



RULE
ADOPTION
NOTICE

RAN-04-09
March 23, 2004

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Bid-Ask Differentials
(File No. SR-PCX-2004-18)

On March 11, 2004, the Exchange filed with the Securities and Exchange Commission a proposed rule to establish, with respect to options trading with a bid price of less than \$2, bid-ask differentials that are no more than \$0.50 wide in certain circumstances. On March 15, 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

Obligations of Market Makers

Rule 6.37(a) – No change.

Rule 6.37(b) Appointment as a Primary Market Maker. With respect to each class of option contracts to which his appointment under Rule 6.35 imposes the continuous obligations set forth in this paragraph (b), a Market Maker is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of

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

the price relationships between option contracts of the same class. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market.

(1) Bidding and/or offering so as to create differences of no more than

(A) .25 between the bid and the offer for each option contract for which the bid is less than \$2,

(B) no more than .40 where the bid is \$2 or more but does not exceed \$5,

(C) no more than .50 where the bid is more than \$5 but does not exceed \$10,

(D) no more than .80 where the bid is more than \$10 but does not exceed \$20, and

(E) no more than \$1 when the last bid is \$20.10 or more, provided that the Options Floor Trading Committee may establish differences other than the above for one or more series or classes of options.

(F) The OFTC may, with respect to options trading with a bid price less than \$2, establish bid-ask differentials that are no more than \$0.50 wide (“double-width”) when the primary market for the underlying security: (a) Reports a trade outside of its disseminated quote (including any Liquidity Quote); or (b) disseminates an inverted quote. The imposition of double-width relief must automatically terminate when the condition that necessitated the double-width relief (i.e., condition (a) or (b)) is no longer present. Market makers that have not automated this process may not avail themselves of the relief provided herein (i.e. they may not manually adjust prices.)

Rule 6.37 (b)(2) – (h) – No Change.

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