



RULE  
ADOPTION  
NOTICE

**RAN-05-49**  
**July 13, 2005**

**TO: All OTP Holders and OTP Firms**

**FROM: Department of Regulatory Policy**

**SUBJECT: One Week Options**  
**(File No. SR-PCX-2005-32)**

On March 16, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change to allow for the trading of options that expire one week after initial listing. On April 5, 2005, the Exchange filed Amendment No. 1 to the proposed rule filing. The proposed rule change was approved by the Commission on July 12, 2005.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Steven B. Matlin at (415) 393-4084 or Glenn Gsell at 415-835-4805.

**EXHIBIT 5**  
**Text of the Proposed Rule Change:<sup>1</sup>**

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

**Rule 6**

Rule 5.10(a) – (b)(23) – No Change.

Rule 5.10(b)(24) – The term "One Week Option Series" means, for the purposes of this Rule 5, a series in an index option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Friday that is a business day and that expires at the close of business on the next Friday that is a business day. One Week Option Series shall be PM settled, except for One Week Option Series on indexes. One Week Option Series on indexes shall be A.M. settled. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday.

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<sup>1</sup> New text is underscored; deleted text is in brackets.

Rule 5.15(a) – (d) – No Change.

Rule 5.15(e) – Positions in One Week Option Series shall be aggregated with positions in options contracts on the same index.

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Rule 5.16(a) – (c) – No Change.

Rule 5.16(d) – Position in One Week Options Series shall be aggregated with positions in option contracts on the same index.

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Rule 5.19(a)(1) – (2) – No Change.

Rule 5.19(a)(3) – Expiration Months. Index Option contracts may expire at three (3) month intervals or in consecutive months. The Exchange may list up to six (6) months at any one time, but will not list index options that expire more than twelve (12) months out.

One Week Option Series Pilot Program. Notwithstanding the preceding restriction, after an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Friday that is a business day (“One Week Option Opening Date”) series of options on that class that expire at the close of business on the next Friday that is a business day (“One Week Option Expiration Date”). If the Exchange is not open for business on a Friday, the One Week Option Opening Date will be the first business day immediately prior to that Friday. Similarly, if the Exchange is not open for business on a Friday, the One Week Option Expiration Date will be the first business day immediately prior to that Friday. One Week Option Series shall be PM settled, except for One Week Option Series on indexes. One Week Option Series on indexes shall be A.M. settled.

The Exchange may select up to five currently listed option classes on which One Week Option Series may be opened on any One Week Option Opening Date. In addition, to the five-option class restriction, the Exchange also may list One Week Option Series on any option classes that are selected by other securities exchanges that employ a similar Pilot Program under their respective rules. For each index option class eligible for participation in the One Week Option Series Pilot Program, the Exchange may open up to five One Week Option Series index options for each expiration date in that class. The strike price of each One Week Option Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the calculated value of the underlying index value at about the time the One Week Option Series is opened for trading on the Exchange. No One Week Option Series on an index option class may

expire in the same week during which any A.M. settled monthly option series on the same index class expire.

The Exchange may continue to list One Week Option Series until the One Week Option Series Pilot Program expires on [insert date one year from approval].

Rule 5.19(a)(4) – (c) – No Change.

Rule 5.19(c)(1) – The interval between strike prices will be no less than \$5.00; provided that in the case of certain specified classes of index options, the interval between strike prices will be no less than \$2.50. The interval between strike prices on One Week Option Series shall be the same as the strike prices for series in that same index option class that expire in accordance with the normal monthly expiration cycle.

Rule 5.19(c)(1)(A) – (e) – No Change.

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Rule 6.1(b)(1) – (16) – No Change.

Rule 6.1(b)(17) – Expiration Date – The term “expiration date” in respect of an option contract or Exchange-Traded Fund Share means 2:00 PM on the Saturday immediately following the third Friday of the expiration month. For a One Week Option Series the term “expiration date” shall mean the close of business on the next Friday that is a business day. If a Friday is not a business day, the “expiration date” shall be the close of business on the first business day immediately prior to that Friday.

Rule 6.1(b)(18) – (38) – No Change.

Rule 6.1(b)(39) – One Week Option Series. The term “One Week Option Series” is a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Friday that is a business day and that expires at the close of business on the next Friday that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday. One Week Option Series are P.M. settled, except for One Week Option Series on indexes. One Week Option Series on indexes shall be A.M. settled.

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Rule 6.4(a). After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock, [or] Exchange-Traded Fund Share or calculated index) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series. For One Week

Option Series, the Exchange will fix a specific expiration date and exercise price, as provided in Commentary .07 below. Except for One Week Option Series, [A]at the commencement of trading on the Exchange of a particular class of options, series of options therein having four different expiration months will normally be opened. Additional series of options of the same class may be opened for trading on the Exchange at or about the time a prior series expires. The exercise price of each series of options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock or Exchange-Traded Fund Share is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange. Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying stock or Exchange-Traded Fund Share moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened. Commentary .07 will govern the procedures for opening One Week Option Series.

Rule 6.4(b) – Commentary .06 – No Change.

Commentary .07 – One Week Option Series Pilot Program. After an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Friday that is a business day (“One Week Option Opening Date”) series of options on that class that expire at the close of business on the next Friday that is a business day (“One Week Option Expiration Date”). If the Exchange is not open for business on a Friday, the One Week Option Opening Date will be the first business day immediately prior to that Friday. Similarly, if the Exchange is not open for business on a Friday, the One Week Option Expiration Date will be the first business day immediately prior to that Friday. One Week Option Series shall be PM settled, except for One Week Option Series on indexes. One Week Option Series on indexes shall be A.M. settled.

No new One Week Option Series may be added after the open of business on the One Week Option Opening Date and no One Week Option Series may expire in the same week in which monthly option series on the same class expire.

The Exchange may select up to five currently listed option classes on which One Week Option Series may be opened on any One Week Option Opening Date. In addition, to the five-option class restriction, the Exchange also may list One Week Option Series on any option classes that are selected by other securities exchanges that employ a similar Pilot Program under their respective rules. For each option class eligible for participation in the One Week Option Series Pilot Program, the Exchange may open up to five One Week Option Series for each expiration date in that class. The strike price of each One Week Option Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the value of the underlying security or calculated index value at about the time the One Week Option Series is opened for trading on the Exchange.

The Exchange may continue to list One Week Option Series until the One Week Option Series Pilot Program expires on [insert date one year from approval].

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