

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-54485; File No. SR-Phlx-2006-56)

September 22, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Amending the Summary of Index Option and FXI Options Charges and the \$60,000 “Firm Related” Equity Option and Index Option Cap

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 August 31, 2006, 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, II, and III below, which Items have been prepared by the Exchange. On September 19, 2006, the Exchange submitted Amendment No. 1 to the proposed rule change.³ The Phlx has designated this proposal as one changing a fee imposed by the Phlx under Section 19(b)(3)(A)(ii) of the Act⁴ and Rule 19b-4(f)(2) thereunder,⁵ which renders the proposal effective upon filing with the Commission. The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The Phlx proposes to remove the reference to options listed on the iShares FTSE/Xinhua China 25 Index Fund (“FXI Options”) from the Exchange’s Summary of Index Option and FXI

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ Amendment No. 1 (“Amendment No. 1”) removes all references in the proposed rule change that relate to clarifying who may receive payment for order flow funds in connection with the Exchange’s payment for order flow program.

⁴ 15 U.S.C. 78s(b)(3)(A)(ii).

⁵ 17 CFR 240.19b-4(f)(2).

Options Charges. Therefore, the Exchange proposes to charge transactions involving FXI Options according to the Exchange's Summary of Equity Option Charges, which would, in turn, include payment for order flow charges, effective for trades settling on or after September 1, 2006.

The Exchange also proposes to delete references to Full-size index options ("QCX") and Mini index options ("QCE") on the Nasdaq Composite Index, Inc.⁶ from its current Summary of Index Option and FXI Options Charges and \$60,000 "Firm Related" Equity Option and Index Option Cap, as these products are no longer listed or traded at the Exchange.

The text of the proposed rule change is available on the Exchange's Web site at <http://www.Phlx.com>, at the principal office of the Exchange, and at the Commission's Public Reference Room.

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, as amended, and discussed any comments it received on the proposed rule change, as amended. 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 Exchange states that it currently charges transactions involving FXI options, an equity option, according to the Exchange's Summary of Index Option and FXI Options Charges.

⁶ The Nasdaq Composite Index® is a registered trademark of The Nasdaq Stock Market LLC, and is licensed for use by Phlx.

The Exchange states that it began charging FXI Options in the same manner that the Exchange charges for index options beginning with transactions settling on or after October 19, 2004. The Exchange believed, at that time, that charging FXI Options according to the rates set forth in the Exchange's Summary of Index Option and FXI Options Charges was reasonable for these types of products because the higher charges were to help defray some of the license fees incurred by the Exchange in connection with the listing and trading of FXI Options.

The Exchange states that the purpose of this proposal is to remain competitive with other exchanges that also trade FXI Options pursuant to their respective equity option fee schedules. By assessing transactions involving FXI Options according to the Exchange's Summary of Equity Option Charges, the Exchange believes that the transaction fees would be the same or lower than the charges currently assessed, which should, in turn, encourage more FXI Options business to be transacted on the Exchange. In addition, because FXI Options would now be subject to the Exchange's fee schedule, a payment for order flow fee, as set forth on the Exchange's Summary of Equity Option Charges, may now be charged on FXI Option transactions, which the Exchange believes may also encourage additional order flow.⁷

The Exchange states that the purpose of removing references to QCX and QCE from the Exchange's current Summary of Index Option and FXI Options Charges and \$60,000 "Firm Related" Equity Option and Index Option Cap is to update these fee schedules to reflect the fact that these products have been delisted from, and therefore no longer trade on, the Exchange.

⁷ Specialist units and Directed Registered Options Traders elect to opt into or out of the Exchange's payment for order flow program.

2. Statutory Basis

The Exchange believes that its proposal, as amended, is consistent with Section 6(b) of the Act⁸ in general, and furthers the objectives of Sections 6(b)(4) of the Act⁹ in particular, in that it is an equitable allocation of reasonable dues, 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, as amended, will impose any burden on competition that is 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 proposed rule change, as amended, has been designated as a fee change pursuant to Section 19(b)(3)(A)(ii) of the Act¹⁰ and Rule 19b-4(f)(2)¹¹ thereunder, because it establishes or changes a due, fee, or other charge imposed by the Exchange. Accordingly, the proposal, as amended, will take effect upon filing with the Commission. At any time within 60 days of the filing of such 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

⁸ 15 U.S.C. 78f(b).

⁹ 15 U.S.C. 78f(b)(4).

¹⁰ 15 U.S.C. 78s(b)(3)(A)(ii).

¹¹ 17 CFR 240.19b-4(f)(2).

the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹²

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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-2006-56 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-2006-56. 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

¹² The effective date of the original proposed rule change is August 31, 2006, and the effective date of Amendment No. 1 is September 19, 2006. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, the Commission considers the period to commence on September 19, 2006, the date on which the Exchange submitted Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

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 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-2006-56 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

¹³ 17 CFR 200.30-3(a)(12).