



RULE
ADOPTION
NOTICE

RAN-05-52
August 2, 2005

TO: All OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

SUBJECT: OTP Continuing Education
(File No. SR-PCX-2005-80)

On July 8, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change to modify the continuing education requirements for OTP Holders and OTP Firms. On July 12, 2005, the Exchange filed Amendment No. 1 to the proposed rule filing. On July 21, 2005, the Exchange filed Amendment No. 2 to the proposed rule filing. The proposed rule change was approved by the Commission on August 2, 2005.

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

EXHIBIT 5
Text of the Proposed Rule Change:¹

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

Rule 9

Rule 9.27(a) – (b) – No Change.

Rule 9.27(c) - No OTP Firm or OTP Holder shall permit any registered person to continue to, and no registered person shall continue to, perform duties as a registered person, unless such person has complied with the continuing education requirements of this Rule 9.27(c).

Each registered person shall complete the Regulatory Element of the continuing education program beginning with the occurrence of their second registration anniversary date, and every three years thereafter, or as otherwise prescribed by the Exchange. On

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

each occasion, the Regulatory Element must be completed within one hundred twenty days after the person's registration anniversary date. A person's initial registration date, also known as the "base date", shall establish the cycle anniversary dates for purposes of this Rule. The content of the Regulatory Element of the program shall be determined by the Exchange for each registration category of persons subject to the Rule.

(1) Reserved. [Persons who have been continuously registered for more than ten years as of the effective date of this Rule are exempt from the requirements of this rule relative to participation in the Regulatory Element of the continuing education program, provided such persons have not been subject to any disciplinary action within the last ten years as enumerated in subsection (c)(3)(i)-(ii) of this Rule. However, persons delegated supervisory responsibility or authority pursuant to Rule 9.8 and registered in such supervisory capacity are exempt from participation in the Regulatory Element under this provision only if they have been continuously registered in a supervisory capacity for more than 10 years as of the effective date of this Rule and provided that such supervisory person has not been subject to any disciplinary action under subsection (c)(3)(i)-(ii) of this Rule.]

In the Event that a registered person who is exempt from participation in the Regulatory Element subsequently becomes the subject of a disciplinary action as enumerated in subsection (c)(3)(i)-(ii), such person shall be required to satisfy the requirements of the Regulatory Element as if the date the disciplinary action becomes final is the person's initial registration anniversary date.]

(2) Failure to Complete --Unless otherwise determined by the Exchange, any registered persons who have not completed the Regulatory Element of the program within the prescribed time frames will have their registration deemed inactive until such time as the requirements of the program have been satisfied. Any person whose registration has been deemed inactive under this Rule shall cease all activities as a registered person and shall be prohibited from performing any duties and functioning in any capacity requiring registration.

The Exchange may, upon application and a showing of good cause, allow for additional time for a registered person to satisfy the program requirements.

(3) Disciplinary Actions [Re-entry into Program] --Unless otherwise determined by the SRO, a registered person will be required to [re-enter] re-take the Regulatory Element and satisfy all of its requirements in the event such person:

(A) becomes subject to any statutory disqualification as defined in Section (3)(a)(39) of the Securities Exchange Act of 1934;

(B) becomes subject to suspension or to the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule of standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory

organization in connection with a disciplinary proceeding; or

(C) is ordered as a sanction in a disciplinary action to [re-enter] re-take the [continuing education program] Regulatory Element by any securities governmental agency or securities self-regulatory organization.

[Re-entry into the program] A re-taking of the Regulatory Element shall commence with [the initial] participation within 120 days of the registered person becoming subject to the statutory disqualification, in the case of ([i]A) above, or the disciplinary action becoming final, in the case of ([ii]B) or ([iii]C) above. The date that the disciplinary action becomes final will be deemed the person's new base date for purposes of this Rule.

Rule 9.27(d) – Commentary .02 – No Change.

Commentary .03 – Any registered person who has terminated association with a registered broker or dealer and who has, within two years of the date of termination, become reassociated in a registered capacity with a registered broker or dealer shall participate in the Regulatory Element of the continuing education program at such intervals that apply (second registration anniversary and every three years thereafter) based on the [initial registration anniversary] new base date, rather than based on the date of reassociation in a registered capacity. Any former registered person who becomes reassociated in a registered capacity with a registered broker or dealer more than two years after termination as such will be required to satisfy the program's requirements in their entirety based on the most recent registration date.

Commentary .04 – No Change.

Commentary .05 Reserved. [The effective date of this Rule, for the purposes of determining whether a registered person is exempt from participation in the Regulatory Element is September 14, 2000.]

Commentary .06 – Any registered member who is an OTP Holder who is also a member of another self-regulatory organization (“SRO”) shall be subject to the other SRO’s implementation date for the elimination of the exceptions to the Regulatory Element section of the continuing education program, if that date is earlier than September 30, 2005.

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