

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52817; File No. SR-Phlx-2005-47)

November 22, 2005

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto to Reduce the Value of the Nasdaq Composite Index® Underlying the Options Traded Under the Symbol QCE

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 9, 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 and II below, which Items have been prepared by the Phlx. On November 18, 2005, the Phlx filed Amendment No. 1 to the proposed rule change.³ The Phlx filed the proposal pursuant to Section 19(b)(3)(A) of the Act⁴ and Rule 19b-4(f)(6) thereunder,⁵ which renders the proposal effective upon filing with the Commission.⁶ 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 decrease by a factor of ten (10) the value of the index that underlies the options that are approved to trade on the Exchange under the symbol QCE (“QCE Options”)

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No.1, the Exchange asked the Commission to waive the 30-day operative delay required by Rule 19b-4(f)(6)(iii). See 17 CFR 240.19b-4(f)(6)(iii). See also discussion infra Section III.

⁴ 15 U.S.C. 78s(b)(3)(A).

⁵ 17 CFR 240.19b-4(f)(6).

⁶ The Phlx has asked the Commission to waive the 30-day operative delay required by Rule 19b-4(f)(6)(iii), 17 CFR 240.19b-4(f)(6)(iii). See supra note 3.

and thereby decrease the strike prices for the QCE Options, in order to eliminate investor confusion between the QCE Options and the QCX Options.⁷ The proposed decrease would be achieved by multiplying the Adjusted Base Period Market Value that is applied to the index underlying the QCE Options (“QCE Index”) by ten. The position and exercise limits applicable to QCE Options (currently 300,000 contracts on either side of the market in the near-term months) would remain unchanged.

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 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

In December 2003, the Commission approved Phlx’s proposed rule change to trade full-value options on the Nasdaq Composite Index⁸ under the symbol QCX (“QCX Options”) and

⁷ See infra Section II.A.1 for the definition of “QCX Options” and for the general background.

⁸ The composite index is a cash-settled, capitalization-weighted, broad-based, A.M. settled index composed of approximately 3,400 stocks listed and traded on The Nasdaq Stock Market, Inc. (“Nasdaq”).

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reduced-value options on the Nasdaq Composite Index® under the symbol QCE.⁹ Both the QCE Options and QCX Options were based on the full-value Nasdaq Composite Index® and had identical strike prices, but the Premium Quotation Multiplier for QCX was 100 and the Premium Quotation Multiplier for QCE was 10. The Exchange has heard from a number of market participants that investors in QCE Options and QCX Options have become confused and not willing to trade these products because the identical options strike prices and similar ticker symbols tend to create the possibility of placing a mistaken order.¹⁰ As a result of this investor confusion, trading in the QCE and QCX Options diminished, and the Exchange delisted both the QCE and QCX Options on or about March 21, 2005.

The purpose of the proposed rule change is to reduce the value of the QCE Index by a factor of ten and thereby effectively reduce the strike price of QCE Options in order to eliminate

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⁹ See Securities Exchange Act Release No. 48884 (December 5, 2003), 68 FR 69753 (December 15, 2003).

¹⁰ As approved in 2003, a QCE Option contract is one-tenth the size of a QCX Option contract. Customarily, strike prices for a full-size options contract and a reduced-size options contract would also differ by a factor of ten. However, since both QCE and QCX Options were linked to the same value of the Nasdaq Composite Index®, the strike prices for QCE and QCX Options were identical.

investor confusion between the QCE Options and the QCX Options. By reducing the value of the QCE Index by a factor of ten, investors in QCE Options would see a similar reduction in the strike prices of QCE Options contracts, and would be less likely to be confused between the QCE and QCX Options products.

For example, as of October 27, 2005, the value of the Nasdaq Composite Index® was 2063.50, and a near-month at-the-money call premium for the QCE Option would have been at a minimum its intrinsic value of \$63.50 per contract.¹¹ The Exchange proposes to reduce the value of the QCE Index to one-tenth of the value of the Nasdaq Composite Index®, or 206.35, which would effectively be a “ten-for-one split.” This would be achieved by multiplying the Adjusted Base Period Market Value, the divisor used to calculate the QCE Index, by ten. In order to maintain a proper economic ratio between the two options (that is, QCX Options are ten times the value of QCE Options), each QCE Option contract would be assigned a strike price of one-tenth of the original strike price. In addition, the Premium Quotation Multiplier, which is currently \$100.00 for QCX Options and \$10.00 for QCE Options, will be increased to \$100.00 for QCE Options to maintain a reasonable equivalence in the options premium in relation to the new strike prices. Thus, for example, a hypothetical option buyer of one QCE 2000 call prior to the date of effectiveness of this proposed rule change would have been quoted a premium of \$63.50; after applying the Premium Quotation Multiplier of \$10.00, such option buyer would

¹¹ While QCX and QCE Options are currently delisted and not trading, Nasdaq has agreed to continue to calculate and disseminate the value for both the full-value Nasdaq Composite Index® and the QCE Index, and has been doing so since July 1, 2005, to enable the trading of options overlying the indexes. Nasdaq will continue to disseminate these index values at least once every fifteen seconds during the normal trading day. The Exchange understands that in calculating and disseminating these index values, Nasdaq will synchronize the timing of changes in the indexes so that they occur simultaneously in both indexes, and the smaller QCE Index will at all times be one-tenth the value the larger Nasdaq Composite Index®, to negate arbitrage opportunities.

have paid a premium of \$635.00. Similarly, a hypothetical option buyer of one QCE 200 call subsequent to the date of effectiveness of this proposed rule change would be quoted a premium of \$6.35; after applying the Premium Quotation Multiplier of \$100.00, such option buyer would pay a premium of \$635.00. As a result, the premium paid, after applying the Premium Quotation Multiplier, would be \$635.00 both before and after the date of effectiveness of this proposed rule change. The position and exercise limits applicable to QCE Options would remain unchanged. The options trading symbol would remain QCE.

The Exchange will list the new, lower strike prices for QCE Options pursuant to Phlx Rule 1101A, Terms of Option Contracts. The Exchange will announce the effective date of the proposed rule change by way of an Exchange memorandum to the membership, also serving as notice of the strike price changes.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the requirements of Section 6(b) of the Act,¹² in general, and furthers the objectives of Section 6(b)(5) of the Act,¹³ in particular, because it is designed to promote just and equitable principles of trade, as well as to protect investors and the public interest, by establishing a lower index value for the QCE Index which should, in turn, eliminate customer confusion and facilitate trading in QCE Options. The Exchange believes that reducing the value of the QCE Index should not raise manipulation concerns or cause adverse market impact because the Exchange will continue to

¹² 15 U.S.C. 78f(b).

¹³ 15 U.S.C. 78f(b)(5).

employ its surveillance procedures and has proposed an orderly procedure to achieve the index value adjustment, which includes providing adequate prior notice to market participants.¹⁴

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 Phlx 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

The foregoing proposed rule change has been filed by the Exchange as a “non-controversial” rule change pursuant to Section 19(b)(3)(A)(i) of the Act¹⁵ and subparagraph (f)(6) of Rule 19b-4 thereunder.¹⁶ Consequently, 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) by its terms does not become operative for 30 days after the date of this filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, and the Exchange provided the Commission with written notice of its intent to file the proposed rule change at least five days prior to the filing date, it has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder.

¹⁴ The Exchange further believes that reducing the value of the QCE Index should not impact investors because at the present time there is no open interest or trading in QCE Options overlying such index.

¹⁵ 15 U.S.C. 78s(b)(3)(A)(i).

¹⁶ 17 CFR 240.19b-4(f)(6).

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative for 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 Phlx has asked the Commission to waive the 30-day operative delay to allow the Exchange to promptly decrease the value of the QCE Index that underlies the QCE Options so that trading in the QCE and QCX Options may re-commence. The Commission has determined to waive the 30-day operative delay period.¹⁷ The Commission believes that waiving the 30-day operative delay period is consistent with the protection of investors and the public interest because it will allow the Exchange to re-list the QCE and QCX Options products in a more timely manner with a reduced risk of investors confusing the two products and placing mistaken orders.

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.¹⁸

¹⁷ For purposes only of waiving the 30-day operative delay, the Commission has also considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁸ The effective date of the original proposed rule change is November 9, 2005, and the effective date of Amendment No. 1 is November 18, 2005. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change under Section 19(b)(3)(C) of the Act, the Commission considers such period to commence on November 18, 2005, the date on which the Exchange filed Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

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 No. SR-Phlx-2005-47 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 No. SR-Phlx-2005-47. 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 will also 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 No. SR-Phlx-2005-47 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.¹⁹

Jonathan G. Katz
Secretary

¹⁹ 17 CFR 200.30-3(a)(12).