



RULE
ADOPTION
NOTICE

RAN-05-23
March 11, 2005

TO: All PCX OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

SUBJECT: Split Price Priority
(File No. SR-PCX-2005-25)

On March 1, 2005, the Exchange filed with the Securities and Exchange Commission a proposal to amend its rules to change the priority provided under the split price transactions occurring in open outcry. The rule change was effective upon filing.

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

EXHIBIT 5
Text of the Proposed Rule Change:¹

Rules of the
Pacific Exchange, Inc.

Rule 6

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Rule 6.75(h) Priority on Split Price Transactions Occurring in Open Outcry.

(1) Purchase or sale priority. If an OTP Holder or OTP Firm purchases (sells) one or more option contracts of a particular series at a particular price or prices, the OTP Holder or OTP Firm must, at the next lower (higher) price at which another OTP Holder or OTP Firm bids (offers), have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that the OTP Holder or OTP Firm purchased (sold) at the higher (lower) price or prices, provided that the OTP Holder or OTP Firm's bid (offer) is made promptly and continuously and that the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). This paragraph only applies to transactions effected in open outcry.

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

(2) [Sale priority. If an OTP Holder or OTP Firm sells one or more option contracts of a particular series at a particular price or prices, he shall, at the next higher price at which another OTP Holder or OTP Firm offers, have priority in selling up to the equivalent number of option contracts of the same series that he sold at the lower price or prices, provided that his offer is made promptly and that the sale so effected represents the opposite side of a transaction with the same order or bid as the earlier sale or sales.] If an OTP Holder or OTP Firm purchases (sells) fifty or more option contracts of a particular series at a particular price or prices, he/she shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he/she purchased (sold) at the higher (lower) price or prices, but only if his/her bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of the transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). The Exchange may increase the “minimum qualifying order size” above 100 contracts for all products. Announcements regarding changes to the minimum qualifying order size shall be made via an Exchange Bulletin. This paragraph only applies to transactions effected in open outcry.

Rule 6.75(h)(3) – No Change.

Rule 6.75(h)(4) – Except for the provisions set forth in Rule 6.75(h)(2), [T]the priority afforded by this rule is effective only insofar as it does not conflict with orders on the book of the Order Book Official as provided in Rule 6.75. Such orders on the book of the Order Book Official have precedence over OTP Holders and OTP Firms’ orders at a particular price; orders on the book also have precedence over OTP Holder or OTP Firms’ orders that are not superior in price by at least the MPV.

Rule 6.75(h)(5) – Floor Brokers are able to achieve split price priority in accordance with paragraphs (1) and (2) above. Provided however, that a floor broker who bids (offers) on behalf of a non-market-maker PCX broker-dealer (“PCX BD”) must ensure that the PCX BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-OTP Holders or non-OTP Firms.

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