



RULE
ADOPTION
NOTICE

RAN-06-05
January 24, 2006

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

FROM: Department of Regulatory Policy

**SUBJECT: Tracking Order Process
(File No. SR-PCX-2005-87)**

On July 26, 2005, the Exchange filed a proposed rule change to amend PCXE Rule(s) 7.31 and 7.37 to restructure the Tracking Order Process by modifying the current text governing the Tracking Order Process to implement a process based on the submission of orders, rather than instructions, to be executed in time/price priority. On November 22, 2005, the Exchange filed Amendment No. 1 to the proposed rule change. The Commission approved the proposed rule change and released the notice on January 13, 2006.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Bridget Farrell at 312/442-7975.

EXHIBIT 5

Text of the Proposed Rule Change:¹

Rules of PCX Equities, Inc.

Rule 7 Equities Trading

Orders and Modifiers

Rule 7.31(a) – (e) – No Change

(f) Tracking Order.

An undisplayed, priced round lot order that is eligible for execution in the Tracking Order Process against orders equal to or less than the aggregate size of Tracking Order interest available at that price. If a Tracking Order is executed but not exhausted, the remaining

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

portion of the order shall be cancelled, without routing the order to another market center or market participant.

[(1) Any User may submit an instruction to the Archipelago Exchange for the parameters of a Tracking Order at any time during the day. The parameters shall include:]

[(A) the maximum aggregate size, which is the aggregate size of all partial orders generated in the Tracking Order Process for a particular security that the User is willing to trade on that day;]

[(B) the maximum tradeable size, which is the maximum size of any partial order generated in response to an order entering the Tracking Order Process that the User is willing to trade on that day;]

[(C) the price in relation to the NBBO; and]

[(D) the relevant security.]

[(2) Once a User has submitted an instruction for the parameters of the Tracking Order, the instruction will remain in effect until closing or until the User has traded its maximum aggregate size for that day, whichever comes first.]

[(3) The Tracking Order Process rotation is as follows: Users who have submitted an instruction for the parameters of a Tracking Order will be assigned trades on a price/time rotating basis, such that within each price level, trades shall be assigned by the time the Users' instructions are received by the Archipelago Exchange. Within each price level, the first User to send an instruction for a Tracking Order will be the first User to be assigned a trade in the rotation process. For each order that enters the Tracking Order Process, the Tracking Order Process will rotate once through the Users in the rotation pattern. In each rotation, the User will be responsible for one trade up to the User's maximum tradeable size.]

[(4) The order described in the User's Tracking Order instruction will only be generated if:]

[(A) an unfilled round or mixed lot order enters the Tracking Order Process and]

[(B) it is such User's turn as determined by the Tracking Order Process rotation pattern.]

[(5) Each partial order generated in a rotation is a limit order in which:]

[(A) the price is set at or better than the NBBO at the time the unfilled order enters the Tracking Order Process, based on the User's parameters; and]

[(B) the size is (i) equal to the User's maximum tradeable size if the unfilled order is equal to or larger than the maximum tradeable size; or (ii) equal to the size of the unfilled

order if the unfilled order is smaller than the maximum tradeable size.]

[(6) A User may modify the parameters of the instruction for the Tracking Order from time to time, as the Corporation permits.]

[(7) The Corporation shall suspend the Tracking Order Process for a security when a locked or crossed market exists in that security. The Tracking Order Process for that security shall resume when the locked or crossed market in that security no longer exists.]

[(8) Whenever in the judgment of the Corporation, because of an influx of orders, a system malfunction or other unusual conditions or circumstances, the interests of a fair and orderly market so require, the Corporation may suspend the Tracking Order Process. The Tracking Order Process shall resume when the Corporation determines that the conditions supporting the suspension no longer exist.]

(g) Odd Lot Tracking Order.

(1) – No change.

(2) – An Odd Lot Dealer may submit an instruction to the Archipelago Exchange for the parameters of an OLTO at any time during the day. The parameters shall include: [is a Tracking Order, as described in paragraph (f), in which:]

- (A) the maximum aggregate size [is unlimited;], which is the unlimited aggregate size of all orders generated in the Odd Lot Tracking Order Process for a particular security that the Odd Lot Dealer is willing to trade on that day;
- (B) the maximum tradeable size [is] up to 99 shares, which is the maximum size of any order generated in response to an order entering the Odd Lot Tracking Order Process that the Odd Lot Dealer is willing to trade on that day;
- (C) the price is set at the NBBO; and
- (D) the relevant security [is one] in which the Odd Lot Dealer is registered as such; and
- (E) the instruction must be in effect for the duration of Core Trading Hours; provided, however, the order described in the OLTO instruction will only be generated if
 - (1) an unfilled odd lot market order enters the Odd Lot Tracking Order Process pursuant to Rule 7.37(c); or
 - (2) an odd lot limit order causes a locked market as described in Rule 7.56.

(3) Each order generated in a rotation is a limit order in which:

- (A) the price is set at the NBBO at the time the unfilled order enters the Odd Lot Tracking Order Process, based on the Odd Lot Dealer's parameters; and

- (B) the size is (i) equal to the Odd Lot Dealer's maximum tradeable size; or (ii) equal to the size of the unfilled order if the unfilled order is smaller than the maximum tradeable size.
- (4) An Odd Lot Dealer may modify the parameters of the instruction for the Odd Lot Tracking Order from time to time, as the Corporation permits.
- (5) The Corporation shall suspend the Odd Lot Tracking Order Process for a security when a locked or crossed market exists in that security. The Odd Lot Tracking Order Process for that security shall resume when the locked or crossed market in that security no longer exists.
- (6) Whenever in the judgment of the Corporation, because of an influx of orders, a system malfunction or other unusual conditions or circumstances, the interests of a fair and orderly market so require, the Corporation may suspend the Odd Lot Tracking Order Process. The Odd Lot Tracking Order Process shall resume when the Corporation determines that the conditions supporting the suspension no longer exist.

(h) – (hh) – No Change

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Order Execution

Rule 7.37

(a)-(b) – No Change

(c) Step 4: Tracking Order Process. During Core Trading Hours only, orders may be matched and executed in the Tracking Order Process as follows: If an order has not been executed in its entirety pursuant to paragraphs (a) and (b) of this Rule, the Archipelago Exchange shall match and execute any remaining part of the order in the Tracking Order Process in price/time priority [the following manner]; provided, however, any portion of an order received from another market center or market participant shall be cancelled immediately[:].

[(1) If the unfilled order is a mixed lot or round lot order, the order shall be matched against any Tracking Orders pursuant to the rotation pattern described in Rule 7.31(f)(3) for immediate execution thereafter. After the order has been matched against any Tracking Orders, if the order has not been executed in its entirety and the remaining part of the order is an odd lot, the odd lot order shall be executed in the Odd Lot Tracking Order Process, as described in paragraph (2).]

Odd Lot Tracking Order Process.

[(2)](1) If the unfilled order is an odd lot, and there is an Odd Lot Dealer registered in that security, the order shall be matched in the Odd Lot Tracking Order Process against any OLTOs pursuant to the following rotation pattern:

Odd Lot Dealers who have submitted an instruction for the parameters of an Odd Lot Tracking Order will be assigned trades on a price/time rotating basis, such that within each price level, trades shall be assigned by the time the Odd Lot Dealers' instructions are received by the Archipelago Exchange. Within each price level, the first Odd Lot Dealer to send an instruction for an Odd Lot Tracking Order will be the first Odd Lot Dealer to be assigned a trade in the rotation process. For each order that enters the Odd Lot Tracking Order Process, the Odd Lot Tracking Order Process will rotate once through the Odd Lot Dealers in the rotation pattern. In each rotation, the Odd Lot Dealer will be responsible for one trade up to the Odd Lot Dealer's maximum tradeable size. [described in Rule 7.31(f)(3) for immediate execution thereafter.]

(2) If there is no Odd Lot Dealer registered in that security, the odd lot will be routed away pursuant to PCXE Rule 7.37(d).

(d) – No Change.

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