



RULE
ADOPTION
NOTICE

RAN-04-12
April 8, 2004

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

FROM: Department of Regulatory Policy

**SUBJECT: Index-Linked Exchangeable Notes
(File No. SR-PCX-2004-01)**

On February 6, 2004, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission a proposal to adopt listing standards for index-linked exchangeable notes. The Exchange proposed to add PCXE Rule 5.2(j)(4) to permit trading, either by listing or pursuant to unlisted trading privileges, of index-linked exchangeable notes. On March 3, 2004 and March 22, 2004, the Exchange filed Amendment Nos. 1 and 2, respectively, to the proposed rules. The Commission approved the PCX's proposed rule change, as amended, on April 7, 2004.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Tania J.C. Blanford at (415) 393-4107.

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EXHIBIT A

Text of the Proposed Rule Change:¹ PCX Equities, Inc.

Rule 5 Listings

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Rule 5.2(a) – (i) – No change.

(j)(1) – (3) – No change.

Index-Linked Exchangeable Notes

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

(4) Index-linked exchangeable notes which are exchangeable debt securities that are exchangeable at the option of the holder (subject to the requirement that the holder in most circumstances exchange a specified minimum amount of notes), on call by the issuer or at maturity for a cash amount (the "Cash Value Amount") based on the reported market prices of the Underlying Stocks of an Underlying Index will be considered for listing and trading by the Corporation pursuant to Rule 19b-4(e) under the Securities Exchange Act of 1934, provided:

(a) Both the issue and the issuer of such security meet the criteria set forth above in "Other Securities" (PCXE Rule 5.2(j)(1)), except that the minimum public distribution shall be 150,000 notes with a minimum of 400 public note-holders, except, if traded in thousand dollar denominations, then no minimum number of holders.

(b) The issue has a minimum term of one year.

(c) The issuer will be expected to have a minimum tangible net worth in excess of \$250,000,000, and to otherwise substantially exceed the earnings requirements set forth in PCXE Rule 5.2(j)(1). In the alternative, the issuer will be expected: (i) to have a minimum tangible net worth of \$150,000,000 and to otherwise substantially exceed the earnings requirements set forth in PCXE Rule 5.2(j)(1); and (ii) not to have issued index-linked exchangeable notes where the original issue price of all the issuer's other index-linked exchangeable note offerings (combined with other index-linked exchangeable note offerings of the issuer's affiliates) listed on a national securities exchange or traded through the facilities of Nasdaq exceeds 25% of the issuer's net worth.

(d) The index to which an exchangeable-note is linked shall either be (i) indices that have been created by a third party and been reviewed and have been approved for the trading of options or other derivatives securities (each, a "Third-Party Index") either by the Commission under Section 19(b)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and rules thereunder or by the Corporation under rules adopted pursuant to Rule 19b-4(e); or (ii) indices which the issuer has created and for which the Corporation will have obtained approval from either the Commission pursuant to Section 19(b)(2) and rules thereunder or from the Corporation under rules adopted pursuant to Rule 19b-4(e) (each an "Issuer Index"). The Issuer Indices and their underlying securities must meet one of the following:

(i) the procedures and criteria set forth PCX Rule 7.3(b)-(c); or

(ii) the criteria set forth in subsections (C) and (D) of PCXE Rule 5.2(j)(2), the index concentration limits set forth in PCX Rule 7.3(b)(6), and PCX Rule 7.3(b)(12) in so far as it relates to PCX Rule 7.3(b)(6).

(e) Index-linked Exchangeable Notes will be treated as equity instruments;

(f) Beginning twelve months after the initial issuance of a series of index-linked exchangeable notes, the Corporation will consider the suspension of trading in or removal from listing of that series of index-linked exchangeable notes under any of the following circumstances:

(i) if the series has fewer than 50,000 notes issued and outstanding;

(ii) if the market value of all index-linked exchangeable notes of that series issued and outstanding is less than \$1,000,000; or

(iii) if such other event shall occur or such other condition exists which in the opinion of the Corporation makes further dealings on the Corporation inadvisable.