Proposed Rule Change by Philadelphia Stock Exchange

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

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Rule

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

Description

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

Automating the rebate request process for dividend, merger and short stock interest 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 officer.

Date: 06/15/2007

By: Cynthia Hoekstra  
(Name)
(Vice President)  
>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.

Cynthia Hoekstra,
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 eliminate the members’ requirement to manually submit rebate request forms and to automate the rebate request process for dividend, merger and short stock interest strategies, effective for transactions settling on or after July 1, 2007.

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

2. **Procedures of the Self-Regulatory Organization**

The Executive Committee, pursuant to delegated authority, approved the proposal for filing with the Securities and Exchange Commission ("SEC" or "Commission") on June 8, 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 provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend,\(^3\) merger,\(^4\) or short stock

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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
interest\textsuperscript{5} strategy. Specifically, for these option contracts executed pursuant to a dividend strategy, the Exchange rebates $0.08 per contract side for Registered Options Trader ("ROT") executions and $0.07 per contract side for specialist executions transacted on the day prior to the date on which the underlying stock goes ex-dividend. The Exchange also provides for a rebate of $0.08 per contract side for ROT executions and $0.07 per contract side for specialist executions made pursuant to a merger or short stock interest strategy.\textsuperscript{6}

The Exchange currently uses a manual procedure to process rebate requests. To qualify a transaction for the rebate process, a written rebate request form, along with supporting documentation, must be submitted to the Exchange within three business days following the end of the previous month.

The Exchange proposes to eliminate the manual rebate process and replace it with an automated process. In order to capture the necessary information electronically, the Exchange has modified its trade tickets to allow for members to designate on the trade ticket whether the trade involves a dividend, merger or short stock interest strategy.

\textsuperscript{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.

\textsuperscript{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.

The purpose of eliminating the manual procedure is to increase efficiency in connection with the processing of the dividend, merger and short stock interest rebate request forms.

For transactions settling in June 2007, members must continue to submit the required written rebate request forms as described above. Beginning with transactions settling on or after July 1, 2007, written rebate request forms will no longer be accepted by the Exchange as the rebates will be processed automatically.

b. **Statutory Basis**

The Exchange believes that its proposal to automate its procedures relating to processing the rebate request forms for dividend, merger, or short stock interest strategies as described above 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, as the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

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

The Phlx does not believe that the proposed rule change will impose any

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

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 constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule pursuant to Section 19(b)(3)(A)(i) of the Act\(^9\) and Rule 19b-4(f)(1)\(^10\) 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 not based on the rules of another self-regulatory organization or of the Commission.

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9. Exhibits

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

SECURITIES AND EXCHANGE COMMISSION
(Release No. ; File No. SR-Phlx-2007-47)

Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Philadelphia Stock Exchange, Inc. Relating to Automating the Rebate Request Process for Dividend, Merger and Short Stock Interest Strategies.

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 eliminate the members’ requirement to manually submit rebate request forms and to automate the rebate request process for dividend, merger and short stock interest strategies, effective for transactions settling on or after July 1, 2007.

The text of the proposed rule change is available on the Exchange’s Website at http:// www.phlx.com/exchange/phlx_rule_fil.html.

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

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

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

1. **Purpose**

Currently, the Exchange provides a rebate for certain contracts executed in connection with transactions occurring as part of a dividend,\(^5\) merger,\(^6\) or short stock interest\(^7\) strategy. Specifically, for these option contracts executed pursuant to a dividend strategy, the Exchange rebates $0.08 per contract side for Registered Options Trader (“ROT”) executions and $0.07 per contract side for specialist executions transacted on the day prior to the date on which the underlying stock goes ex-dividend. The Exchange also provides for a rebate of $0.08 per contract side for ROT executions and $0.07 per

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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 the underlying stock goes ex-dividend.

\(^6\) 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.

\(^7\) 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.
contract side for specialist executions made pursuant to a merger or short stock interest strategy.\(^8\)

The Exchange currently uses a manual procedure to process rebate requests. To qualify a transaction for the rebate process, a written rebate request form, along with supporting documentation, must be submitted to the Exchange within three business days following the end of the previous month.

The Exchange proposes to eliminate the manual rebate process and replace it with an automated process. In order to capture the necessary information electronically, the Exchange has modified its trade tickets to allow for members to designate on the trade ticket whether the trade involves a dividend, merger or short stock interest strategy.

The purpose of eliminating the manual procedure is to increase efficiency in connection with the processing of the dividend, merger and short stock interest rebate request forms.

For transactions settling in June 2007, members must continue to submit the required written rebate request forms as described above. Beginning with transactions settling on or after July 1, 2007, written rebate request forms will no longer be accepted by the Exchange as the rebates will be processed automatically.

2. **Statutory Basis**

The Exchange believes that its proposal to automate its procedures relating to processing the rebate request forms for dividend, merger, or short stock interest strategies

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as described above is consistent with Section 6(b) of the Act\(^9\) in general, and furthers the objectives of Section 6(b)(5) of the Act\(^10\) in particular, as the proposal is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, 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.

**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)(i) of the Act\(^11\) and paragraph (f)(1) of Rule 19b-4\(^12\) thereunder because it constitutes a stated policy, practice, or interpretation with respect to the meaning,


\(^12\) 17 CFR 240.19b-4(f)(1).
administration, or enforcement of an existing rule. 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-2007-47 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-2007-47. 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-2007-47 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.\(^\text{13}\)

\[\text{Nancy M. Morris} \]
\[\text{Secretary} \]

\(^{13}\) 17 CFR 200.30-3(a)(12).