

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52054; File No. SR-Phlx-2005-40)

July 18, 2005

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto to Impose a New Licensing Fee in Connection with the Firm-Related Equity Option and Index Option Fee 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 June 7, 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, II, and III below, which Items have been prepared by the Exchange. On July 5, 2005, the Exchange filed Amendment No. 1 to the proposed rule change.³ Phlx has designated this proposal as one establishing or changing a due, fee, or other charge imposed by a self-regulatory organization pursuant to Section 19(b)(3)(A) of the Act,⁴ 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.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the Exchange made non-substantive changes to re-format a defined term and clarify the addition of disclaimer language in its \$60,000 “Firm Related” Equity Option and Index Option Cap schedule. The effective date of the original proposed rule change is June 7, 2005, and the effective date of Amendment No. 1 is July 5, 2005. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, under Section 19(b)(3)(C) of the Act, the Commission considers such period to commence on July 5, 2005, the date on which the Exchange filed Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

⁴ 15 U.S.C. 78s(b)(3)(A).

⁵ 17 CFR 240.19b-4(f)(2).

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

The Phlx proposes to amend its schedule of fees to adopt a license fee of \$0.10 for options traded on the following products:⁶ (1) iShares S&P 100 Index, traded under the symbol OEF; (2) iShares S&P Europe 350, traded under the symbol IEV; (3) iShares S&P Global 100 Index, traded under the symbol IOO; (4) iShares S&P Global Energy Sector Index, traded under the symbol IXC; (5) iShares S&P Global Financial Sector Index, traded under the symbol IXG; (6) iShares S&P Global Healthcare Sector Index, traded under the symbol IXJ; (7) iShares S&P Global Information Technology Sector Index, traded under the symbol IXN; (8) iShares S&P Global Telecom Sector Index, traded under the symbol IXP; (9) iShares S&P Latin America 40, traded under the symbol ILF; (10) iShares S&P MidCap 400, traded under the symbol IJH; (11) iShares S&P SmallCap 600, traded under the symbol IJR; (12) iShares S&P TOPIX 150, traded under the symbol ITF; (13) iShares S&P 500, traded under the symbol IVV; (14) S&P Industrial Select Sector SPDR, traded under the symbol XLI; (15) S&P Technology Select Sector SPDR, traded under the symbol XLK; (16) S&P Utilities Select Sector SPDR, traded under the symbol XLU; (17) S&P Consumer Staples Select Sector SPDR, traded under the symbol XLP; (18) S&P Energy Select Sector SPDR, traded under the symbol XLE; (19) S&P Financial Select Sector SPDR, traded under the symbol XLF; (20) S&P Health Care Select Sector SPDR, traded under the symbol XLV; (21) S&P Materials Select Sector SPDR, traded under the symbol XLB; (22) S&P Consumer Discretionary Select Sector SPDR, traded under the symbol XLY; (23) MidCap SPDR, traded under the symbol MDY (collectively, the "S&P products"); and (24) WellSpring

⁶ The Exchange represents that this fee will be charged only to Exchange members. Telephone conversation between Cynthia Hoekstra, Director, Phlx, and Edward Cho, Attorney, Division of Market Regulation ("Division"), Commission (July 7, 2005).

Bio-Clinical Trials Index (“WHC”)⁷ to be assessed per contract side for equity option and index option “firm” transactions (comprised of equity option firm/proprietary comparison transactions, equity option firm/proprietary transactions, equity option firm/proprietary facilitation transactions, index option firm/proprietary comparison transactions, index option firm/proprietary transactions and index option firm/proprietary facilitation transactions). This license fee will be imposed only after the Exchange’s \$60,000 “firm-related” equity option and index option comparison and transaction charge cap, described more fully below, is reached.

Currently, the Exchange imposes a cap of \$60,000 per member organization⁸ on all “firm-related” equity option and index option comparison and transaction charges combined.⁹ Specifically, “firm-related” charges include equity option firm/proprietary comparison charges, equity option firm/proprietary transaction charges, equity option firm/proprietary facilitation transaction charges, index option firm/proprietary comparison charges, index option firm/proprietary transaction charges, and index option firm/proprietary facilitation transaction

⁷ WellSpring Bio-Clinical Trials Index, “ORCHIDs” and “WellSpring” are trademarks of WellSpring BioCapital Partners, LLC (“WellSpring LLC”) and have been licensed for use by the Exchange. WellSpring LLC makes no recommendations concerning the advisability of investing in options based on the WellSpring Bio-Clinical Trials Index.

⁸ The firm/proprietary comparison or transaction charge applies to member organizations for orders for the proprietary account of any member or non-member broker-dealer that derives more than 35% of its annual, gross revenues from commissions and principal transactions with customers. Member organizations are required to verify this amount to the Exchange by certifying that they have reached this threshold by submitting a copy of their annual report, which was prepared in accordance with Generally Accepted Accounting Principles (“GAAP”). In the event that a member organization has not been in business for one year, the most recent quarterly reports, prepared in accordance with GAAP, are accepted. See Securities Exchange Act Release No. 43558 (November 14, 2000), 65 FR 69984 (November 21, 2000) (SR-Phlx-2000-85).

⁹ See Securities Exchange Act Release No. 51024 (January 11, 2005), 70 FR 3088 (January 19, 2005) (SR-Phlx-2004-94).

charges (collectively, the “firm-related charges”). Thus, such firm-related charges in the aggregate for one billing month may not exceed \$60,000 per month per member organization.

The Exchange also imposes a license fee of \$0.10 per contract side for equity option “firm” transactions on options on Nasdaq-100 Index Tracking Stock^{SM 10} traded under the symbol QQQQ (“QQQ”) and certain other licensed products (collectively, the “licensed products”)¹¹ after the \$60,000 cap, as described above, is reached. Therefore, when a member organization exceeds the \$60,000 cap (comprised of combined firm-related charges), the member organization is charged \$60,000, plus license fees of \$0.10 per contract side for any contracts in licensed products (if any) over those that were included in reaching the \$60,000 cap. In other words, if the cap is reached, the \$0.10 license fee is imposed on all subsequent equity option and index option firm transactions; these license fees are charged in addition to the \$60,000 cap.

The Exchange proposes to adopt a \$0.10 license fee per contract side for the S&P products and WHC for equity option and index option firm transactions, which will be imposed

¹⁰ 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® (the “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.

¹¹ In addition to the QQQs, the following licensed products are assessed a \$0.10 license fee per contract side after the \$60,000 cap is reached: Russell 1000 Growth iShares (IWF); Russell 2000 iShares (IWM); Russell 2000 Value iShares (IWN); Russell 2000 Growth iShares (IWO); Russell Midcap Growth iShares (IWP); Russell Midcap Value iShares (IWS); NYSE Composite Index (NYC); NYSE U.S. 100 Index (NY); and Standard & Poor’s Depository Receipts®, Trust Series 1 (SPY); iShares Lehman 1-3 Year Treasury Bond Fund (SHY); iShares Lehman 7-10 Year Treasury Bond Fund (IEF); iShares Lehman 20+ Treasury Bond Fund (TLT); iShares Lehman Aggregate Bond Fund (AGG); iShares Lehman TIPS Bond Fund (TIP); KBW Capital Markets Index (KSX); KBW Insurance Index (KIX); and Phlx/KBW Bank Index (BKX).

after the \$60,000 cap is reached in the same way as the current licensed product fees are assessed. Thus, when a member organization exceeds the \$60,000 cap, the member organization will be charged \$60,000 plus any applicable license fees for trades of licensed products, including the S&P products and WHC, over those trades that were counted in reaching the \$60,000 cap.¹²

In addition, the Exchange proposes to make a technical change to its Summary of Index Option and FXI Options Charges (“Options Charge Schedule”) to make a footnote, which relates to the \$60,000 cap and appears in other applicable sections of the Exchange’s fee schedule, more consistent.¹³ The Exchange also proposes to include non-substantive disclaimer language relating to the trading of certain licensed products on the Exchange in its \$60,000 “Firm Related” Equity Option and Index Option Cap schedule (“\$60,000 Cap Schedule”).¹⁴ The fees set forth in this proposal are scheduled to become effective for transactions settling on or after June 8, 2005.

The text of the proposed rule change is available on the Phlx’s Internet Web site (<http://www.phlx.com>), at the Phlx’s Office of the Secretary, and at the Commission’s Public Reference Room.

¹² Consistent with current practice, when calculating the \$60,000 cap, the Exchange first calculates all equity option and index option transaction and comparison charges for products without license fees and then equity option and index option transaction and comparison charges for products with license fees (*i.e.*, QQQ license fees) that are assessed by the Exchange after the \$60,000 cap is reached. *See* Securities Exchange Act Release No. 50836 (December 10, 2004), 69 FR 75584 (December 17, 2004) (SR-Phlx-2004-70).

¹³ Telephone conversation between Cynthia Hoekstra, Director, Phlx, and Edward Cho, Attorney, Division, Commission (July 7, 2005).

¹⁴ Id.

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 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 the Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of assessing the S&P products and WHC license fee of \$0.10 per contract side after reaching the \$60,000 cap as described in this proposal is to help defray licensing costs associated with the trading of these products, while still capping member organizations' fees enough to attract volume from other exchanges. The cap operates this way in order to offer an incentive for additional volume without leaving the Exchange with significant out-of-pocket costs.

The purpose of making minor technical changes to the Exchange's Options Charge Schedule is to make a footnote, which relates to the \$60,000 cap and appears in other applicable sections of the Exchange's fee schedule, more consistent. In addition, the Exchange proposes to include non-substantive disclaimer language relating to the trading of certain licensed products on the Exchange in its \$60,000 Cap Schedule.

2. Statutory Basis

The Exchange believes that the proposed rule change, as amended, is consistent with Section 6(b) of the Act¹⁵ in general, and furthers the objectives of Section 6(b)(4) of the Act¹⁶ 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 Phlx believes that the proposed rule change would impose no 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 did not solicit or receive any written comments with respect to the proposal.

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 Act¹⁷ and Rule 19b-4(f)(2)¹⁸ thereunder. Accordingly, the proposal is effective upon filing with the Commission. At any time within 60 days of the filing of the amended 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.¹⁹

¹⁵ 15 U.S.C. 78f(b).

¹⁶ 15 U.S.C. 78f(b)(4).

¹⁷ 15 U.S.C. 78s(b)(3)(A)(ii).

¹⁸ 17 CFR 240.19b-4(f)(2).

¹⁹ See supra note 3.

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-2005-40 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2005-40. 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-2005-40 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.²⁰

Jill M. Peterson
Assistant Secretary

²⁰ 17 CFR 200.30-3(a)(12).