



RULE
ADOPTION
NOTICE

RAN-04-30
August 10, 2004

TO: All PCX OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

**SUBJECT: Handling of Orders Pursuant to Intermarket Linkage
(File No. SR-PCX-2004-73)**

On July 21, 2004, the Exchange filed with the Securities and Exchange Commission a proposed rule to modify the handling of orders pursuant to Intermarket Linkage. The proposed changes modify the rules so that they conform to the Exchange's demutualized structure. On August 3, 2004 the Exchange filed Amendment No. 1 to the proposed rule change. The Commission approved the proposed rule change on August 5, 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
Text of the Proposed Rule Change:¹

**Rules of the
Pacific Exchange, Inc.**

**Rule 6
Options Trading**

Rule 6.93. By subscribing to the Plan, the Exchange has agreed to comply with, and enforce compliance by its [Members] OTP Holders with, the Plan. In this regard, the following will apply:

(a) – (e) – No change.

Rule 6.94(a)(1) – (2)(i) – No Change.

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

Rule 6.94(a)(2)(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 [Member] OTP Holder will fill in full all Satisfaction Orders it receives following a Trade-Through, subject to the following limitations:

(A) 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. In that case, the [Member] 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) – No Change.

(3) Change in Status of Underlying Customer Order. During the time period that a Satisfaction Order is pending at another Participant Exchange, an [Member] 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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