

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52512; File No. SR-Phlx-2005-50)

September 27, 2005

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change Relating to Reduce the Value of PHLX Housing SectorSM Index Options by Half

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 September 15, 2005, 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 and II below, which Items have been prepared by the Phlx. The Phlx filed the proposal pursuant to Section 19(b)(3)(A) under the Act,³ and Rule 19b-4(f)(6) thereunder,⁴ which renders the proposal effective upon filing with the Commission. 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 proposes to reduce the value of its PHLX Housing SectorSM Index ("Index") option ("HGX")⁵ to one-half its present value by multiplying by two the base market divisor

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).

⁵ The PHLX Housing SectorSM (HGXSM) is a modified capitalization-weighted index composed of 21 companies whose primary lines of business are directly associated with the U.S. housing construction market. The index composition encompasses residential builders, suppliers of aggregate, lumber and other construction materials, manufactured housing and mortgage insurers. The Index is currently composed of the following stocks: American Standard Companies, Beazer Homes USA, Inc., Champion Enterprises, Inc., Centex Corp., DR Horton, Inc., Hovnanian Enterprises, Inc., KB Home, Lennar Corp.,

used to calculate the Index. In addition, the option contract position and exercise limits applicable to the HGX (currently 31,500 contracts per Rule 1001A) will be increased to 63,000 contracts until all pre-split option contracts expire.⁶

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 self-regulatory organization 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 do a two-for-one split of the Index to reduce its value by half. A two-for-one split should have a positive effect on overall transaction volumes of options on the Index by attracting additional liquidity and making option premiums more attractive for retail investors. A split would allow investors to better utilize the HGX as a trading and hedging vehicle with a smaller capital outlay.

Masco Corp., MDC Holdings, Inc., OfficeMax, Inc., Pulte Homes, PMI Group, Inc., Radian Group, Inc., Ryland Group, Inc., Standard Pacific Corp., Temple Inland, Inc., Toll Brothers, Inc., USG Corp., Vulcan Materials Company, and Weyerhaeuser Company.

⁶ Phlx Rule 1002A indicates that exercise limits for index option contracts shall be equivalent to the position limits described in Phlx Rule 1001A.

HGX was listed on the Exchange and commenced trading on or about July 17, 2002,⁷ and has continued trading. As of July 3, 2005, the Index value was \$571.75 and the near-month at-the-money call premium was \$12.50 per contract. The Exchange's proposed "two-for-one split" of the Index would reduce the Index value to one-half of its current value, or \$285.88; the options premium would likewise be reduced by half. In order to maintain economic equivalence pre and post-split, however, the number of HGX contracts will be increased two-fold for current contract holders, such that for each HGX contract currently held, the holder would receive two contracts at the reduced post-split value, each with a strike price equal to one-half of the original strike price. For example, the holder of one HGX 570 call with a premium of \$12.50 would receive two HGX 285 calls with a premium of \$6.25.

In addition, the position limits applicable to HGX, which are currently 31,500 contracts per Rule 1001A, would be increased to 63,000 until such time that all pre-split options expire, at which point the position limits would return to the 31,500 position limit specified in Phlx Rule 1001A. This is being done to accommodate the two-fold increase in the number of contracts outstanding. By operation of Phlx Rule 1002A, exercise limits would be equivalent to the position limits established in Phlx Rule 1001A. The proposed rule change process is similar to

⁷ HGX was listed for trading pursuant to Section 19b-4(e) on July 17, 2002. The initial index value of HGX was established on or about January 2, 2002, at \$250 by dividing the total market value of all HGX components by a divisor to reach the \$250 valuation. The HGX index value has increased substantially with the increase in the total market value of the HGX components, leading to the proposed market value split that will be achieved by increasing the divisor.

what has been previously employed pursuant to an index value split.⁸ The trading symbol would remain HGX.

In conjunction with the proposed split, the Exchange would continue to list strike price intervals surrounding the new lower Index value pursuant to Phlx Rule 1101A, which will not change pursuant to this proposal. The Exchange would announce the effective date of the split by way of an Exchange memorandum to the membership, which would also serve as notice of the strike price and position limit changes.

2. Statutory Basis

The Exchange believes that the proposed rule change 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, in that it is designed to promote just and equitable principles of trade and 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, by establishing a lower Index value, which should, in turn, facilitate trading in HGX, creating a more liquid trading environment. The Exchange believes that reducing the value of the Index should not raise manipulation concerns and should not cause adverse market impact because the Exchange will continue to employ its surveillance procedures and has proposed an orderly procedure to achieve the Index split, including adequate prior notice to market participants.

⁸ See Securities Exchange Act Release No. 42814 (May 23, 2000), 65 FR 35152 (June 1, 2000) (SR-Phlx-00-11) (two-for-one split of index value resulted in a doubling of the applicable position and exercise limits until the last expiration month expired or traded out, and then reverted to pre-split levels).

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

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

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The Phlx has filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act¹¹ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹² Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. As required under Rule 19b-4(f)(6)(iii), the Phlx provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to filing the proposal with the Commission or such shorter period as designated by the Commission.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. However, Rule 19b-4(f)(6)(iii) permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative

¹¹ 15 U.S.C. 78s(b)(3)(A).

¹² 17 CFR 240.19b-4(f)(6).

delay specified in Rule 19b-4(f)(6), so that all options traded on the indexes can be treated uniformly.¹³

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.¹⁴ Specifically, the Commission believes that the Phlx's proposal raises no new issues or regulatory concerns that the Commission did not consider in approving a similar proposal of a two-for-one split.¹⁵ Additionally, the Commission notes that the Exchange will continue to employ its surveillance procedures and has proposed an orderly procedure to achieve the Index split, including adequate prior notice to market participants. For these reasons, the Commission designates that the proposal become operative immediately.

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

¹³ The Exchange plans to issue a memorandum to membership announcing an effective date of the split that is prior to expiration of the 30-day operative period. Telephone conversation between Jurij Trypupenko, Director, Phlx, and Florence Harmon, Senior Special Counsel, Commission, on September 26, 2005.

¹⁴ For purposes only of waiving the operative delay for this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁵ See supra, note 8.

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-2005-50 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-Phlx-2005-50. 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 Section, 100 F Street, NE, Washington, DC 20549. Copies of this 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-2005-50 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

Jonathan G. Katz
Secretary

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17 CFR 200.30-3(a)(12).