



RULE
ADOPTION
NOTICE

RAN-03-02
January 24, 2003

**TO: All PCX Members and Member Organizations
ETP Holders and Sponsored Participants**

FROM: Department of Regulatory Policy

**SUBJECT: ArcaEx IOC/PNP Cross Orders
(File No. SR-PCX-2002-74)**

On December 9, 2002 the Pacific Exchange, Inc. filed with the Securities and Exchange Commission a proposal to adopt two new order types, an Immediate-or-Cancel (“IOC”) Cross Order and a Post No Preference (“PNP”) Cross Order, on its equities trading facility, the Archipelago Exchange (“ArcaEx”). The PCX also proposed to allow the new order types to be subject to the recent *de minimis* exemption from the trade-through restrictions of the Intermarket Trading System Plan in certain exchange-traded funds. On January 13, 2003 the Commission granted accelerated approval to the PCX’s proposed rule change.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Peter Bloom at (415) 393-4166.

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EXHIBIT A
Text of the Rule Change:¹

PCX Equities, Inc.

Rule 7
Equities Trading

Orders and Modifiers

Rule 7.31(a) – (x) – No change.

(y) – (z) – Reserved.

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

(aa) Immediate-or-Cancel (“IOC”) Cross Order. An IOC Cross Order is an order that is to be executed in its entirety as a cross transaction as soon as such order is received; provided, however, the Corporation will cancel an IOC Cross Order at the time of order entry if:

(1) the cross price locks or crosses the BBO; or

(2) the cross price would cause an execution at a price that trades through the NBBO, except as provided in Rule 7.37; or

(3) the cross price is between the BBO and does not improve the BBO by the MPII pursuant to Rule 7.6(a), Commentary .06.

(bb) PNP (Post No Preference) Cross Order. A Cross Order that is to be executed in whole or in part on the Corporation and the portion not so executed is to be canceled, without routing any portion of the Cross Order to another market center. When the cross price is equal to or better than the NBBO and is at the BBO, the relevant portion of the PNP Cross Order will be matched first against displayed orders with priority in the Arca Book, and then the remainder of the PNP Cross Order will be matched. Any unexecuted portion of the PNP Cross will be canceled. The Corporation will cancel either the entire PNP Cross Order at the time of order entry, or the unexecuted portion of a PNP Cross Order at any time during the order execution process, whichever is applicable, if:

(1) the cross price would cause an execution at a price that trades through the NBBO, except as provided in Rule 7.37;

(2) the cross price is between the BBO and does not improve the BBO by the MPII pursuant to Rule 7.6(a), Commentary .06.

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Order Execution

Rule 7.37. Subject to the restrictions on short sales under Rule 10a-1 under the Exchange Act, like-priced orders, bids and offers shall be matched for execution by following Steps 1 through 5 in this Rule; provided, however, for an execution to occur in any Order Process, the price must be equal to or better than the NBBO, unless the Archipelago Exchange has routed orders to away markets at the NBBO, where applicable (however, a User may submit a NOW Order or Primary Only Order that may be routed to an away market without consideration of the NBBO). This rule will not apply to designated order types including IOC, NOW, PNP, IOC Cross and PNP Cross orders in securities that are subject to an exemption from the Commission under SEC Rule 11Aa3-2(f) to the trade-through provisions of the ITS Plan (“ITS Trade-Through Exempt Securities”). Orders in ITS Trade-Through Exempt Securities [designated as IOC, NOW and PNP orders] will be effected at a price no more than three cents (\$0.03) away from the best bid and offer quoted in CQS.

(a) – (e) – No change.