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).

Extending until March 1, 2008 the pilot program for dividend, merger and short stock interest spread strategies.

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 Cynthia Last Name Hoekstra

Title Vice President

E-mail cynthia.hoekstra@phlx.com

Telephone (215) 496-5066 Fax (215) 496-6729

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 02/21/2007

By □ (Name) Cynthia Hoekstra, (Title) Vice President

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.
**Form 19b-4 Information**

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

**Exhibit 1 - Notice of Proposed Rule Change**

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

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

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

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

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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

**Partial Amendment**

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

The Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² proposes to extend for a period of one year, until March 1, 2008, the pilot programs for: (1) the $1,000 and $25,000 fee caps on equity option transaction and comparison charges on dividend,³ merger,⁴ and short stock interest⁵ strategies; and (2) the license fee of $0.05 per contract side imposed on dividend and short stock interest strategies, as described below. The current fee caps and $0.05 per contract side license fee are in effect as a pilot program that is scheduled to expire on March 1, 2007.⁶ Other than extending the pilot program for an additional one-year period until March 1, 2008, no other changes to the Exchange’s current dividend, merger and short stock interest

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³ For purposes of this proposal, the Exchange defines a “dividend strategy” as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed prior to the date on which the underlying stock goes ex-dividend. See e.g., Securities Exchange Act Release No. 54174 (July 19, 2006), 71 FR 42156 (July 25, 2006) (SR-Phlx-2006-40).

⁴ For purposes of this proposal, the Exchange defines a “merger strategy” as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock. Id.

⁵ For purposes of this proposal, the Exchange defines a “short stock interest strategy” as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class. Id.

strategy program, which includes the $0.05 per contract side license fee, are being proposed at this time.

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 and RUT and RMN 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 February 20, 2007.

Questions and comments on the proposed rule change may be directed to Cynthia Hoekstra, Vice President, at (215) 496-5066 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

Currently, the Exchange imposes a fee cap on equity option transaction and comparison charges on dividend, merger and short stock interest strategies executed on the same trading day in the same options class. Specifically, Registered Options Traders’ ("ROTs") and specialists’ net equity option transaction and comparison charges are capped at $1,000 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class. In addition, there is a $25,000 per member organization fee cap on equity option transaction and comparison charges incurred in one

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month for dividend, merger and short stock interest strategies combined. The $1,000 and 
$25,000 fee caps are implemented after any applicable rebates are applied to ROT and 
specialist equity option transaction and comparison charges occurring as part of a 
dividend, merger or short stock interest strategy. 8

In addition, the Exchange assesses a license fee of $0.05 per contract side for 
dividend and short stock interest strategies in connection with certain products that carry 
license fees, if applicable. 9 The applicable license fee is assessed on every transaction 
and is not subject to the $1,000 or $25,000 fee caps described above nor does it count 
towards reaching the $1,000 or $25,000 fee caps.

The purpose of extending the pilot program for the fee caps on equity option 
transaction and comparison charges on dividend, merger and short stock interest 
strategies and the $0.05 per contract fee imposed on dividend and short stock interest 
strategies until March 1, 2008 is to continue to attract additional liquidity to the Exchange 
and to remain competitive with other options exchanges in connection with these types of 
options strategies. In addition, the purpose of extending the pilot is to recoup the license 
fees owed in connection with the trading of products that carry license fees. Even with 
the assessment of the $0.05 license fee per contract side, the fee caps and rebates should 
continue to encourage specialists and ROTs to provide liquidity for these types of options 
strategies.

8 Currently, the Exchange rebates $0.08 per contract side for ROT executions and $0.07 
per contract side for trades occurring as part of a dividend, merger or short stock interest 
strategy.

9 For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related 
Equity Option and Index Option Cap Fee Schedule.
This proposal is scheduled to become effective for trades settling on or after March 1, 2007 and will remain in effect as a pilot program until March 1, 2008.

b. **Statutory Basis**

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\(^\text{10}\) in general, and furthers the objectives of Section 6(b)(4) of the Act\(^\text{11}\) in particular, in that it is an equitable allocation of reasonable fees and other charges among Exchange members.

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

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

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

No written comments were either solicited or received.

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

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

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

The foregoing proposed rule change establishes or changes a due, fee, or other charge applicable only to a member pursuant to Section 19(b)(3)(A)(ii) of the Act\(^\text{12}\) and

\(^\text{10}\) 15 U.S.C. 78f(b).


Rule 19b-4(f)(2)\textsuperscript{13} 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 proposed rule changes recently filed by the American Stock Exchange LLC and the Chicago Board Options Exchange, Incorporated.\textsuperscript{14}

9. Exhibits

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

5. Applicable section of the Exchange’s Summary of Equity Option and RUT and RMN Charges.\textsuperscript{15}

\textsuperscript{13} 17 CFR 240.19b-4(f)(2).


\textsuperscript{15} The fee schedule incorporates changes that were recently filed with the Commission. See SR-Phlx-2007-12.
Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2007-14)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Extending Until March 1, 2008 the Dividend, Merger and Short Stock Interest Strategies Program

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 ______________________ 2007, 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 extend for a period of one year, until March 1, 2008, the pilot programs for: (1) the $1,000 and $25,000 fee caps on equity option transaction and comparison charges on dividend,\(^5\) merger,\(^6\) and short stock interest\(^7\) strategies; and (2) the license fee of

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5 For purposes of this proposal, the Exchange defines a “dividend strategy” as transactions done to achieve a dividend arbitrage involving the purchase, sale and exercise of in-the-money options of the same class, executed prior to the date on which
$0.05 per contract side imposed on dividend and short stock interest strategies, as described below. The current fee caps and $0.05 per contract side license fee are in effect as a pilot program that is scheduled to expire on March 1, 2007. Other than extending the pilot program for an additional one-year period until March 1, 2008, no other changes to the Exchange’s current dividend, merger and short stock interest strategy program, which includes the $0.05 per contract side license fee, are being proposed at this time.


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.

6 For purposes of this proposal, the Exchange defines a “merger strategy” as transactions done to achieve a merger arbitrage involving the purchase, sale and exercise of options of the same class and expiration date, executed prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock. Id.

7 For purposes of this proposal, the Exchange defines a “short stock interest strategy” as transactions done to achieve a short stock interest arbitrage involving the purchase, sale and exercise of in-the-money options of the same class. Id.

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

1. Purpose

Currently, the Exchange imposes a fee cap on equity option transaction and comparison charges on dividend, merger and short stock interest strategies executed on the same trading day in the same options class. Specifically, Registered Options Traders’ (“ROTs) and specialists’ net equity option transaction and comparison charges are capped at $1,000 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class.9 In addition, there is a $25,000 per member organization fee cap on equity option transaction and comparison charges incurred in one month for dividend, merger and short stock interest strategies combined. The $1,000 and $25,000 fee caps are implemented after any applicable rebates are applied to ROT and specialist equity option transaction and comparison charges occurring as part of a dividend, merger or short stock interest strategy.10

In addition, the Exchange assesses a license fee of $0.05 per contract side for dividend and short stock interest strategies in connection with certain products that carry license fees, if applicable.11 The applicable license fee is assessed on every transaction and is not subject to the $1,000 or $25,000 fee caps described above nor does it count towards reaching the $1,000 or $25,000 fee caps.


10 Currently, the Exchange rebates $0.08 per contract side for ROT executions and $0.07 per contract side for trades occurring as part of a dividend, merger or short stock interest strategy.

11 For a complete list of these product symbols, see the Exchange’s $60,000 Firm-Related Equity Option and Index Option Cap Fee Schedule.
The purpose of extending the pilot program for the fee caps on equity option transaction and comparison charges on dividend, merger and short stock interest strategies and the $0.05 per contract fee imposed on dividend and short stock interest strategies until March 1, 2008 is to continue to attract additional liquidity to the Exchange and to remain competitive with other options exchanges in connection with these types of options strategies. In addition, the purpose of extending the pilot is to recoup the license fees owed in connection with the trading of products that carry license fees. Even with the assessment of the $0.05 license fee per contract side, the fee caps and rebates should continue to encourage specialists and ROTs to provide liquidity for these types of options strategies.

This proposal is scheduled to become effective for trades settling on or after March 1, 2007 and will remain in effect as a pilot program until March 1, 2008.

2. Statutory Basis

The Exchange believes that its proposal to amend its schedule of fees is consistent with Section 6(b) of the Act\(^{12}\) in general, and furthers the objectives of Section 6(b)(4) of the Act\(^{13}\) 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\(^{14}\) and paragraph (f)(2) of Rule 19b-4\(^{15}\) 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-2007-14 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-2007-14. 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-2007-14 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.16

Nancy M. Morris
Secretary

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

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Registered Option Trader</td>
<td>$0.03 per contract</td>
</tr>
<tr>
<td>Firm / Proprietary¹ +</td>
<td>$0.04 per contract</td>
</tr>
<tr>
<td>Customer Executions, Broker-Dealer Orders</td>
<td>No charge</td>
</tr>
</tbody>
</table>

**OPTION TRANSACTION CHARGE**

<table>
<thead>
<tr>
<th>Category</th>
<th>Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Executions</td>
<td>No charge</td>
</tr>
<tr>
<td>Firm / Proprietary² +</td>
<td>$0.20 per contract</td>
</tr>
<tr>
<td>Firm / Proprietary Facilitation +</td>
<td>$0.10 per contract</td>
</tr>
<tr>
<td>Registered Option Trader (on-floor) *</td>
<td>$0.19 per contract</td>
</tr>
<tr>
<td>Specialist * ³</td>
<td>$0.21 per contract</td>
</tr>
<tr>
<td>Broker/Dealer³ (AUTOM-delivered)</td>
<td>$0.45 per contract</td>
</tr>
<tr>
<td>Broker/Dealer⁴ (non-AUTOM-delivered)</td>
<td>$0.25 per contract</td>
</tr>
</tbody>
</table>

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*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 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 and applicable license fees, see the $60,000 Firm Related Equity Option and Index Option Cap Fee Schedule.

1 Subject to a maximum fee of $60,000, except for certain license fees which are assessed per contract side – see $60,000 “Firm Related” Equity Option and Index Option Cap.

2 Specialist transaction charges are eligible for a $0.08/contract side rebate and specialists are eligible for a $0.07/contract side rebate for trades occurring as part of a dividend, merger or short stock interest strategy. The net transaction and comparison charges after the rebate is applied will be capped at $1,000 for dividend, merger and short stock interest strategies executed on the same trading day in the same options class. Net equity option transaction and comparison charges for dividend, merger and short stock interest strategies combined will be further capped at $25,000 per member organization per month. A $0.05 per contract side license fee is imposed for dividend and short stock interest strategies in connection with certain products that carry license fees. For a complete list of these product symbols, see the $60,000 Firm Related Equity Option and Index Option Cap Fee Schedule.

3 A fee credit of $0.21 per contract applies to specialists that incur option transaction charges when a customer order is delivered to the limit order book via the Exchange’s Options Floor Broker Management System and is then sent and executed via the Intermarket Options Linkage as a P/A Order. The fee credit is scheduled to expire on July 31, 2007.

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¹ 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.

² See footnote 1.

³ 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.

⁴ See footnote 3.