### Proposed Rule Change

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

<table>
<thead>
<tr>
<th>Initial</th>
<th>Amendment</th>
<th>Withdrawal</th>
<th>Section 19(b)(2)</th>
<th>Section 19(b)(3)(A)</th>
<th>Section 19(b)(3)(B)</th>
<th>Rule</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✓</td>
<td></td>
<td>✓</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Description

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

Capping ROT and specialist equity option comparison and transaction charges when certain conditions are met.

### 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.

<table>
<thead>
<tr>
<th>First Name</th>
<th>Cynthia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last Name</td>
<td>Hoekstra</td>
</tr>
<tr>
<td>Title</td>
<td>Director</td>
</tr>
<tr>
<td>E-mail</td>
<td><a href="mailto:cynthia.hoekstra@phlx.com">cynthia.hoekstra@phlx.com</a></td>
</tr>
<tr>
<td>Telephone</td>
<td>(215) 496-5066</td>
</tr>
<tr>
<td>Fax</td>
<td>(215) 496-6729</td>
</tr>
</tbody>
</table>

### 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: 10/19/2006

By: Cynthia Hoekstra

(Note)

Directive

(Certificate)

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

Cynthia Hoekstra,
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.

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).

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.

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.

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 adopt a cap on Registered Options Traders ("ROT") comparison charges and ROT and specialist transaction charges\(^3\) in connection with non-AUTOM delivered equity option contracts\(^4\) when an ROT or specialist executes over 14,000 contracts calculated on a daily basis in all equity options overlying the same underlying security per day ("qualifying option"). This proposal will apply only to transactions when an ROT or specialist is the contra-party to a customer order. Therefore, after the 14,000 non-AUTOM delivered contract level is reached in a qualifying option, additional comparison and transaction charges will not be assessed on subsequent option contracts in excess of 14,000 that are executed on that day in that specific qualifying option when the ROT or specialist is the contra-party to a customer order.\(^5\)

---


\(^3\) The Exchange does not currently assess a comparison charge on specialist transactions. Therefore, the proposed cap will apply to ROT comparison and transaction charges combined and separately to specialist transaction charges.

\(^4\) For purposes of this fee, orders delivered via the Floor Broker Management System shall be deemed to be non-AUTOM delivered orders. See Exchange Rule 1063.

\(^5\) For example, if an ROT executes a total of 35,000 non-AUTOM delivered customer SPY equity option contracts (puts and calls) in a given day, the transaction and comparison charges assessed for these transactions will be capped for that day at $3,080 (14,000 contracts * ($0.19 (transaction charge) + $0.03 (comparison charge))). In this example, additional transaction and comparison charges will continue to be assessed on all other option contracts executed by that ROT, except for those executed option contracts in other options that also meet the above requirements. For orders delivered electronically and transactions that are executed with a contra party other than a customer (i.e. another ROT), comparison and transaction charges will continue to be assessed even
In addition, even when the 14,000 cap is reached, the Exchange will continue to impose a license fee of $0.10 per contract side on applicable ROTs and specialists for equity option transactions on those licensed products that carry a license fee.\(^6\)

This proposal is scheduled to become effective for trades settling on or after October 20, 2006.

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

2. Procedures of the Self-Regulatory Organization

The Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission ("SEC" or "Commission") on October 19, 2006.

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

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

a. Purpose

The purpose of this proposal is to create an incentive for ROTs and specialists to attract additional order flow to the Exchange and also, in connection with sizeable

when the contracts are in the same option (i.e. SPY) that qualified for the cap described above.

\(^6\) For a complete list of the licensed products that will be assessed a $0.10 license fee per contract side after the 14,000 equity option contract cap is reached, see $60,000 “Firm Related” Equity Option and Index Option Cap on the Exchange’s fee schedule.
customer transactions, to create an incentive for ROTs and specialists to execute additional contracts knowing comparison and transaction fees are capped once the 14,000 threshold is met. This proposal should also provide additional incentives for member organizations to increase liquidity and allow the Exchange to remain competitive.

b. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(4) of the Act\(^8\) in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

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

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

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

No written comments were either solicited or received.

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

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

---

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

7. **Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

The foregoing proposed rule change establishes or changes a due, fee, or other charge applicable only to a member pursuant to Section 19(b)(3)(A)(ii) of the Act\(^9\) and Rule 19b-4(f)(2)\(^{10}\) thereunder. Accordingly, the proposal will take effect upon filing with the Commission. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

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

The proposed rule change is similar to a proposed rule change filed by the International Securities Exchange, Inc.\(^{11}\)

9. **Exhibits**

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

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

---


\(^{10}\) 17 CFR 240.19b-4(f)(2).

\(^{11}\) See Securities Exchange Act Release No. 54016 (June 19, 2006), 71 FR 36575 (June 27, 2006) (SR-ISE-2006-32) (reduction and waiver of execution fees and waiver of comparison fees with respect to trading options in the Nasdaq 100 Index\(^\text{®}\) (QQQQ) and transactions executed in ISE’s Facilitation Mechanism).
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. _______; File No. SR-Phlx-2006-67)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Capping ROT and Specialist Equity Option Comparison and Transaction Charges When Certain Requirements are Met.

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 adopt a cap on Registered Options Traders ("ROT") comparison charges and ROT and specialist transaction charges\(^5\) in connection with non-AUTOM delivered


\(^5\) The Exchange does not currently assess a comparison charge on specialist transactions. Therefore, the proposed cap will apply to ROT comparison and transaction charges combined and separately to specialist transaction charges.
equity option contracts\textsuperscript{6} when an ROT or specialist executes over 14,000 contracts calculated on a daily basis in all equity options overlying the same underlying security per day ("qualifying option"). This proposal will apply only to transactions when an ROT or specialist is the contra-party to a customer order. Therefore, after the 14,000 non-AUTOM delivered contract level is reached in a qualifying option, additional comparison and transaction charges will not be assessed on subsequent option contracts in excess of 14,000 that are executed on that day in that specific qualifying option when the ROT or specialist is the contra-party to a customer order.\textsuperscript{7}

In addition, even when the 14,000 cap is reached, the Exchange will continue to impose a license fee of $0.10 per contract side on applicable ROTs and specialists for equity option transactions on those licensed products that carry a license fee.\textsuperscript{8}

This proposal is scheduled to become effective for trades settling on or after October 20, 2006.

\textsuperscript{6} For purposes of this fee, orders delivered via the Floor Broker Management System shall be deemed to be non-AUTOM delivered orders. See Exchange Rule 1063.

\textsuperscript{7} For example, if an ROT executes a total of 35,000 non-AUTOM delivered customer SPY equity option contracts (puts and calls) in a given day, the transaction and comparison charges assessed for these transactions will be capped for that day at $3,080 (14,000 contracts * ($0.19 (transaction charge) +$0.03 (comparison charge))). In this example, additional transaction and comparison charges will continue to be assessed on all other option contracts executed by that ROT, except for those executed option contracts in other options that also meet the above requirements. For orders delivered electronically and transactions that are executed with a contra party other than a customer (i.e. another ROT), comparison and transaction charges will continue to be assessed even when the contracts are in the same option (i.e. SPY) that qualified for the cap described above.

\textsuperscript{8} For a complete list of the licensed products that will be assessed a $0.10 license fee per contract side after the 14,000 equity option contract cap is reached, see $60,000 “Firm Related” Equity Option and Index Option Cap on the Exchange’s fee schedule.

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

In its filing with the Commission, the Phlx included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Phlx has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

The purpose of this proposal is to create an incentive for ROTs and specialists to attract additional order flow to the Exchange and also, in connection with sizeable customer transactions, to create an incentive for ROTs and specialists to execute additional contracts knowing comparison and transaction fees are capped once the 14,000 threshold is met. This proposal should also provide additional incentives for member organizations to increase liquidity and allow the Exchange to remain competitive.

2. Statutory Basis

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\(^9\) in general, and furthers the objectives of Section 6(b)(4) of

the Act in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

B. Self-Regulatory Organization's Statement on Burden on Competition

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

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

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

IV. Solicitation of Comments

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


Electronic comments:

- Use the Commission’s Internet comment form
  (http://www.sec.gov/rules/sro.shtml); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-67 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-2006-67. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission’s Internet Web site (http://www.sec.gov/rules/sro.shtml). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission’s Public Reference Room. Copies of the filing also will be available for inspection and copying at the principal office of the Phlx. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information
that you wish to make available publicly. All submissions should refer to File Number SR-Phlx-2006-67 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.¹³

Nancy M. Morris
Secretary

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

<table>
<thead>
<tr>
<th>Classification</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPTION COMPARISON CHARGE</strong> (applicable to all trades – except specialist trades)</td>
<td></td>
</tr>
<tr>
<td>Registered Option Trader</td>
<td>$.03 per contract</td>
</tr>
<tr>
<td>Firm / Proprietary +</td>
<td>$.04 per contract</td>
</tr>
<tr>
<td>Customer Executions, Broker-Dealer Orders</td>
<td>No charge</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Classification</th>
<th>Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPTION TRANSACTION CHARGE</strong></td>
<td></td>
</tr>
<tr>
<td>Customer Executions</td>
<td>No charge</td>
</tr>
<tr>
<td>Firm / Proprietary +</td>
<td>$.20 per contract</td>
</tr>
<tr>
<td>Firm / Proprietary Facilitation +</td>
<td>$.10 per contract</td>
</tr>
<tr>
<td>Registered Option Trader (on-floor) *</td>
<td>$.19 per contract</td>
</tr>
<tr>
<td>Specialist * 9</td>
<td>$.21 per contract</td>
</tr>
<tr>
<td>Broker/Dealer 11 (AUTOM-delivered)</td>
<td>$.45 per contract</td>
</tr>
<tr>
<td>Broker/Dealer 12 (non-AUTOM-delivered)</td>
<td>$.25 per contract</td>
</tr>
</tbody>
</table>

**When contra-party to non-AUTOM delivered customer orders, ROT transaction and comparison charges and Specialist transaction charges will not be assessed on additional qualifying transactions on option contracts that number greater than 14,000, calculated per day per equity option overlying the same underlying security. A $0.10 per contract side license fee will continue to be imposed even when the 14,000 cap is met in connection with certain products that carry license fees. For a complete list of these product symbols, see the $60,000 Firm Related Equity Option and Index Option Cap Fee Schedule.**

**For the purpose of this Summary of Equity Option Charges, the Firm / Proprietary comparison or transaction charge applies to member organizations for orders for the proprietary account of any member or non-member broker-dealer that derives more than 35% of its annual, gross revenues from commissions and principal transactions with customer.**

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

---

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

10 See footnote 9

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

12 See footnote 11.