



RULE
ADOPTION
NOTICE

RAN-04-27
July 16, 2004

TO: All PCX OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

**SUBJECT: Handling of Satisfaction Orders Pursuant to Intermarket Linkage
(File No. SR-PCX-2004-34)**

On April 15, 2004, the Exchange filed with the Securities and Exchange Commission a proposed rule to amend the requirements of how Satisfaction Orders are handled pursuant to the Intermarket Linkage. On June 3, 2004 the Exchange filed Amendment No. 1 to the proposed rule. The Commission approved the proposed rule change on July 2, 2004.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Steven Matlin at (415) 393-4084.

EXHIBIT A

RULES OF THE PACIFIC EXCHANGE

Text of Proposed Rule Change¹

Order Protection

Rule 6.94(a)(1) – No change.

(2) Price and Size. The price and size at which a Satisfaction Order will be filled is as follows:

(i) – No change.

(ii) Size. An Aggrieved Party may send a Satisfaction Order up to the lesser of the size of the Verifiable Number of Customer Contracts that were included in the disseminated bid or offer that was traded through and the size of the transaction that caused the Trade-Through. Subject to subparagraph (2)(i) above and paragraph (b) below, an OTP Holder will fill in full all Satisfaction Orders it receives following a Trade-Through, subject to the following limitations:

¹

New text is underscored; deleted text is in brackets.

[(A) If the number of contracts to be satisfied exceeds the size of the transaction that caused the Trade-Through, the size of the Satisfaction Order(s) that must be filled with respect to each Participant Exchange(s) will be limited to the size of the transaction that caused the Trade-Through, and the remainder of any Satisfaction Order(s) will be canceled;]

(A) [(B)] If the transaction that caused the Trade-Through was for a size larger than the Firm Customer Quote Size with respect to any of the Participant Exchange(s) traded through, the total number of contracts to be filled, with respect to all Satisfaction Orders received in connection with any one transaction that caused a Trade-Through, will not exceed the size of the transaction [that caused the Trade-Through]. In that case, the OTP Holder will fill the Satisfaction Orders pro rata based on the Verifiable Number of Customer Contracts traded through on each Participant Exchange, and will cancel the remainder of such Satisfaction Order(s); and

(B) [(C)] Notwithstanding paragraph[s] (A) [and (B)] above, if the transaction that caused the Trade-Through occurred in the period between five minutes prior to the regularly-scheduled close of trading in the principal market in which the underlying security is traded and the close of trading in the Options Class, the maximum number of contracts to be satisfied with respect to any Satisfaction Order from any one Participant Exchange is 10 contracts.

[(3) Rejection of Fills of Satisfaction Orders. Within 30 seconds of receipt of notification that another Participant Exchange has filled a Member's Satisfaction Order, the Member that sent the Satisfaction Order may reject such fill, but only to the extent that either: (i) the order(s) for the customer contracts underlying the Satisfaction Order already have been filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order were canceled.]

(3) Change in Status of Underlying Customer Order. During the time period that a Satisfaction Order is pending at another Participant Exchange, an OTP Holder will cancel such Satisfaction Order as soon as practical if (1) the order(s) for the customer contracts underlying the Satisfaction Order are filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order are canceled (either being a "change in status of the underlying customer order(s)"). Notwithstanding this obligation to cancel the Satisfaction Order, within 30 seconds of receipt of notification that a Participant Exchange has filled a Satisfaction Order, the Participant that sent the Satisfaction Order may reject such fill if there has been a change in status of the underlying customer order(s), provided that the status change of the customer order occurred prior to the receipt of the Satisfaction Order fill report. However, if the underlying customer order(s) has been executed against the sender of the Satisfaction Order, the Satisfaction Order fill report may not be rejected.

(a)(4) – (c) – No change.

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