduced Value Russell Index would be the same as those used for the Full Value Russell Index with position limits adjusted accordingly for options on the Reduced Value Russell Index. The reduced-value options would trade independently of, and in addition to, the full-value options. Options on both of the Russell Indexes would be subject to the same rules that presently govern all Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits.

18 The Exchange is not proposing to list reduced-value LEAPS on the Reduced Value Russell Index.
Surveillance and Capacity

The Exchange represents that it has an adequate surveillance program in place for options on the Russell Indexes and intends to apply those same procedures that it applies to the Exchange's other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994. The members of the ISG include all of the national securities exchanges. The ISG members work together to coordinate surveillance and share information regarding the stock and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.

The Exchange also represents that it has the necessary systems capacity to support the new options series that would result from the introduction of options on the Full and Reduced Value Russell Indexes, including LEAPS on the Full Value Russell Indexes. The Exchange has provided the Commission with system capacity information to support this representation.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^{19}\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^{20}\) in particular, in that it will permit trading in options on Russell Indexes pursuant to rules designed to prevent fraudulent and manipulative practices and to protect investors and the public interest.

\(^{19}\) 15 U.S.C. 78f(b).

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. This proposed rule filing consists of substantially the same provisions and issues addressed by the ISE in a rule filing regarding Russell Indexes (full and reduced value) as discussed herein, which the Commission approved on an accelerated basis.21 Nothing in this proposed rule filing raises any new, unique, or substantively different issues from those raised by ISE in the previously-mentioned filing and, for this reason, the Exchange requests the Commission to grant accelerated approval of the proposal. Accelerated approval of this proposed rule change would enable the Exchange to compete in the trading of options on the full value

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and reduced-value Russell Indexes that are already listed and traded on other options
exchanges.\textsuperscript{22}

\textbf{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:

\textbf{Electronic comments:}

- Use the Commission’s Internet comment form
  \texttt{(http://www.sec.gov/rules/sro.shtml); or}
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-
  Phlx-2006-65 on the subject line.

\textbf{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 \texttt{SR-Phlx-2006-65}. 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
\texttt{(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

\textsuperscript{22} The higher position limits proposed in this rule change are necessary for the Exchange
to effectively compete against other exchanges trading options on the Russell Indexes
(e.g. ISE and CBOE) that already have such position limits for these products.
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-2006-65 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.\footnote{17 CFR 200.30-3(a)(12).}

Nancy M. Morris
Secretary
**Exhibit 3 – Contract Specifications for the Russell 2000® Index**

<table>
<thead>
<tr>
<th>Description</th>
<th>Full Value Russell 2000® Index</th>
<th>Reduced Value (RV) Russell 2000® Index</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>The Russell 2000® Indexes are designed to measure the performance of the bottom 2,000 companies from a universe of the 3,000 largest stocks in the U.S. The indexes are capitalization-weighted and include only common stocks belonging to corporations domiciled in the US and its territories and traded on the NYSE, NASDAQ or the AMEX. The Russell 2000® Indexes are adjusted once per year, in June, to reflect changes in rankings and shares outstanding. <em>The Russell 2000® RV Index represents 1/10 th of the Russell 2000® Index.</em></td>
<td></td>
</tr>
<tr>
<td><strong>Recent Level</strong></td>
<td>761.97</td>
<td>76.19</td>
</tr>
<tr>
<td><strong>Symbol</strong></td>
<td>RUT</td>
<td>RMN</td>
</tr>
<tr>
<td><strong>Multiplier</strong></td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td><strong>Strike Interval</strong></td>
<td>$5.00 (based on current index levels)</td>
<td>$2.50 minimum (based on current index levels)</td>
</tr>
<tr>
<td><strong>Minimum Trading Increment</strong></td>
<td>&lt;$3.00 is $0.05</td>
<td></td>
</tr>
<tr>
<td><strong>Expiration Date</strong></td>
<td>Saturday following the third Friday of the expiration month.</td>
<td></td>
</tr>
<tr>
<td><strong>Expiration Month</strong></td>
<td>Up to three near-term months followed by three additional months from the March quarterly cycle. LEAPS and FLEX options may also be available.</td>
<td></td>
</tr>
<tr>
<td><strong>Exercise Style</strong></td>
<td>European</td>
<td></td>
</tr>
<tr>
<td><strong>Last Trading Day</strong></td>
<td>Trading will ordinarily cease on the business day (usually a Thursday) preceding the day on which the exercise-settlement value is calculated.</td>
<td></td>
</tr>
<tr>
<td><strong>Settlement Type</strong></td>
<td>A.M., cash settlement</td>
<td></td>
</tr>
<tr>
<td><strong>Settlement Value Symbol</strong></td>
<td>RLS</td>
<td>RMU</td>
</tr>
<tr>
<td><strong>CUSIP</strong></td>
<td>12483510</td>
<td>12502F-5</td>
</tr>
</tbody>
</table>

The exercise-settlement value is calculated using the opening (first) reported sales price in the primary market of each component stock on the last business day (usually a Friday) before expiration date. In the event that a stock in the index does not open on the day in which the exercise-settlement value is determined, the last reported sales price in the primary market will be used in calculating the exercise-settlement value. The exercise-settlement amount is equal to the difference between the exercise-settlement value and the exercise price of the option, multiplied by $100. Exercise will result in delivery of cash on the business day following expiration.
<table>
<thead>
<tr>
<th><strong>Settlement of Exercise</strong></th>
<th>Next business day following expiration.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Position and Exercise Limits</strong></td>
<td>The aggregate position and exercise limits are 50,000 Full Value contracts on the same side of the market with no more than 30,000 in the near-term month. 10 Reduced Value contracts are equivalent to 1 Full Value contract. Proprietary accounts of member organizations may receive a position limit exemption up to 100,000 contracts for the purpose of facilitating customer orders.</td>
</tr>
<tr>
<td><strong>Margin</strong></td>
<td>Writers of uncovered puts or calls must deposit / maintain 100% of the option proceeds* plus 15% of the aggregate contract value (current index level x$100) minus the amount by which the option is out-of-the-money, if any, subject to a minimum for calls of option proceeds plus 10% of the aggregate contract value and a minimum for puts of option proceeds* plus 10% of the aggregate exercise price amount. (*For calculating maintenance margin, use option current market value instead of option proceeds.)</td>
</tr>
<tr>
<td><strong>Trading Hours</strong></td>
<td>9:30 A.M. - 4:15 P.M. Eastern Time (New York time).</td>
</tr>
</tbody>
</table>
Exhibit 4

New language is underlined; Deleted language is bracketed. Changes to the immediately preceding rule text that was filed are indicated as follows: New additions are double underlined; New deletions are double bracketed.

Rule 1079.

FLEX Index and Equity Options

A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the specialist post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange rules, this Rule takes precedence with respect to FLEX options.

(a) - (c) --No Change.

(d) Position Limits.

(1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options (TPX, VLE and XOC); 50,000 contracts on the same side of the market, with 30,000 contracts on the same side of the market in the nearest expiration month, respecting full-size Nasdaq Composite Index® Options and options on the Russell 2000® Index ("Full Value Russell 2000® Index"); 500,000 contracts on the same side of the market, with 300,000 contracts on the same side of the market in the nearest expiration month respecting mini-size Nasdaq Composite Index® Options and options on the one tenth (1/10th) value Russell 2000® Index ("Reduced Value Russell 2000® Index"); 36,000, 48,000, or 60,000 contracts respecting industry index options, depending on the position limit tier determined pursuant to Rule 1001A(b)(i). However, positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to Rule 1101A(b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. Positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options.

(2) -- No Change.

(e) – (f) – No. Change.

* * * * *

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), except certain positions must be aggregated in accordance with paragraph (d) or (e) below:

[[a]](i) - (iii) -- No Change

(iv) Respecting the Full Value Russell 2000® Index and the Reduced Value Russell 2000® Index, (1) 50,000 contracts total for options on the [F]full [V]value [Russell I]index on the same side of the market, with 30,000 contracts in the nearest expiration month, and (2) 500,000 contracts total for options on the [R]educed [V]alue [Russell I]index on the same side of the market, with 300,000 contracts total in the nearest expiration month.

(b) - (d) -- 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 (1) Full Value Russell 2000® Index option contract is the equivalent of ten (10) Reduced Value Russell 2000® Index option contracts.

Commentary .01 - .02 -- No Change.

* * * * *

Rule 1101A.

Terms of Option Contracts

(a) The Exchange shall determine fixed point intervals of exercise prices for index options (options on indexes). Generally, the exercise (strike) price intervals will be no less than $5; provided, that the Exchange may determine to list strike prices at no less than $2.50 intervals for options on the following indexes (some of which may also be known as sector indexes):

(i) - (xxix) -- No Change.

(xxx) Full Value Russell 2000® Index, and related Reduced Value Russell 2000® Index, if the strike price is less than $200.
Remainder of (a) – No Change.

(b) - (c) -- No Change.

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Commentary: ...

.01 Transactions in broad-based (market) index options traded on the Exchange, including Value Line Composite Index options, National Over-the-Counter Index options, U.S. Top 100 Index options, and the OTC Industrial Average Index options, Full Value Russell 2000® Index options, and Reduced Value Russell 2000® Index options, may be effected on the Exchange until 4:15 P.M. each business day, through the last trading day prior to expiration.

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