Proposed Rule Change by Philadelphia Stock Exchange

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

Initial Amendment Withdrawal

Section 19(b)(2) Section 19(b)(3)(A) Section 19(b)(3)(B)

Pilot Extension of Time Period for Commission Action Date Expires

Rule

19b-4(f)(1) 19b-4(f)(4)
19b-4(f)(2) 19b-4(f)(5)
19b-4(f)(3) 19b-4(f)(6)

Description

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

The Phlx proposed to modify its Basket Linked Notes listing standards.

Contact Information

Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.

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

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 12/12/2006
By John Dayton Director and Counsel

Name)

(Note)

(Ttitle)

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.
The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

### Exhibit 1 - Notice of Proposed Rule Change

The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3).

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

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

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

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

### Exhibit 4 - Marked Copies

The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

### Exhibit 5 - Proposed Rule Text

The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

### Partial Amendment

If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission’s permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e., partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.
1. **Text of the Proposed Rule Change**

The Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\) and Rule 19b-4 thereunder,\(^2\) proposes to amend Phlx Rule 803 – Criteria for Listing – Tier 1, regarding listing standards for Basket Linked Notes ("BLNs").

A notice of the proposed rule change for publication in the **Federal Register** is attached hereto as **Exhibit 1** and the text of the proposed Exchange Rule is set forth below:

Underlining indicates additions; brackets indicate deletions.

**Rule 803 Criteria for Listing – Tier I**

* * * * *

(a)-(j) No Change.

(k) Basket Linked Notes ("BLNs").

Income instruments which are linked, in whole or in part, to the market performance of [more than one common stock] up to thirty (30) common stocks or non-convertible preferred stocks will be considered for listing provided:

(1)-(7) No Change.

(l)-(m) No Change.

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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 August 30, 2006.

Questions and comments on the proposed rule change may be directed to John Dayton, Director and Counsel, at (215) 496-5162 or Edith Hallahan, Senior Vice President and Deputy General Counsel, at (215) 496-5179.

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

a. Purpose

The purpose of the proposed rule change is to conform Phlx’s listing standards for Basket Linked Notes, specifically Rule 803(k), to that of other exchanges. Phlx Rule 803 provides listing standards for Basket Linked Notes, which are income instruments whose values are linked to the performance of highly capitalized, actively traded common stock. Specifically, BLNs are non-convertible debt of an issuer, whose value is based, at least in part, on the value of another issuer’s common stock or non-convertible preferred stock.

Rule 803(k) details Phlx’s listing standards for BLNs. Specifically, Rule 803(k)(3) currently requires, among other things, that securities linked to BLNs either: (i) have a minimum market capitalization of $3 billion and during the 12 months preceding listing are shown to have traded at least 2.5 million shares; (ii) have a minimum market capitalization of $1.5 billion and during the 12 months preceding listing are shown to have traded at least 10 million shares; or (iii) have a minimum market capitalization of
$500 million and during the 12 months preceding listing are shown to have traded at least 15 million shares.

On December 7, 2000, the Commission granted authority to the Phlx to list and trade notes linked to more than one equity security. Each of the underlying securities of a BLN is required to meet the standards for linked securities set forth in Phlx Rule 803(k). However, the 2000 Order limited the basket of underlying securities that may to be linked to a BLN to no more than twenty (20). At this time, Phlx proposes to increase the number of underlying securities that may be linked to a BLN from no more than 20 to no more than thirty (30).

The Phlx believes that expanding the basket of equity securities that may be linked to a BLN will enhance competition and benefit investors and the marketplace through additional product choices and alternatives. The Phlx also believes that there would be no investor protection concerns with expanding the number of equity securities that may be linked to a BLN from more than one common stock to up to thirty (30) common stocks.

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

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is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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 approval for this proposed rule change as the Phlx believes that it is consistent with the protection of investors and the public interest because accelerated approval would allow the Exchange to begin offering the benefits of this proposed rule change to those trading Basket Linked Notes on the Exchange immediately and should increase competition for Basket Linked Notes by allowing another trading venue for trading Basket Linked Notes where the Basket Linked Notes are linked to the market performance of up to thirty (30) common stocks.
8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed rule change is based on the rules of the American Stock Exchange, Amex Company Guide Section 107B regarding listing standards for equity linked term notes (“ELNs”).

9. Exhibits

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

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Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")\(^1\), and Rule 19b-4\(^2\) thereunder, notice is hereby given that on ______________________ 2006, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Phlx. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. **Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Phlx, pursuant to Section 19(b)(1) of the Act\(^3\) and Rule 19b-4 thereunder,\(^4\) proposes to amend Phlx Rule 803 – Criteria for Listing – Tier 1, regarding listing standards for Basket Linked Notes ("BLNs").

The text of the proposed Exchange Rule is set forth below:

Underlining indicates additions; brackets indicate deletions.

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(k) Basket Linked Notes ("BLNs").

Income instruments which are linked, in whole or in part, to the market performance of [more than one common stock] up to thirty (30) common stocks or non-convertible preferred stocks will be considered for listing provided:

(1)-(7) No Change.

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

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

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

1. Purpose

The purpose of the proposed rule change is to conform Phlx’s listing standards for Basket Linked Notes, specifically Rule 803(k), to that of other exchanges. Phlx Rule 803 provides listing standards for Basket Linked Notes, which are income instruments whose values are linked to the performance of highly capitalized, actively traded common stock. Specifically, BLNs are non-convertible debt of an issuer, whose value is based, at least in part, on the value of another issuer’s common stock or non-convertible preferred stock.
Rule 803(k) details Phlx’s listing standards for BLNs. Specifically, Rule 803(k)(3) currently requires, among other things, that securities linked to BLNs either: (i) have a minimum market capitalization of $3 billion and during the 12 months preceding listing are shown to have traded at least 2.5 million shares; (ii) have a minimum market capitalization of $1.5 billion and during the 12 months preceding listing are shown to have traded at least 10 million shares; or (iii) have a minimum market capitalization of $500 million and during the 12 months preceding listing are shown to have traded at least 15 million shares.

On December 7, 2000, the Commission granted authority to the Phlx to list and trade notes linked to more than one equity security. Each of the underlying securities of a BLN is required to meet the standards for linked securities set forth in Phlx Rule 803(k). However, the 2000 Order limited the basket of underlying securities that may be linked to a BLN to no more than twenty (20). At this time, Phlx proposes to increase the number of underlying securities that may be linked to a BLN from no more than 20 to no more than thirty (30).

The Phlx believes that expanding the basket of equity securities that may be linked to a BLN will enhance competition and benefit investors and the marketplace through additional product choices and alternatives. The Phlx also believes that there would be no investor protection concerns with expanding the number of equity securities

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that may be linked to a BLN from more than one common stock to up to thirty (30)
common stocks.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act\(^7\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^8\) in particular, in that it is designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general to protect investors and the public interest, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which Phlx consents, the Commission shall: (a) by order approve such proposed

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

rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved. The Exchange requests accelerated approval for this proposed rule change as the Phlx believes that it is consistent with the protection of investors and the public interest because accelerated approval would allow the Exchange to begin offering the benefits of this proposed rule change to those trading Basket Linked Notes on the Exchange immediately and should increase competition for Basket Linked Notes by allowing another trading venue for trading Basket Linked Notes where the Basket Linked Notes are linked to the market performance of up to thirty (30) common stocks.

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-2006-85 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-2006-85. 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-2006-85 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. 9

Nancy M. Morris
Secretary

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