

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53094; File No. SR-Phlx-2005-75)

January 10, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendments No. 1 and 2 Thereto Relating to Dividend Spread and Merger Spread Strategy Rebate Request Forms

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 November 30, 2005, the Philadelphia Stock Exchange, Inc. (“Phlx” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or the “Commission”) the proposed rule change as described in Items I, II and III below, which items have been prepared by Phlx. On December 21, 2005, the Exchange filed Amendment No. 1 to the proposal.³ On January 10, 2006, the Exchange filed Amendment No. 2 to the proposal.⁴ Phlx has designated the proposed rule change as one constituting 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 Act⁵ and Rule 19b-4(f)(1) thereunder,⁶ 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

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, Phlx modified the statutory basis for the immediate effectiveness of the proposal from Section 19(b)(3)(A)(ii) of the Act and Rule 19b-4(f)(2) thereunder to Section 19(b)(3)(A)(iii) of the Act and Rule 19b-4(f)(3) thereunder, and also changed the implementation date for the proposal from the third business day of December 2005 to the third business day of January 2006.

⁴ In Amendment No. 2, Phlx changed the statutory basis for the immediate effectiveness of the proposal from Section 19(b)(3)(A)(iii) of the Act and Rule 19b-4(f)(3) thereunder to Section 19(b)(3)(A)(i) of the Act and Rule 19b-4(f)(1) thereunder. Amendment No. 2 also provided a revised statutory basis for the proposal.

⁵ 15 U.S.C. 78s(b)(3)(A)(i).

⁶ 17 CFR 240.19b-4(f)(1).

interested persons.

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

Phlx proposes to amend the timeframe in which dividend spread and merger spread strategy rebate request forms must be submitted to the Exchange. Rebate request forms will now be due three business days after the end of each month.

The text of the proposed rule change is available on the Phlx's Web site at <http://www.phlx.com>, at the Office of the Secretary at Phlx, 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 Exchange included statements concerning the purpose of, and basis for, the proposed rule change, as amended, and discussed any comments it received on the proposal. The text of these statements may be examined at the places specified in Item IV below. The Exchange 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 spread strategy⁷ or merger spread strategy.⁸

⁷ For purposes of this proposal, the Exchange defines a "dividend spread" transaction as any trade done within a defined time frame pursuant to a strategy in which a dividend arbitrage can be achieved between any two deep-in-the-money options.

⁸ For purposes of this proposal, the Exchange defines a "merger spread" transaction as a transaction executed pursuant to a merger spread strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but different strike prices, followed by the exercise of the resulting long options position, each executed

Specifically, for those options contracts executed pursuant to a dividend spread strategy or merger spread strategy, the Exchange rebates \$0.08 per contract side for Registered Options Trader (“ROT”) executions and \$0.07 per contract side for specialist executions on the business day before the underlying stock’s ex-date. The ex-date is the date on or after which a security is traded without a previously declared dividend or distribution.⁹

Currently, the Exchange uses a manual procedure to process rebate requests.¹⁰ Specifically, to qualify a transaction for the rebate process, a written rebate request, along with supporting documentation, must be submitted to the Exchange within 30 calendar days of the billing period (i.e., within thirty days from the issue date of the invoice).¹¹ After the appropriate verification and subsequent acceptance, the Exchange credits the member’s account for the amount of the rebate (either \$0.08 or \$0.07 per contract side) on contracts executed in transactions occurring as part of a merger spread strategy or dividend spread strategy.

The Exchange now proposes to reduce the time period in which dividend spread strategy and merger spread strategy rebate request forms must be submitted to the Exchange from 30 calendar days to three business days following the end of the previous month, e.g., for merger spread and dividend spread transactions settling in December 2005, rebate request forms for

prior to the date on which shareholders of record are required to elect their respective form of consideration, i.e., cash or stock. See Securities Exchange Act Release No. 51596 (April 21, 2005), 70 FR 22381 (April 29, 2005).

⁹ The Exchange also imposes a fee cap on equity option transaction and comparison charges on merger spread transactions and dividend spread transactions executed on the same trading day in the same options class. These fee caps are implemented after any applicable rebates are applied to ROT and specialist equity option transaction and comparison charges. The fee caps are in effect as a pilot program that is currently set to expire on March 1, 2006. See Securities Exchange Act Release No. 52380 (September 2, 2005), 70 FR 53828 (September 12, 2005).

¹⁰ See Securities Exchange Act Release Nos. 48983 (December 23, 2003), 68 FR 75703 (December 31, 2003); and 51596 (April 21, 2005), 70 FR 22381 (April 29, 2005).

¹¹ Members who wish to benefit from the fee cap submit to the Exchange the same written rebate request form with supporting documentation to receive the cap.

those transactions must be submitted by the third business day in January 2006.¹²

This proposal would be effective beginning with rebate request forms that will be due in January 2006, which reflect trades settling on or after December 1, 2005.

2. Statutory Basis

The Exchange believes that the proposal is consistent with Section 6(b) of the Act¹³ in general, and furthers the objectives of Section 6(b)(5) of the Act¹⁴ 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, 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 solicited or received on the proposed rule change, as amended.

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

¹² No new fees are being proposed, nor are any fees being imposed retroactively. Rather, the rebate request form for January 2006, which covers transactions occurring in December 2005, is now due at an earlier date.

¹³ 15 U.S.C. 78f(b).

¹⁴ 15 U.S.C. 78f(b)(5).

Act¹⁵ and subparagraph (f)(1) of Rule 19b-4 thereunder¹⁶ because it constitutes a stated policy, practice, or interpretation with respect to the meaning, 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.¹⁷

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-2005-75 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 20549-9303.

All submissions should refer to File Number SR-Phlx-2005-75. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your

¹⁵ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁶ 17 CFR 240.19b-4(f)(1).

¹⁷ The effective date of the original proposed rule change is November 30, 2005, the date of the original filing, and the effective dates of Amendments No.1 and 2 are, respectively, December 21, 2005 and January 10, 2006, the filing dates of the amendments. For purposes of calculating the 60-day abrogation period within which the Commission may summarily abrogate the proposed rule change, as amended, under Section 19(b)(3)(C) of

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 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-2005-75 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.¹⁸

Nancy M. Morris
Secretary

the Act, the Commission considers the period to commence on January 10, 2006, the date on which the Exchange submitted Amendment No. 2. See 15 U.S.C. 78s(b)(3)(C).

¹⁸ 17 CFR 200.30-3(a)(12).