



RULE
ADOPTION
NOTICE

RAN-04-07
March 15, 2004

TO: All PCX Members and Member Organizations
FROM: Department of Regulatory Policy
SUBJECT: Ratio Orders
(File No. SR-PCX-2004-09)

On February 19, 2004, the Exchange filed with the Securities and Exchange Commission a proposed rule to allow ratio orders to be executed at the Exchange. On March 1, 2004 the Commission approved the proposed rule change.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Steven Matlin at (415) 393-4084.

EXHIBIT A
Text of the Proposed Rule Change:¹

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

**Rule 6
Options Trading**

Certain Types of Orders Defined

Rule 6.62(a) – (j) – No change.

Rule 6.62 (k) Ratio Order. A Ratio Order is a spread, straddle, or combination order in which the stated number of option contracts to buy (sell) is not equal to the stated number of option contracts to sell (buy), provided that the number of contracts differ by a permissible ratio. For purposes of this section, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

¹ New text is underscored; deleted text is in brackets.

Commentary .01 – No Change.

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Priority and Order Allocation Procedures

Rule 6.75 (a) – (g) – No Change.

Rule 6.75 (h)(1) – (4) – No Change.

Rule 6.75 (h) Commentary .01 - .03 – No Change.

Rule 6.75 (h) Commentary .04 Combination, Spread, Ratio, and Straddle Orders.

Following are the proper trading procedures for combination, spread, ratio, and straddle orders:

(a) Announcing the Order. Any member holding a combination, spread, ratio or straddle order must write it on one ticket and must bid or offer for each series in the order. The member may express the order as it applies to each separate series or may express the order at its total or net debit/credit alone, so long as it is clear that the member is attempting to execute both series as a combination, spread, ratio or straddle. The executing member must ensure that the trading crowd is aware of the request for a market and has an opportunity to participate in the transaction.

(b) If The Book's Market is on Both Sides of the Order. First, a member entering a crowd must always check to see if the Book has the best market in either series and if the order can be executed against any bids and/or offers at the member's limit in both series in the Book. If the order may be executed by a combination of transactions with the Book in both series on a one-for-one basis, the member must trade the lesser number of contracts shown by the Book in both series.

(c) If the Book's Market is on One Side of the Order. If the Book is on just one side of the order, the executing member must determine who responds first to the request for a market and how that response is vocalized. If a bid or offer for one series in the order is vocalized first, the executing member must trade with the responding member, and the Book in the other series, for the same number of contracts as remain in the Book. If a response at the total or net debit/credit is vocalized first, then the responding member has priority over the Book and the existing markets on a one-for-one basis.

(d) If the Book Has No Markets for the Order. The following rule of priority applies when there are no markets in the Book against which the order can be executed. After the executing broker requests a market, the broker must trade with the first response vocalized at or within the broker's limits. If this response is in the form of a bid or offer for the net debit/credit, then that member has priority on a one-for-one basis. If the first response is for one series only, the executing broker must trade the other side of the order against the existing market in the crowd. If the executing broker cannot trade the other side of the order in the crowd, priority reverts to the member willing to trade both sides of the order on a one-for-one basis.

(e) Partial Executions. Partial execution of an order, with more than one member may occur so long as each member with whom that order is executed participates on a one-for-one basis with respect to each series involved in the order.

(f) If there is a Locked Book Market. The situation may occur when the only prices at which the order may be executed are equal to the Book's bids or offers for both series involved in the order. If those prices are the only prices at which the order may be executed, then the order will be given priority over the Book. For example, a Floor Broker enters the crowd with a spread order to sell the XYZ April 20/July 20 call spread for a credit of 1. The Book's bids and offers for these two series are:

XYZ April 20: .90 - 1.2

XYZ July 20: 2 - 2 1/6

Book's market for the April 20/July 20 spread is 15/16 - 1 1/16.

The spread cannot be executed by accepting the Book's bid of 2 for the XYZ July 20s and the Book's offer of the XYZ April 20s at 1 1/16. There are no other prices within the Book's bids and offers at which the spread may be done. The spread may be done, however, if the XYZ July 20s are sold at 2 1/16 and the XYZ April 20s are bought at 1 1/16 or the July 20s are sold at 2 and the April 20s are bought at 1. Although these prices are equal to both Book bids or both Book offers, this spread may be done in the crowd with one other member on a one-for-one basis at 1 and 2 or 1 1/16 and 2 1/16.

(g) Limits on Pre-emptive Right. This pre-emptive right pertains only to combinations, spreads, ratio or straddles of equal quantities or to the lesser quantity when the quantities of contracts involved are unequal.