

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53407; File No. SR-Phlx-2006-12)

March 3, 2006

Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Expansion of Time for Exercising Expiring Options and Submitting Contrary Exercise Advices

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 February 13, 2006, 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 Exchange. The Phlx filed the proposal as a “non-controversial” proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder,⁴ which renders it 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, pursuant to Section 19(b)(1) of the Act⁵ and Rule 19b-4 thereunder,⁶ proposes to amend Phlx Rule 1042 to add two additional minutes within which one may make a final

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 15 U.S.C. 78s(b)(1).

⁶ 17 CFR 240.19b-4.

decision to exercise or not exercise an option or deliver a contrary exercise advice (“CEA”)⁷ to the Exchange. The proposal is intended to conform Phlx Rule 1042 to a change in the closing time for equity options and narrow-based index options from 4:02 p.m. to 4:00 p.m. (EST).⁸ The text of the proposed rule change is available on the Phlx’s Web site (<http://www.phlx.com>), at the Phlx’s principal office, 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 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 Phlx has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

⁷ A CEA is a communication either to not exercise an option that would be automatically exercised pursuant to the Options Clearing Corporation’s (“OCC”) Exercise-by-Exception (“Ex-by-Ex”) procedure, or to exercise an option that would not be automatically exercised pursuant to the OCC’s Ex-by-Ex procedure.

⁸ See Securities Exchange Act Release No. 53247 (February 7, 2006), 71 FR 8037 (February 15, 2006) (approving SR-Phlx-2006-01, which amended Phlx Rules 101, 1012, 1047, 1047A, and 1101A and Phlx Floor Procedure Advice (“OFPA”) G-2, so that equity options and narrow-based index options may trade until 4:00 p.m. instead of 4:02 p.m. (EST). The proposed rule change did not affect broad-based index options or exchange traded fund options trading until 4:15 p.m.). The 4:00 p.m. (EST) closing time was implemented on February 13, 2006 on an industry-wide basis.

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 amendment to Phlx Rule 1042 is to change the time for deciding whether to exercise an option and for delivering a contrary exercise advice to conform to the new trading hours for equity options and narrow-based index options.⁹

Currently, Phlx Rule 1042(c) establishes that on the business day immediately prior to an expiration date, option holders may make final decisions to exercise or not exercise options, and members and member organizations may accept exercise instructions and submit CEAs to the Exchange as late as 5:30 p.m. or 6:30 p.m. (EST), pursuant to circumstances set forth in Phlx Rule 1042(c). Phlx Rule 1042(g) establishes that where, on the last business day before the day of expiration, the Exchange provides advance notice of a modified time for the close of trading in equity options, the deadline to make a final decision to exercise or not exercise an expiring option and to deliver a CEA to the Exchange will be 1 hour 28 minutes or 2 hours 28 minutes after the announced modified closing time, instead of the 5:30 p.m. or 6:30 p.m. (EST) deadline set by Phlx Rule 1042(c). The Exchange proposes to add two minutes to each of these timeframes to correspond to the two minute difference in trading time created by the change in the close of trading time from 4:02 p.m. to 4:00 p.m. (EST).

According to the Exchange, this proposal seeks only to change the exercise timeframes for equity options, not index options, because the Phlx Rule governing index options does not have pre-set times. Accordingly, for index options, exercise forms submitted by specialists,

⁹ See supra note 8.

traders, and others must be time stamped no later than five minutes after the close of trading on the day of the exercise.

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 Section 6(b)(5) of the Act¹¹ in particular, because 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 establishing expiring option exercise and CEA timeframes similar to that of other options exchanges and in conformity with new trading hours for equity options and narrow-based index options.

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 comments on the proposed rule change.

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

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 on which it was filed, or such shorter time as the Commission may designate if consistent with the

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act¹² and Rule 19b-4(f)(6) thereunder.¹³

A proposed rule change filed under Rule 19b-4(f)(6)¹⁴ 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 Phlx has asked the Commission waive the 30-day operative delay and the 5-day pre-filing requirement. The Commission believes that waiving the 30-day operative delay and the 5-day pre-filing requirement is consistent with the protection of investors and the public interest because such waiver will allow the Phlx to immediately clarify its rule and conform it to the industry-wide close of trading times now in effect. Accelerating the operative date will allow for a more efficient and effective market operation by offering clarity and internal consistency with existing Phlx rules. For these reasons, the Commission designates the proposed rule change as effective and operative immediately upon filing with the Commission.¹⁵

At any time within 60 days after the filing of the proposed rule change, the Commission may summarily abrogate the 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.

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

¹⁴ Id.

¹⁵ For the purposes only of waiving the 30-day 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).

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-2006-12 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-2006-12. 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 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 2006-12 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

Nancy M. Morris
Secretary

¹⁶ 17 CFR 200.30-3(a)(12).