

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53933; File No. SR-Phlx-2006-29)

June 1, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to the PHLX/KBW Bank Index

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 May 4, 2006, the Philadelphia Stock Exchange, Inc. (“Exchange” or “Phlx”) 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 Exchange filed the proposed rule change as a “non-controversial” rule change under Rule 19b-4(f)(6) under the Act,³ which rendered 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 Exchange proposes to change the method of calculation and dissemination of the PHLX/KBW Bank Index (“Index”). In particular, the Exchange proposes to calculate and disseminate current index values itself, in the event that the official calculation agent, Bridge Data, is temporarily unable to calculate and disseminate the values due to technical difficulties.⁴

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 17 CFR 240.19b-4(f)(6).

⁴ Telephone conference between Carla Behnfeldt, Director, Legal Department, New Product Development Group, Phlx, and Florence E. Harmon, Senior Special Counsel, Division of Market Regulation, Commission, on June 1, 2006.

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 received on the proposed rule change. 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

The purpose of the proposed rule change is to permit the Exchange itself, in certain circumstances, to calculate and disseminate current index values of the Index, an index developed by Keefe, Bruyette & Woods, Inc. (“KBW”), a registered broker-dealer that specializes in U.S. bank stocks. Under the proposal, the Exchange would calculate and disseminate the index values itself in the event that Bridge Data, the official calculation agent, is temporarily unable to calculate and disseminate the values due to technical difficulties. No other changes are being made to the Index. The Exchange seeks continued approval to list and trade options on the Index in view of this change.

The Index was originally listed in 1992 as a narrow-based (industry) index. The Commission’s approval order (“Approval Order”)⁵ contains the following language regarding the calculation of the underlying current index value:

Even though the Index will be maintained by KBW, the Phlx represents that the Exchange will be solely responsible for the calculation of the Index and that the Index

⁵ See Securities Exchange Act Release No. 31145 (September 3, 1992), 57 FR 41531 (September 10, 1992) (SR-Phlx-91-27).

value will be calculated and disseminated in such a way that neither KBW nor any other party will be in receipt of the Index value prior to the public dissemination of the value. In this connection, the Phlx has made arrangements for the Index to be calculated by an independent third party, Bridge Data, a vendor of financial information. Bridge Data will calculate and disseminate the Index value to the Options Price Reporting Authority (“OPRA”) four times per minute during the trading day, using the last sale prices of the component stocks in the Index.... OPRA, in turn, will disseminate the Index value to other financial vendors such as Reuters, Telerate, and Quotron.⁶

The Exchange is now capable of calculating and disseminating the Index value at least every 15 seconds per trading day,⁷ using the last sale prices of the component stocks in the Index, without utilizing the services of Bridge Data. The Exchange seeks approval to continue listing and trading options on the Index from time to time without the participation or intervention of Bridge Data in the process of calculating or disseminating the Index value.⁸ In connection with this filing, Phlx has reconfirmed that KBW has appropriate information barriers around the personnel who have access to information concerning changes and adjustments to the Index and confirmed that the Exchange, as calculation agent for the Index, is independent from KBW, a broker-dealer.⁹

⁶ Id.

⁷ Telephone conference between Carla Behnfeldt, Director, Legal Department, New Product Development Group, Phlx, and David L. Orlic, Special Counsel, Division of Market Regulation, Commission, on May 26, 2006.

⁸ The Exchange notes that Index values are disseminated not to OPRA, but rather to the Consolidated Tape Association for further dissemination to major market data vendors.

⁹ See supra note 6.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act¹⁰ in general, and furthers the objectives of Sections 6(b)(5) of the Act¹¹ in particular, in that it is designed to promote just and equitable principles of trade, 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 permitting the calculation and dissemination of current index values to be accomplished by Exchange personnel, in addition to by Bridge Data, which should assure continuity in the availability of the Index's current value in the event that Bridge Data is unavailable to calculate and disseminate the values as described in the Approval Order.

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 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

The Exchange has neither solicited nor received written comments on the proposed rule change.

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

Because the proposed rule change: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after 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

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

the Act¹² and subparagraph (f)(6) of Rule 19b-4 thereunder.¹³ The Exchange has requested that the Commission waive the five-day pre-filing notice and the 30-day operative delay for “non-controversial” proposals and make the proposed rule change effective and operative upon filing. The Commission believes that waiver of the five-day pre-filing notice and the 30-day operative delay is consistent with the protection of investors and the public interest. By waiving the five-day pre-filing notice and the 30-day operative delay, the continued availability of current Index values may be assured, notwithstanding any unavailability of Bridge Data to calculate and disseminate those values. For this reason, the Commission designates the proposal to be effective and operative upon filing with the Commission.¹⁴

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 the 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

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

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

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-Phlx-2006-29 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-2006-29. 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 available publicly. All submissions should refer to File Number SR-Phlx-2006-29 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.¹⁵

Nancy M. Morris
Secretary

¹⁵ 17 CFR 200.30-3(a)(12).