

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

The Exchange believes that the foregoing proposed rule change may take effect upon filing with the Commission pursuant to Section 19(b)(3)(A) of the Act<sup>12</sup> and subparagraph (f)(6)(iii) of Rule 19b-4 thereunder<sup>13</sup> because the foregoing 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) does not become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, if consistent with the protection of investors and the public interest.<sup>14</sup>

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 waive the operative delay if such action is consistent with the protection of investors and the public interest. The Exchange has requested that the Commission waive the 30-day operative delay and designate the proposed rule change immediately operative, so that the Exchange can have quarterly options pilot rules that are similar to that of other options exchanges. The Exchange believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest.

The Commission believes that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. The Commission notes that the proposal is substantially identical to the CBOE's pilot program for quarterly option series, previously published for comment<sup>15</sup> and approved by the Commission,<sup>16</sup> and is substantially similar to existing pilot programs currently in place at other SROs.<sup>17</sup> Thus, Phlx's proposal raises no new issues of regulatory concern. Moreover, waiving the operative delay will allow

Phlx to immediately compete with other exchanges that list and trade quarterly options under similar programs, and consequently will benefit the public. Therefore, the Commission has determined to waive the 30-day delay and allow the proposed rule change to become operative upon filing.<sup>18</sup>

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.

### 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](mailto:rule-comments@sec.gov). Please include File No. SR-Phlx-2007-08 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-2007-08. 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 Commissions 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-2007-08 and should be submitted on or before March 16, 2007.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>19</sup>

**Florence E. Harmon,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-55305; File No. SR-Phlx-2006-65]

### Self-Regulatory Organizations; Philadelphia Stock Exchange, Inc.; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change as Modified by Amendment Nos. 2 and 3 Thereto Relating to Options on the Russell 2000® Index

February 15, 2007.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 31, 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 substantially prepared by the Exchange. On November 22, 2006, the Exchange filed Amendment No. 1 to the proposed rule change. On January 24, 2007, the Exchange filed Amendment No. 2 to the proposed rule change.<sup>3</sup> On February 7, 2007, the Exchange filed Amendment No. 3 to the proposed rule change. This order provides notice of the proposed rule change as modified by Amendment Nos. 2 and 3 and approves the proposed rule change as amended on an accelerated basis.

<sup>19</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> Amendment No. 2 superceded Amendment No. 1 in its entirety.

<sup>12</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>13</sup> 17 CFR 240.19b-4(f)(6)(iii).

<sup>14</sup> The Exchange provided the Commission with pre-filing notice of the proposal, as required by Rule 19b-4(f)(6)(iii).

<sup>15</sup> See Securities Exchange Act Release Nos. 54123 (July 11, 2006), 71 FR 40558 (July 17, 2006) (SR-CBOE-2006-65) (notice of filing and immediate effectiveness for CBOE's quarterly option series pilot program).

<sup>16</sup> See Securities Exchange Act Releases No. 54762 (November 16, 2006), 71 FR 67663 (November 22, 2006) (SR-CBOE-2006-93) (order approving certain amendments to CBOE's quarterly option series pilot program).

<sup>17</sup> See *supra* note 5.

<sup>18</sup> For purposes only of waiving the operative delay of this proposal, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

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

The Exchange proposes to amend its Rules 1079 (FLEX Index and Equity Options), 1001A (Position Limits), and 1101A (Terms of Option Contracts) so that it can list and trade cash-settled, European-style options, including FLEX options and LEAPS,<sup>4</sup> on the Russell 2000® Index of the Frank Russell Company ("Russell"), namely full value options ("Full Value Russell Options") and one-tenth value options ("Reduced Value Russell Options") on the Russell 2000® Index.

Amended Phlx Rule 1001A would establish position limits for the Full Value Russell Options of 50,000 contracts total on either side of the market, with 30,000 contracts in the nearest expiration month, and position limits for the Reduced Value Russell Options of 500,000 contracts total on either side of the market, with 300,000 contracts total in the nearest expiration month. Amended Phlx Rule 1079 would establish similar position limits for FLEX Full Value Russell Options and FLEX Reduced Value Russell Options. Amended Phlx Rule 1101A would establish that Full Value Russell Options and the Reduced Value Russell Options may be traded on the Exchange until 4:15 p.m. each business day, and that Phlx may list \$2.50 or higher strike price intervals for options on the Russell 2000® Index if the strike price is less than \$200. The text of the proposed rule change is available at the Phlx, the Commission's Public Reference Room, and [www.phlx.com/exchange/phlx\\_rule\\_fil.html](http://www.phlx.com/exchange/phlx_rule_fil.html).

## 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 III below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

<sup>4</sup> FLEX options are customized or flexible index and equity options and LEAPS are Long-term Equity Anticipation Securities or long term options series. See Phlx Rules 1079, 1012 and 1101A. The Exchange does not anticipate listing reduced value LEAPS on the Russell 2000® Index.

### A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

#### 1. Purpose

The Exchange proposes to amend its Rules 1079 (FLEX Index and Equity Options), 1001A (Position Limits), and 1101A (Terms of Option Contracts) to list and trade on the Exchange cash-settled, European-style index options on the full and reduced values of the Russell 2000® Index.<sup>5</sup>

The Russell 2000® Index is a capitalization-weighted index containing the smallest 2000 companies in the Russell 3000® Index, which includes the largest 3,000 companies incorporated in the United States. All index components are traded on the New York Stock Exchange LLC ("NYSE"), the American Stock Exchange LLC ("Amex"), and/or The NASDAQ Stock Market LLC ("Nasdaq"). Options on the Russell 2000® Index and other Russell indexes currently trade on the Chicago Board Options Exchange, Inc. ("CBOE") and other options exchanges.<sup>6</sup> The Exchange also is

<sup>5</sup> Although Exchange Rule 1009A has generic listing standards for options on broad-based indexes that apply to options on the Russell 2000® Index, see Securities Exchange Act Release No. 54158 (July 17, 2006), 71 FR 41853 (July 24, 2006) (SR-Phlx-2006-17), the proposed rule change is necessary to establish, among other things, larger position limits on such Russell products.

<sup>6</sup> See Securities Exchange Act Release Nos. 49388 (March 10, 2004), 69 FR 12720 (March 17, 2004) (SR-CBOE-2003-51) (approving listing and trading on CBOE of options, including LEAPS, on the Russell Top 200® Index, Russell Top 200® Growth Index, and the Russell Top 200® Value Index); 48591 (October 2, 2003), 68 FR 58728 (October 10, 2003) (SR-CBOE-2003-17) (approving listing and trading on CBOE of options, including LEAPS, on the Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, and Russell MidCap® Growth Index); and 31382 (October 30, 1992), 57 FR 52802 (November 5, 1992) (SR-CBOE-92-02) (approving listing and trading on CBOE of options, including LEAPS, on the Russell 2000® Index). See also Securities Exchange Act Release Nos. 51619 (April 27, 2005), 70 FR 22947 (May 3, 2005) (SR-ISE-2005-09) (order approving listing and trading on the International Securities Exchange ("ISE") of options, including LEAPS, on the Russell 3000® Index, Russell 3000® Value Index, Russell 3000® Growth Index, Russell 2500® Index, Russell 2500® Value Index, Russell 2500® Growth Index, Russell 2000® Index, Russell 2000® Value Index, Russell 2000® Growth Index, Russell 1000® Index, Russell 1000® Value Index, Russell 1000® Growth Index, Russell Top 200® Index, Russell Top 200® Value Index, Russell Top 200® Growth Index, Russell MidCap® Index, Russell MidCap® Value Index, Russell MidCap® Growth Index, Russell Small Cap® Completeness Index, Russell Small Cap® Completeness Value Index, and Russell Small Cap® Completeness Growth Index); and 53191 (January 30, 2006), 71 FR 6111 (February 6, 2006) (SR-Amex-2005-061) (order approving

proposing to be able to list and trade long-term options on the Russell 2000® Index.<sup>7</sup>

#### Index Design and Composition

The Russell 2000® Index is designed to be a comprehensive representation of the investable U.S. equity market. The index is capitalization-weighted and includes only common stocks belonging to corporations domiciled in the United States that are traded on NYSE, Nasdaq, or Amex. Stocks are weighted by their "available" market capitalization, which is calculated by multiplying the primary market price by the "available" shares; that is, total shares outstanding less corporate cross-owned shares; shares owned by Employee Stock Ownership Plans and Leveraged Employee Stock Ownership Plans that comprise 10% or more of shares outstanding; shares that are part of unlisted share classes; shares held by an individual, a group of individuals acting together, or a corporation not in the index that owns 10% or more of the shares outstanding; and shares subject to Initial Public Offering lock-ups. The Russell 2000® Index is designed to measure the performance of the 2,000 smallest companies in the Russell 3000® Index, representing approximately 8% of the investable U.S. equity market.<sup>8</sup>

All equity securities listed on NYSE, Amex, or Nasdaq are considered for inclusion in the Russell 2000® Index, with the following exceptions: (1) Stocks trading at less than \$1.00 per share on May 31 of each year; (2) stocks of non-U.S. companies; (3) preferred and convertible preferred stocks; (4) redeemable shares; (5) participating preferred stocks; (6) warrants and rights; (7) trust receipts; (8) royalty trusts; (9) limited liability companies; (10) Bulletin Board and Pink Sheet stocks; (11) closed-end investment companies; (12) limited partnerships; and (13) foreign stocks. As a special exception, Berkshire Hathaway is also excluded. The Russell 2000® Index is derived from the smallest 2000 companies in the Russell 3000® Index and represents approximately 8% of the investable U.S.

listing and trading on the Amex of options, including LEAPS, on the Russell 1000® Index, Russell 1000® Growth Index, Russell 1000® Value Index, Russell 2000® Index, Russell 2000® Growth Index, Russell 2000® Value Index, Russell 3000® Index, Russell 3000® Growth Index, Russell 3000® Value Index, Russell MidCap® Index, Russell MidCap® Growth Index, Russell MidCap® Value Index, and Russell Top 50® Index).

<sup>7</sup> Per subsection (b)(iii) of Phlx Rule 1101A, the Exchange may list, with respect to any class of stock index options, series of options having up to 60 months to expiration.

<sup>8</sup> Additional information about the Russell indexes can also be found at <http://www.russell.com/us/indexes/us/definitions.asp>.

equity market.<sup>9</sup> All of these stocks are "NMS Stocks" as defined in Rule 600 of Regulation NMS under the Act.

As of June 30, 2006, the stocks comprising the Russell 2000® Index had an average market capitalization of \$641.69 billion, ranging from a high of \$2.33 billion (Maverick Tube Corp.) to a low of \$305.29 million (Tiens Biotech Group). The number of available shares outstanding averaged 35.80 million, ranging from a high of 482.72 million (Conexant Systems Inc.) to a low of 1.26 million (Seaboard Corp.). The six-month average daily trading volume for Russell 2000® Index components was 461,255 shares per day, ranging from a high of 20.37 million shares per day (Conexant Systems Inc.) to a low of 2,067 shares per day (Arden Group). Stocks that averaged less than 50,000 shares per day for the previous six months accounted for 12% of the index weight of the Russell 2000® Index. Additionally, over 56% of Russell 2000® Index components have options listed on them, representing over 94% of the index weight. The Russell 2000® Index has a total capitalization of approximately \$1.6 trillion as of December 18, 2006.

#### *Index Calculation and Index Maintenance*

The value of the Russell 2000® Index (both full and reduced value) is currently calculated by Reuters on behalf of Russell and is disseminated every 15 seconds during regular Phlx trading hours to market information vendors via the Options Price Reporting Authority ("OPRA").

The methodology used to calculate the value of the Russell 2000® Index is similar to the methodology used to calculate the value of other well known market-capitalization-weighted indexes, reflecting the total market value of the component stocks relative to a particular base period and is computed by dividing the total market value of the companies in the index by the index divisor. The divisor is adjusted periodically to maintain consistent measurement of the index. The base index value of the Russell 2000® Index was \$135.00 on the December 31, 1986 base index date, and the value of the Russell 2000® Index on December 31, 2005 was \$673.22.

In recent years, the values of the Russell 2000® Index has increased significantly. As a result, the premium for options on the Russell 2000® Index

has also increased, causing these index options to trade at a level that may be uncomfortably high for retail investors. Therefore, the Exchange also proposes to trade Reduced Value Russell Options. The Exchange believes that listing reduced value options would attract a greater source of customer business than if it listed only full value options on the Russell 2000® Index. The Exchange further believes that listing reduced value options would provide an opportunity for investors to hedge, or speculate on, the market risk associated with the stocks comprising the Russell 2000® Index and use this trading vehicle while extending a smaller outlay of capital. The Exchange believes that this should attract additional investors and, in turn, create a more active and liquid trading environment.<sup>10</sup>

Full value and reduced value options on the Russell 2000® Index would expire on the Saturday following the third Friday of the expiration month ("Expiration Saturday"). Trading in options on the Russell 2000® Index would normally cease at 4:15 p.m. Eastern Standard Time ("EST") on the Thursday preceding an Expiration Saturday. The exercise settlement value at expiration of each new index option would be calculated by Reuters on behalf of Russell, based on the opening prices of the index's component securities on the last business day prior to expiration ("Settlement Day").<sup>11</sup> The Settlement Day is normally the Friday preceding Expiration Saturday. If a component security in a Russell index does not trade on Settlement Day, the last reported sales price in the primary market from the previous trading day would be used to calculate both full and reduced settlement values. Settlement values for the full and reduced value options on the Russell 2000® Index would be disseminated by OPRA.

The Russell 2000® Index is monitored and maintained by Russell, which is responsible for making all necessary adjustments to the index to reflect component deletions, share changes, stock splits, stock dividends (other than ordinary cash dividends), and stock price adjustments due to restructuring, mergers, or spin-offs involving the underlying components. Some corporate actions, such as stock splits and stock

dividends, require simple changes to the available shares outstanding and the stock prices of the underlying components. Other corporate actions, such as share issuances, change the market value of an index and require the use of an index divisor to effect adjustments.

The Russell 2000® Index is re-constituted annually on June 30, based on prices and available shares outstanding as of the preceding May 31. New index components are added only as part of the annual re-constitution, after which, should a stock be removed from an index for any reason, it could not be replaced until the next re-constitution.

The Exchange represents that, although it is not involved in the maintenance of any of the Russell indexes, it would monitor the Russell 2000® Index on a quarterly basis and notify the Commission's Division of Market Regulation ("Division") by filing a proposed rule change pursuant to Rule 19b-4 if: (i) The number of securities in the index drops by one-third or more; (ii) 10% or more of the weight of the index is represented by component securities having a market value of less than \$ 75 million; (iii) less than 80% of the weight of the index is represented by component securities that are eligible for options trading pursuant to Phlx Rule 1009; (iv) 10% or more of the weight of the index is represented by component securities trading less than 20,000 shares per day; or (v) the largest component security in the index accounts for more than 15% of the weight of the index, or the largest five components in the aggregate account for more than 50% of the weight of the index.

The Exchange also would notify the Division immediately if Russell ceases to maintain or calculate the Russell 2000® Index on which Phlx is proposing to list and trade options, or if the full or reduced value of the Russell 2000® Index is not disseminated every 15 seconds by a widely available source. If the Russell 2000® Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange would not list any additional series for trading and would limit all transactions in options on that index to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

#### *Contract Specifications*

The proposed contract specifications for full and reduced value options on the Russell 2000® Index are based on the contract specifications of similar

<sup>9</sup> The Russell 3000® Index in turn measures the performance of the 3,000 largest U.S. companies based on total market capitalization, representing approximately 98% of the investable U.S. equity market.

<sup>10</sup> The Exchange believes that reduced value options on certain Russell indexes have generated considerable interest from investors, as measured, for example, by the robust trading volume of reduced value options on the Russell 2000® Index that traded on CBOE and the ISE in 2005 (total 320,876 contracts).

<sup>11</sup> The aggregate exercise value of the option contract is calculated by multiplying the index value by the index multiplier, which is 100.

options currently listed on CBOE, ISE and Amex.<sup>12</sup> The Russell 2000® Index is a broad-based index, as defined in Phlx Rule 1000A(b)(11). Full and reduced value options on the Russell 2000® Index would be European-style and a.m. cash-settled. The Exchange's standard trading hours for index options (9:30 a.m. to 4:15 p.m. EST), as set forth in Commentary .01 to Phlx Rule 1101A, would apply to options on the Russell 2000® Index (both full and reduced value). Exchange rules that apply to the trading of options on broad-based indexes also would apply to both the full value and reduced value options on the Russell 2000® Index.<sup>13</sup> The trading of these options also would be subject to, among others, Exchange rules governing margin requirements and trading halt procedures for index options.

For Full Value Russell Options, the Exchange proposes to establish in its Rule 1001A(a)(iv) an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series. Full Value Russell Options contracts would be aggregated with Reduced Value Russell Options contracts, where ten Reduced Value Russell Options contracts would equal one Full Value Russell Options contract.<sup>14</sup> These limits are identical to the limits applicable to options based on the Russell 2000® Index that currently trade on CBOE.<sup>15</sup>

Additionally, Commentary .01 to Phlx Rule 1001A provides that under certain circumstances index options positions may be exempted from established position limits for each contract "hedged" by an equivalent dollar amount of the underlying component securities. Furthermore, Commentary .02 provides that member organizations may receive exemptions of up to two times the applicable position limit where the index options positions are in proprietary accounts used for the purpose of facilitating orders for customers of those member organizations. See Phlx Rule 1001A.

The Exchange proposes to apply existing index margin requirements for the purchase and sale of options on the Russell 2000® Index. See Phlx Rule 722.

The Exchange proposes to set strike price intervals for index options of at

least \$2.50 when the strike price of full or reduced value options on the Russell 2000® Index is below \$200, and at least \$5.00 strike price intervals otherwise. The minimum tick size for series trading below \$3 would be \$0.05, and for series trading at or above \$3 would be \$0.10. See Phlx Rule 1034 and proposed Rule 1101A.

The Exchange proposes to list series of Full Value Russell Options and Reduced Value Russell Options having up to three consecutive expiration months, with the shortest-term series initially having no more than two months to expiration (consecutive month series), and may designate one expiration cycle for each class that shall consist of four calendar months occurring at three-month intervals (cycle month series). Thus, the Exchange intends to initially list and trade options on the Russell 2000® Index in the following six series: February, March, April, June, September and December. In addition, LEAPS having up to 60 months to expiration may be traded.<sup>16</sup> See Phlx Rule 1101A. The trading of long-term options series on the Russell 2000® Index would be subject to the same rules that govern all the Exchange's index options, including sales practice rules, margin requirements, and trading rules.

All of the specifications and calculations for Reduced Value Russell Options would be the same as those used for the Full Value Russell Options with position limits adjusted accordingly for Reduced Value Russell Options. The reduced value options would trade independently of, and in addition to, the full value options. Options on the Russell 2000® Index would be subject to the same rules that presently govern all Exchange index options, including sales practice rules, margin requirements, trading rules, and position and exercise limits.

#### *Surveillance and Capacity*

The Exchange represents that it has an adequate surveillance program in place for options on the Russell 2000® Index and intends to apply those same procedures that it applies to the Exchange's other index options. Additionally, the Exchange is a member of the Intermarket Surveillance Group ("ISG") under the Intermarket Surveillance Group Agreement, dated June 20, 1994. The members of the ISG include all of the national securities exchanges. The ISG members work together to coordinate surveillance and share information regarding the stock

and options markets. In addition, the major futures exchanges are affiliated members of the ISG, which allows for the sharing of surveillance information for potential intermarket trading abuses.

The Exchange also represents that it has the necessary systems capacity to support the new options series that would result from the introduction of full value and reduced value options on the Russell 2000® Index, including full value LEAPS on the Russell 2000® Index. The Exchange has provided the Commission with system capacity information to support this representation.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>17</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>18</sup> in particular, in that it will permit trading in options on the Russell 2000® Index pursuant to rules designed to prevent fraudulent and manipulative practices and 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 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 either solicited or received.

#### III. 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2006-65 on the subject line.

##### *Paper Comments*

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission,

<sup>12</sup> See supra note 6.

<sup>13</sup> See generally Phlx Rules 1000A through 1106A (Rules Applicable to Trading of Options on Indices) and Phlx Rules 1000 through 1093 (Options Rules of the Phlx).

<sup>14</sup> The same limits that apply to position limits would apply to exercise limits for these products. See Phlx Rule 1002A.

<sup>15</sup> See CBOE Rule 24.4(a).

<sup>16</sup> The Exchange is not proposing to list reduced-value LEAPS on the Russell 2000® Index.

<sup>17</sup> 15 U.S.C. 78f(b).

<sup>18</sup> 15 U.S.C. 78f(b)(5).

100 F Street, NE., Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2006-65. 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-2006-65 and should be submitted on or before March 16, 2007.

#### IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

The Commission finds that the proposed rule change, as amended, is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.<sup>19</sup> In particular, the Commission believes that the proposal is consistent with Section 6(b)(5) of the Act,<sup>20</sup> which requires that the rules of an exchange be designed to prevent fraudulent and manipulative acts and practices, 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.

The Commission notes that it previously has found that the listing and trading on the CBOE, the ISE and the Amex of options on the Russell 2000®

Index, and those exchanges' position and exercise limits applicable to such options, are consistent with the Act.<sup>21</sup> The Phlx has proposed substantially similar contract specifications for these options, as well as identical position and exercise limits for these options. The Commission finds nothing that would cause it to revisit those earlier findings or prohibit the listing and trading of these options on the Phlx.

As noted above, the Russell 2000® Index is designed to represent a broad segment of the U.S. equity securities market. Furthermore, the Phlx has represented that it would notify the Commission if: (i) The number of securities in the index drops by one-third or more; (ii) 10% or more of the weight of the index is represented by component securities having a market value of less than \$75 million; (iii) less than 80% of the weight of the index is represented by component securities that are eligible for options trading pursuant to Phlx Rule 1009; (iv) 10% or more of the weight of the index is represented by component securities trading less than 20,000 shares per day; or (v) the largest component security in the index accounts for more than 15% of the weight of the index, or the largest five components in the aggregate account for more than 50% of the weight of the index.

In approving this proposal, the Commission has specifically relied on the following representations made by the Exchange:

1. The Exchange would notify the Division immediately if Russell ceases to maintain or calculate the Russell 2000® Index on which Phlx is proposing to list and trade options, or if the full or reduced value of the Russell 2000® Index is not disseminated every 15 seconds by a widely available source. If the Russell 2000® Index ceases to be maintained or calculated, or its values are not disseminated every 15 seconds by a widely available source, the Exchange would not list any additional series for trading and would limit all transactions in options on that index to closing transactions only for the purpose of maintaining a fair and orderly market and protecting investors.

2. The Exchange has an adequate surveillance program in place for the proposed options on the Russell 2000® Index.

3. The additional quote and message traffic that will be generated by listing and trading the proposed options on the Russell 2000® Index, including full value LEAPS on the Russell 2000®

Index, will not exceed the Exchange's current message capacity allocated by the Independent System Capacity Advisor.

The Commission further notes that, in approving this proposal, it relied on the Exchange's discussion of how Russell currently calculates the Russell 2000® Index. If the manner in which the Russell 2000® Index is calculated were to change substantially, this approval order might no longer be effective.

The Commission finds good cause for approving this proposal before the thirtieth day after the publication of notice thereof in the **Federal Register**. Options on the Russell 2000® Index already have been approved for listing and trading on other exchanges and are governed by contract specifications that are substantially similar to those proposed by the Phlx. Therefore, accelerating approval of the Exchange's proposal should benefit investors by creating, without undue delay, additional competition in the market for options on the Russell 2000® Index.

#### V. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>22</sup> that the proposed rule change (SR-Phlx-2006-65), as modified by Amendment Nos. 2 and 3, be, and it hereby is, approved on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>23</sup>

Nancy M. Morris,  
Secretary.

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## SMALL BUSINESS ADMINISTRATION

[Disaster Declaration # 10811]

Illinois Disaster # IL-00007

AGENCY: U.S. Small Business Administration.

ACTION: Notice.

**SUMMARY:** This is a Notice of the Presidential declaration of a major disaster for Public Assistance Only for the State of Illinois (FEMA-1681-DR), dated February 9, 2007.

*Incident:* Severe Winter Storm.

*Incident Period:* November 30, 2006 through December 1, 2006.

*Effective Date:* February 9, 2007.

*Physical Loan Application Deadline Date:* April 10, 2007.

**ADDRESSES:** Submit completed loan applications to: U.S. Small Business

<sup>19</sup> In approving this proposal, the Commission has considered its impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

<sup>20</sup> 15 U.S.C. 78f(b)(5).

<sup>21</sup> See Securities Exchange Act Release Nos. 31382, 51619 and 53191, *supra* at note 6.

<sup>22</sup> 15 U.S.C. 78s(b)(2).

<sup>23</sup> 17 CFR 200.30-3(a)(12).