

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51071; File No. SR-Phlx-2005-05)

January 21, 2005

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval to a Proposed Rule Change to Increase Position Limits and Exercise Limits for Options on Standard and Poor's Depository Receipts (SPDRs[®])

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 January 19, 2005, the Philadelphia Stock Exchange, Inc. ("Phlx" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons. In addition, the Commission is granting accelerated approval of the proposed rule change.

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

The Exchange proposes to amend Exchange Rule 1001, Position Limits, to increase position limits and exercise limits for options on the Standard and Poor's Depository Receipts ("SPDRs[®]")³. The text of the proposed rule change is available on the Phlx's Web site (www.phlx.com), at the Phlx's Office of the Secretary, and at the Commission's Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ "Standard & Poor's[®]", "S&P[®]", "S&P 500[®]", "Standard & Poor's 500", and "500" are trademarks of The McGraw-Hill Companies, Inc. Neither Standard & Poor's nor its index compilation agent makes any recommendation concerning the advisability of investing in options on SPDRs[®].

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 Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it had received on the proposed rule change. The text of these statements may be examined at the places specified in Item III 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 Exchange Rule 1001 to increase the position limits and exercise limits⁴ applicable to options on SPDRs from 75,000 to 300,000 contracts on the same side of the market. The Exchange began trading options on SPDRs on the Exchange's electronic trading platform for options, Phlx XL, on January 10, 2005. Given the expected institutional demand for options on SPDRs, the Exchange believes that the current equity position limit of 75,000 contracts⁵ is too low and could be a deterrent to the successful trading of the product. Options on SPDRs are 1/10th the size of options on the Standard and Poor's 500 Index ("SPX"). Thus, a position limit of 75,000 contracts in options on SPDRs is equivalent to a 7,500 contract position limit in options on SPX. Traders who trade options on SPDRs to hedge positions in

⁴ Exchange Rule 1002, Exercise Limits, refers to exercise limits that correspond to aggregate long positions as described in Exchange Rule 1001. The position limit established in a given option under Exchange Rule 1001 is also the exercise limit for such option.

⁵ See Exchange Rule 1001, Commentary .05(a).

SPX options are likely to find a position limit of 75,000 contracts in options on SPDRs too restrictive, which may adversely affect the Exchange's ability to provide liquidity in this product.

Comparable products, such as options on the Nasdaq-100 Index Tracking Stock ("QQQ")⁶, are subject to a 300,000 contract limit.⁷ The Exchange proposes that options on SPDRs similarly be subject to position limits and exercise limits of 300,000 contracts. The Exchange believes that increasing position limits and exercise limits for options on SPDRs would lead to a more liquid and competitive market environment for options on SPDRs that would benefit customers interested in this product.

Consistent with the reporting requirement for QQQ options, the Exchange would require that each member or member organization that maintains a position on the same side of the market, for its own account or for the account of a customer, report certain information.⁸ This data would include, but would not be limited to, the option position, whether such position is hedged and if so, a description of the hedge and if applicable, the collateral used to carry the position. Exchange specialists and Registered Options Traders ("ROT's") would continue to be exempt from this reporting requirement as specialist and ROT information can be accessed through the Exchange's market surveillance systems. In addition, the general reporting

⁶ The Nasdaq-100[®], Nasdaq-100 Index[®], Nasdaq[®], The Nasdaq Stock Market[®], Nasdaq-100 SharesSM, Nasdaq-100 TrustSM, Nasdaq-100 Index Tracking StockSM, and QQQSM are trademarks or service marks of The Nasdaq Stock Market, Inc. ("Nasdaq") and have been licensed for use for certain purposes by the Phlx pursuant to a license agreement with Nasdaq. The Nasdaq-100 Index[®] ("Index") is determined, composed, and calculated by Nasdaq without regard to the licensee, the Nasdaq-100 TrustSM, or the beneficial owners of Nasdaq-100 SharesSM. Nasdaq has complete control and sole discretion in determining, comprising, or calculating the Index or in modifying in any way its method for determining, comprising, or calculating the Index in the future.

⁷ See Exchange Rule 1001.

⁸ See Exchange Rule 1003.

requirement for customer accounts that maintain an aggregate position of 200 or more option contracts would remain at this level for options on SPDRs.⁹

2. Statutory Basis

The Exchange believes the proposed rule change is consistent with Section 6(b) of the Act,¹⁰ in general, and furthers the objectives of Section 6(b)(5) of the Act,¹¹ in particular, in that it is designed to perfect the mechanisms of a free and open market and the national market system, promote just and equitable principles of trade and 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 inappropriate burden on competition.

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

Written comments on the proposed rule change were neither solicited nor received.

III. 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

⁹ See Exchange Rule 1003.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2005-05 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-Phlx-2005-05. 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 such filing also will be available for inspection and copying at the principal office of the Exchange. 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 publicly available. All submissions should refer to File Number SR-Phlx-2005-05 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder, applicable to a national securities exchange,¹² and, in particular, the requirements of Section 6(b)(5) of the Act.¹³ Specifically, the Commission finds that the proposed rule change should ensure that the Exchange's position limits and exercise limits on options on SPDRs provide its members and member organizations with sufficient flexibility to participate in the market for such options in a manner that should provide greater depth and liquidity for all market participants.

The Commission finds good cause for approving this proposed rule change prior to the thirtieth day after publication of notice thereof in the Federal Register. Specifically, the Commission believes that granting accelerated approval to the proposed rule change should permit greater depth and liquidity in the options on SPDRs market that should benefit all market participants, including retail investors. Because the higher position limits and exercise limits mirror those that the Commission has previously approved for like products, the Commission believes it is consistent with Sections 6(b)(5)¹⁴ and 19(b)(2)¹⁵ of the Act to approve the Phlx's proposed rule change on an accelerated basis.

¹² In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹³ 15 U.S.C. 78f(b)(5).

¹⁴ 15 U.S.C. 78f(b)(5).

¹⁵ 15 U.S.C. 78s(b)(2).

V. Conclusion

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁶ that the proposed rule change (SR-Phlx-2005-05) is hereby approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁷

Margaret H. McFarland
Deputy Secretary

¹⁶ 15 U.S.C. 78s(b)(2).

¹⁷ 17 CFR 200.30-3(a)(12).