



RULE
ADOPTION
NOTICE

RAN-05-50
July 21, 2005

TO: All PCX OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

SUBJECT: Complex Order Trading on PCX Plus
(File No. SR-PCX-2005-71)

On June 7, 2005, the Pacific Exchange filed with the Securities and Exchange Commission a proposal to adopt Rule 6.91, which governs the trading of complex orders on the PCX Plus System. The Exchange filed Amendment No. 1 on June 14, 2005. The SEC approved the original filing with amendment on July 20, 2005.

The following is the text of Rule 6.91. Questions regarding this bulletin may be directed to Glenn H.Gsell at (415)-835-4805.

EXHIBIT 5
Text of the Proposed Rule Change:¹

Rules of the
Pacific Exchange, Inc.

Rule 6
Complex Orders on the PCX Plus System

RULE 6.91 [Reserved] (a) Definition: A complex order is any order for the same account as defined below:

(1) Spread Order: A spread order is as defined in Rule 6.62(d)

(2) Straddle Order: A straddle order is as defined in Rule 6.62(g).

¹ New text is underlined, deleted text is in brackets for changes made pursuant to Amendment 2 filing; new text is in bold and deleted text is in strike through for changes made pursuant to partial Amendment No. 3

(3) Strangle Order: A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two XYZ June 35 calls and to buy two XYZ June 40 puts).

(4) Combination Order: A combination order is as defined in Rule 6.62(h).

(5) Ratio Order: A ratio order is as defined in Rule 6.62(k)

(6) Butterfly Spread Order: A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is equal, which orders are structured as either (i) a “long butterfly spread” in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (ii) a “short” butterfly spread” in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.

(7) Box/Roll Spread Order: Box spread means an aggregation of positions in a long call option and short put option with the same exercise price ("buy side") coupled with a long put option and short call option with the same exercise price ("sell side") all of which have the same aggregate current underlying value, and are structured as either: A) a "long box spread" in which the sell side exercise price exceeds the buy side exercise price or B) a "short box spread" in which the buy side exercise price exceeds the sell side exercise price

(8) Collar Orders and Risk Reversals: A collar order (risk reversal) is an order involving the sale (purchase) of a call (put) option coupled with the purchase (sale) of a put (call) option in equivalent units of the same underlying security having a lower (higher) exercise price than, and same expiration date as, the sold (purchased) call (put) option.

(9) Conversions and Reversals: A conversion (reversal) order is an order involving the purchase (sale) of a put option and the sale (purchase) of a call option in equivalent units with the same strike price and expiration in the same underlying security, and the purchase (sale) of the related instrument.

(b)Types of Complex Orders: Complex orders may be entered as fill-or-kill, immediate or cancel, day orders and good-til-cancelled. Complex orders may be entered as “all or none orders”.

(c) Complex Trading Engine

(1) Routing of Complex Orders: Complex orders on PCX Plus will route either to the Electronic Order Capture system (“EOC”) or the Complex Trading Engine (“CTE”). Order types eligible for routing to the CTE will be determined by the Exchange. All pronouncements regarding routing procedures will be announced to OTP Holders and OTP Firms via Regulatory

Bulletin. Both public customers and registered broker-dealer orders are eligible to be routed to the CTE.

(2) Priority of Complex Orders in the CTE: Orders from public customers have priority over orders from non-public customers. Multiple public customer complex orders at the same price are accorded priority based on time.

(3) Execution of Complex Orders in the CTE: Complex orders resting in the CTE may be executed without consideration to prices of the same complex order that might be available on other exchanges. Complex orders resting in the CTE may trade in the following way:

(i) Orders in the Consolidated Book: A complex order in the CTE will automatically execute against individual orders or quotes residing in the Consolidated Book provided the complex order can be executed in full (or in a permissible ratio) by the orders in the Consolidated Book.

(ii) Orders in CTE: Complex orders in the CTE that are marketable against each other will automatically execute.

(iii) OTP Holders or OTP Firms will have the ability to view orders in the CTE via an electronic interface and may submit orders to trade against orders in the CTE. The allocation of complex trades among OTP Holders and OTP Firms shall be done pursuant to PCX Rule 6.76.

(4) Only those complex orders with no more than four legs are eligible for placement into the CTE. Only those orders having a ratio of one-to-three or lower are eligible for placement in the CTE.

Commentary:

.01 Conversions and reversals are not eligible for routing to the Complex Trading Engine. Changes to this policy will be submitted to the Securities and Exchange Commission via a rule filing pursuant to section 19(b)(3)(A) of the Exchange Act.