



RULE
ADOPTION
NOTICE

RAN-04-19
June 16, 2004

TO: ETP Holders and Sponsored Participants

FROM: Department of Regulatory Policy

**SUBJECT: Preventing Locks and Crosses in PNP Orders
for ITS Trade-Through Exempt Securities
(File No. SR-PCX-2004-52)**

On June 3, 2004, the Securities and Exchange Commission noticed the filing of a proposed rule change to amend PCXE Rule 7.31 relating to the prevention of locks and crosses in PNP Orders for ITS trade-through exempt securities. The proposal became effective immediately upon filing.

The following is the text of the rule changes. Questions regarding this bulletin may be directed to Mai Shiver at (415) 393-4266.

EXHIBIT A
Text of the Proposed Rule Change:¹
PCX Equities, Inc.
Rule 7
Equities Trading
Trading Sessions

Rule 7.31(a) – (v) – No change.

(w) PNP Order (Post No Preference). A limit order to buy or sell that is to be executed in whole or in part on the Corporation, and the portion not so executed is to be ranked in the Arca Book, without routing any portion of the order to another market center; provided, however, the Corporation shall cancel a PNP Order that would lock or cross the NBBO except as provided in Rule 7.31(w)(1). The NBBO price protection provision set forth in Rule 7.37 will not apply to PNP Orders in Nasdaq securities.

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

(1) PNP Orders for ITS Trade-Through Exempt Securities (as defined in Rule 7.37). PNP Orders for ITS Trade-Through Exempt Securities [(as defined in Rule 7.37)] will not be canceled at the time of order entry if such orders would lock or cross the NBBO. Such orders will be ranked in the Arca Book in price, time priority with an undisplayed price and size until: (i) such orders are executed; or (ii) such orders no longer lock or cross the NBBO at which time they would be displayed in the Arca Book and ranked based upon original price and the original order entry time. The lock and cross restrictions set forth in this rule will only apply to bids or offers included in the NBBO that are for greater than 100 shares pursuant to Rule 7.56(d)(2)(E). PNP Orders in ITS Trade-Through Exempt Securities may be executed at a price no more than three cents (\$0.03) away from the NBBO [displayed in the Consolidated Quote]. All PNP Orders whether displayed or undisplayed will execute in price, time priority. [The NBBO price protection provision set forth in Rule 7.37 will not apply to PNP Orders in Nasdaq securities.]

(x) – (cc) – No change.