



RULE
ADOPTION
NOTICE

RAN-04-46
October 18, 2004

TO: All PCX OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

SUBJECT: \$5 Quotation Spreads
(File No. SR-PCX-2004-89)

On September 27, 2004, the Exchange filed with the Securities and Exchange Commission a proposed rule to allow market maker quotation spreads in PCX Plus of up to \$5. The Commission approved the proposed rule change on October 14, 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

Obligations of Market Makers

RULE 6.37. (a) – No Change.

(b) No Change.

(1) Bidding and/or offering so as to create differences of no more than:

(A) .25 between the bid and the offer for each option contract for which the bid is less than \$2,

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

(B) no more than .40 where the bid is \$2 or more but does not exceed \$5,

(C) no more than .50 where the bid is more than \$5 but does not exceed \$10,

(D) no more than .80 where the bid is more than \$10 but does not exceed \$20, and

(E) no more than \$1 when the last bid is \$20.10 or more, provided that the Exchange may establish differences other than the above for one or more series or classes of options.

(F) The two Trading Officials or the Exchange may, with respect to options trading with a bid price less than \$2, establish bid-ask differentials that are no more than \$0.50 wide (“double-width”) when the primary market for the underlying security: (a) Reports a trade outside of its disseminated quote (including any Liquidity Quote); or (b) disseminates an inverted quote. The imposition of double-width relief must automatically terminate when the condition that necessitated the double-width relief (i.e., condition (a) or (b)) is no longer present. Market makers that have not automated this process may not avail themselves of the relief provided herein (i.e. they may not manually adjust prices.)

(G) Options, designated by the Exchange, that trade on PCX Plus may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 quote width shall only apply to classes trading on PCX Plus and only following the opening rotation in each security (i.e., the widths specified in paragraph (b)(1)(A)-(F) above shall apply during opening rotation). Quotes given in open outcry in PCX Plus issues may not be quoted with \$5 widths and instead must comply with the legal width requirements specified in paragraph (b)(1)(A)-(F) above.

(2) – (5) – No Change.

(c) – (h) Commentary .09 – No Change.

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