PACIFIC EXCHANGE
STOCK & OPTIONS

RULE
ADOPTION
NOTICE

RAN-05-31
April 25, 2005

TO: **All PCX OTP Holders and OTP Firms**

FROM: **Department of Regulatory Policy**

SUBJECT: **SizeQuote Mechanism**
(File No. SR-PCX-2005-35)

On April 7, 2005, the Exchange filed with the Securities and Exchange Commission a proposal to amend its rules to adopt, on a pilot basis through February 15, 2006, a SizeQuote Mechanism for the execution of large sized orders in open outcry. The proposed rule filing 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

Rule 6.47(a) – (f) – No Change.

Rule 6.47(g) – Open Outcry "SizeQuote" Mechanism

(i) SizeQuotes Generally. The SizeQuote Mechanism is a process by which a Floor Broker ("FB") may execute and facilitate large-sized orders in open outcry. Floor brokers must be willing to facilitate the entire size of the order for which they request SizeQuotes (the "SizeQuote Order"). The Exchange shall determine the classes in which the SizeQuote Mechanism will apply. The SizeQuote Mechanism will operate as a pilot program which expires February 15, 2006.

(A) Eligible Order Size: The Exchange shall establish the eligible order size however such size shall not be less than 250 contracts.

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

(B) Trading Crowd: The term "Trading Crowd" shall be as defined in PCX Rule 6.1(b)(30) and for purposes of this rule only shall also include any Floor Broker who is present at the trading post.

(C) Public Customer Priority: Public customer orders in the Consolidated Book have priority to trade with a SizeQuote Order over any member of the Trading Crowd providing a SizeQuote response at the same price as the order in the Consolidated Book.

(D) LMM Participation Rights: The LMM participation entitlement shall not apply to SizeQuote transactions.

(E) FBs may not execute a SizeQuote Order at a price inferior to the national best bid or offer ("NBBO"). Unless a SizeQuote request is properly canceled in accordance with paragraph (iv), a FB is obligated to execute the entire SizeQuote Order at a price that is not inferior to the NBBO in situations where there are no SizeQuote responses received or where such responses are inferior to the NBBO.

(ii) SizeQuote Procedure: Upon request from a FB for a SizeQuote, members of the Trading Crowd may respond with indications of the price and size at which they would be willing to trade with a SizeQuote Order. After the conclusion of time during which interested Trading Crowd member's have been given the opportunity to provide their indications, the FB must execute the SizeQuote Order with the members of the Trading Crowd and/or with a firm facilitation order in accordance with the following procedures:

(A) Executing the Order at the Trading Crowd's Best Price: Members of the Trading Crowd that provide SizeQuote responses at the highest bid or lowest offer ("best price") have priority to trade with the SizeQuote Order at that best price. Allocation of the order among members of the Trading Crowd shall be prorata, up to the size of each member's SizeQuote response. The FB must trade at the best price any contracts remaining in the original SizeQuote Order that were not executed by the members of the Trading Crowd providing SizeQuote responses.

(B) Executing the Order at a Price that Improves upon the Trading Crowd's Price by One Minimum Increment: Members of the Trading Crowd that provide SizeQuote responses at the best price ("Eligible Trading Crowd Members") have priority to trade with the SizeQuote Order at a price equal to one trading increment better than the best price ("improved best price"). Allocation of the order among Eligible Trading Crowd Members at the improved best price shall be prorata, up to the size of each eligible Trading Crowd Member's SizeQuote response. The FB must trade at the improved best price any contracts remaining in the original SizeQuote Order that were not executed by Eligible Trading Crowd Members.

(C) Trading at a Price that Improves upon the Trading Crowd's Price by more than One Minimum Increment: A FB may execute the entire SizeQuote Order at a price two trading increments better than the best price communicated by the Trading Crowd members in their responses to the SizeQuote request.

(iii) Definition of Trading Increments: Permissible trading increments are $0.05 for options quoted below $3.00 and $0.10 for all others. In classes in which bid-ask relief is granted pursuant to Rule 6.37(b)(1)(F), the permissible trading increments shall also increase by the corresponding amount. For example, if a series trading above $3.00 has double-width bid-ask relief, the permissible trading increment for purposes of this rule shall be $0.20.

(iv) It will be a violation of the FB's duty of best execution to its customer if it were to cancel a SizeQuote Order to avoid execution of the order at a better price. The availability of the SizeQuote Mechanism does not alter a FB's best execution duty to get the best price for its customer. A SizeQuote request can be canceled prior to the receipt by the FB of responses to the SizeQuote request. Once the FB receives a response to the SizeQuote request, if he/she were to cancel the order and then subsequently attempt to execute the order at an inferior price to the previous SizeQuote response, there would be a presumption that the FB did so to avoid execution of its customer order in whole or in part by the others at the better price.

* * *