



RULE  
ADOPTION  
NOTICE

**RAN-04-06**  
**March 10, 2004**

**TO: All PCX Members and Member Organizations**

**FROM: Department of Regulatory Policy**

**SUBJECT: Options on Fixed-Income ETFs**  
**(File No. SR-PCX-2004-06)**

On January 30, 2004, the Exchange filed with the Securities and Exchange Commission a rule proposal to amend the definition of Exchange-Traded Fund Shares (“ETFs”) in order to facilitate the listing and trading of options and FLEX options on fixed-income ETFs. The Exchange also proposed to delete obsolete language from the PCX Rules to facilitate the addition of options on fixed-income ETFs. On February 18, 2004, the Exchange filed Amendment No. 1 to the proposed rule. On March 8, 2004, the Commission published the notice of filing and immediate effectiveness of the proposed rule change.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Tania J.C. Blanford at (415) 393-4107.

**EXHIBIT A**  
**Text of the Proposed Rule Change:**<sup>1</sup>

**Rules of the Board of Governors**  
**of the**  
**Pacific Exchange, Inc.**

**Rule 3**  
**Listings**

**Options**

Rule 3.6(a) – (c) – No change.

*Commentary:*

.01 - .05 – No change.

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<sup>1</sup> New text is underscored; deleted text is in brackets.

.06 Securities deemed appropriate for options trading shall include shares or other securities (“Exchange-Traded Fund Shares”) that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent an interest in a registered investment company organized as an open-end management investment company, a unit investment trust or a similar entity which holds securities constituting or otherwise based on or representing an investment in an index or portfolio of securities, provided:

(a)

(i) the Exchange-Traded Fund Shares meet the criteria and guidelines for underlying securities set forth in Rule 3.6(a); or

(ii) the Exchange-Traded Fund Shares must be available for creation or redemption each business day in cash or in kind from the investment company at a price related to the net asset value. In addition, the investment company shall provide that fund shares may be created even though some or all of the securities needed to be deposited have not been received by the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the shares as soon as possible and such undertaking has been secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the fund which underlies the option as described in the fund or unit trust prospectus; and

(b)

(i) any non-U.S. component securities (including fixed-income) [stocks] in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;

(ii) securities (including fixed-income) [stocks] for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index; and

(iii) securities (including fixed-income) [stocks] for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.

.07 – No change.

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## **Rule 6 Options Trading**

### **Applicability, Definitions and References**

Rule 6.1(a) – No Change.

(b) *Definitions*. The following terms as used in Rule 6 shall, unless the context otherwise indicates, have the meanings herein specified:

(1) – (31) – No Change.

(32) *Exchange-Traded Fund Share* – For purposes of these Rules, the term Exchange-Traded Fund Share shall include Exchange-listed securities representing interests in open-end unit investment trusts or open-end management investment companies that hold securities (including fixed income securities) based on an index or a portfolio of securities.

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## **Rule 8 Other Securities**

Rules 8.1 – 8.17 Reserved.

### **Flexible Exchange Options Applicability and Definitions**

Rule 8.100(a) – No change.

[(1) Flexible Exchange Options on the following indexes are approved for trading on the Exchange:

- (A) the Wilshire Small Cap Index.
- (B) the PCX Technology Index.
- (C) the Dow Jones Co. Taiwan Index.
- (D) the Morgan Stanley Emerging Growth Index.

(2) Flexible Exchange Options on the following Exchange-Traded Fund Shares, as defined in Rule 6.1(b)(32), are approved for trading on the Exchange:

- (A) Nasdaq-100 Index Tracking Stock (Symbol: QQQ)]

(b) – (d) – No change.

Rule 8.101(a) – (b) – No change.

## Terms of FLEX Options

Rule 8.102(a) – (d) – No change.

(e) *Special Terms for FLEX Equity Options.*

(1) Reserved. [FLEX Equity Option transactions are limited to transactions in options on:

- (A) the Wilshire Small Cap Index.
- (B) The PCX Technology Index
- (C) The Dow Jones Co. Taiwan Index.
- (D) The Morgan Stanley Emerging Growth Index.]

(3) – (4) – No change.

(f) – No change.