



RULE  
ADOPTION  
NOTICE

**RAN-05-71**  
**November 4, 2005**

**TO: All OTP Holders and OTP Firms  
ETP Holders and Sponsored Participants**

**FROM: Department of Regulatory Policy**

**SUBJECT: Portfolio Crossing Service  
File No. SR-PCX-2005-73**

On June 7, 2005, the Exchange filed a proposed rule change to amend PCXE Rule(s) 7 to establish a new transaction and trade reporting mechanism for Equity Trading Permit Holders to allow execution and reporting of portfolio trade activity in equity securities. On September 14, 2005, the Exchange filed Amendment No. 1 to the proposed rule change. The Commission approved the proposed rule change and released the notice on November 2, 2005.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Tim Elliott at 312/442-7170.

**EXHIBIT 5**

**Text of the Proposed Rule Change:<sup>1</sup>**

**Rules of PCX Equities, Inc.**

**PCX Equities, Inc.**

**Rule 7**

Rule 7.10 Clearly Erroneous Executions

Rule 7.10(a) – (b) – No Change

Rule 7.10(c) Review Procedures

(1) Unless both parties (or party, in the case of a cross order or an order entered into the

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<sup>1</sup> New text is underscored and deleted text is in brackets.

Corporation's Portfolio Crossing Service) to the disputed transaction agree to withdraw the initial request for review, the transaction under dispute shall be reviewed, and a determination shall be rendered by the Officer. If the Officer determines that the transaction is not clearly erroneous, the Officer shall decline to take any action in connection with the completed trade. In the event that the Officer determines that the transaction in dispute is clearly erroneous, the Officer shall declare the transaction null and void or modify one or more of the terms of the transaction to achieve an equitable rectification of the error that would place the parties in the same position, or as close as possible to the same position that they would have been in, had the error not occurred. The parties shall be promptly notified of the determination.

Rule 7.10(c)(2) – (e) – No Change

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Rule 7.31 Orders and Modifiers

Rule 7.31(a)-(hh)– No Change

Rule 7.31 (ii) Portfolio Crossing Service (“PCS”) Order. A PCS Order means an order entered into the Portfolio Crossing Service pursuant to Rule 7.65.

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Rule 7.34 Trading Sessions

Rule 7.34(a)-(f) – No Change

Rule 7.34 (g) Portfolio Crossing Service. Pursuant to Rule 7.65, the Portfolio Crossing Service will be open and will accept PCS Orders during any day when the Corporation is open for business and at any time the Archipelago Exchange is accepting orders during one of the trading sessions defined by PCXE Rule 7.34(a).

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## Section 9 – Portfolio Crossing Service

Rule 7.65 Portfolio Crossing Service

Rule 7.65(a) Applicability and Definitions

The provisions in Rule 7.65 shall apply to (i) all transactions through the Corporation's "Portfolio Crossing Service" (as this Rule defines that term) and (ii) the handling of orders, and the conduct of accounts and other matters, relating to trading through that facility.

- (1) Applicability of Other PCXE Rules. As modified by this Rule 7.65, all other Corporation Rules shall also apply to trading occurring on the Exchange's Portfolio Crossing Service, except that the following shall not so apply:
  - a. Rule 7.16 (Short Sales)
  - b. Rule 7.31 (Orders and Modifiers)
  - c. Rule 7.32 (Order Entry)
  - d. Rule 7.33 (ETP Holder Users)
  - e. Rule 7.35 (Auctions)
  - f. Rule 7.36 (Order Ranking and Display)
  - g. Rule 7.37 (Order Execution)
  - h. Rule 7.38 (Odd and Mixed Lots)
  - i. Rule 7.40 (Trade Execution and Reporting)
  - j. Rules 7.55-7.59 (Intermarket Trading System Plan)
- (2) Modification of Incorporated Rules. For the purpose of incorporating the Rules of the Corporation into this Rule 7.65 pursuant to paragraph (1) of this Rule, references in the incorporated Rules to "on the Corporation" shall include the "Portfolio Crossing Service."
- (3) Hours of Operation. The Portfolio Crossing Service will be open and will accept PCS Orders (as defined in paragraph (4) below) during any day when the Corporation is open for business and at any time the Archipelago Exchange is accepting orders during one of the trading sessions defined by PCXE Rule 7.34(a).
- (4) Definitions. As used in this Rule 7.65 and other Rules in their application to the Portfolio Crossing Service, the following terms shall have the meanings specified below:
  - a. The term "PCS Order" means an order to buy or sell a group of securities, which group includes no fewer than 15 securities having a total market value of \$1 million or more. Each individual component of a PCS Order will resemble a Cross Order, as defined by PCXE Rule 7.31(s), but must also include a unique basket number identifying it as a PCS Order eligible for entry into the Corporation's Portfolio Crossing Service.
  - b. The term "Portfolio Crossing Service" means the facility that permits ETP Holders to effect securities transactions on the Corporation pursuant to this Rule 7.65.

#### Rule 7.65(b) Securities To Be Traded

Only such equity securities as the Corporation may specify shall be dealt in through the Portfolio Crossing Service. Any such security must be listed, or otherwise admitted to dealing, on the Corporation.

#### Rule 7.65(c) PCS Order Entry

- (1) Entry of PCS Orders. An ETP Holder may enter into the Portfolio Crossing Service a PCS Order which qualifies under the criteria set forth in Rule 7.65(a)(4)(a). Each individual order component of a PCS Order entered by an ETP Holder must include a basket number identifying it as part of a PCS Order eligible for entry into the Portfolio Crossing Service.
- (2) Delivery of Terms. Transactions effected through the Portfolio Crossing Service may be for delivery at such time as the parties entering the orders may agree. All other transactions effected through the Portfolio Crossing Service shall be for delivery “regular way.”

#### Rule 7.65(d) Transactions

- (1) Executions. PCS Orders entered into the Portfolio Crossing Service during the course of any trading day shall be held by the Corporation until at least one minute after the close of the late trading session on the Archipelago Exchange, as defined by PCXE Rule 7.34(a). Portfolio Crossing Service executions will occur beginning at 5:01 p.m. Pacific Time and in no event later than 8:59 p.m. Pacific Time.
- (2) Priority. Each side of a component order of a PCS Order shall be executed against the other side without regard to the priority of other orders entered into the Portfolio Crossing Service.
- (3) Binding Nature. Transactions in the Portfolio Crossing Service are binding in all respects and without limit on any ETP Holder that enters any of the transaction’s component orders.

#### Rule 7.65(e) Reports and Recordkeeping

- (1) Portfolio Crossing Service Trading Reports. Each ETP Holder shall report to the Corporation such information, in such manner, and at such times, as the Corporation may from time to time prescribe with respect to trading in the Portfolio Crossing Service.

(2) Portfolio Crossing Service Trading Records. Each ETP Holder shall maintain and preserve such records, in such manner, and for such period of time, as the Corporation may from time to time prescribe with respect to trading in the Portfolio Crossing Service, including, but not limited to, records relating to cancellations, executions and trading volume, proprietary trading activity, activity in related instruments and securities and other records necessary to allow the ETP Holder to comply with the reporting provisions of paragraph (1) of this Rule 7.65(e).

Rule 7.65(g) Impact of Trading Halts

Notwithstanding a trading halt in any security (other than a trading halt pursuant to PCXE Rule 7.12 (Trading Halts Due to Extraordinary Market Volatility) or suspension of trading pursuant to PCXE Rule 7.13) or a corporate development, ETP Holders may enter PCS Orders into the Portfolio Crossing Service.

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