



RULE  
ADOPTION  
NOTICE

**RAN-05-68**  
**October 28, 2005**

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

**FROM: Department of Regulatory Policy**

**SUBJECT: Linkage Plan Amendment No. 16  
(File No. SR-PCX-2005-104)**

On September 7, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission") a proposed rule change to amend the rules for Linkage Plan Amendment No. 16. The proposed rule change was approved by the Commission on October 27, 2005.

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

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

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

**Rule 6  
Options Trading**

Rule 6.92(a)(1)-(8) – No Change.

Rule 6.92(a)(9) "Firm Customer Quote Size" with respect to a P/A Order means the size of the disseminated quotation of the Participant receiving the P/A Order. [the lesser of (a) the number of option contracts that the Participant sending a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Customer orders entered directly for execution in that market; or (b) the number of option contracts that the Participant Exchange receiving a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Customer orders entered directly for execution in that market. This number will be at

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

least 10 unless the receiving Participant Exchange is disseminating a quotation of less than 10 contracts, in which case this number may equal such quotation size.]

Rule 6.92(a)(10)-(21) – No Change.

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Rule 6.93(a) – No Change.

Rule 6.93(b)(1) – Sending of P/A Orders for Sizes No Larger than the Firm Customer Quote Size. A Lead Market Maker may send through the Linkage a P/A Order that is equal to or less than the size of the Firm Customer Quote Size for automatic execution, if available. [for execution in the automatic execution system of a Participant Exchange if the size of such P/A Order is no larger than the Firm Customer Quote Size. Except as provided in subparagraph (b)(2)(ii) below, an LMM may not break up an order of a Customer that is larger than the Firm Customer Quote Size into multiple P/A Orders, one or more of which is equal to or smaller than the Firm Customer Quote Size, so that such orders could be represented as multiple P/A Orders through the Linkage.]

(2) Sending of P/A Orders [for Sizes] Larger than the Firm Customer Quote Size. If the size of a P/A Order is larger than the Firm Customer Quote Size, a Lead Market Maker may send through the Linkage such P/A Order in one of two ways:

(i) The Lead Market Maker may send a P/A Order representing the entire Public Customer order. If a receiving Participant Exchange's disseminated quotation is equal to or better than the Reference Price when the P/A Order arrives at that market, that exchange will execute the P/A Order at its disseminated quotation for at least the Firm Customer Quote Size (an automatic execution is not required if the P/A Order is larger than the Firm Customer Quote Size). Within 15 seconds of receipt of such order, the receiving Participant Exchange will inform the Lead Market Maker of the amount of the order executed and the amount, if any, that was canceled.

(ii) Alternatively, the Lead Market Maker may send an initial P/A Order for the Firm Customer Quote Size pursuant to subparagraph (b)(1) above. If one of more of the Participant Exchanges that executed the P/A Order continues to disseminate the same quotation at the NBBO [15 seconds] after reporting the execution of the initial P/A Order, the Lead Market Maker may send an additional P/A Order to such Participant Exchanges. If sent, such additional P/A Order must be for at least the lesser of:

- the size of the disseminated quotation;
- 100 contracts; or
- the entire remainder of the Public Customer order.

If the sending Participant Exchange initially sent P/A Orders to more than one Participant Exchange for up to the Firm Customer Quote Size, the sending Participant

Exchange may send additional P/A Orders to the same Participant Exchanges as long as such orders are, in the aggregate, for at least the lesser of 100 contracts or the entire remainder of the Customer Order; provided that the sending Participant Exchange may limit the size of any single additional P/A Order to the size of the Participant Exchange's currently-disseminated quotation.

In any situation where a receiving Participant Exchange does not execute a P/A Order in full, such exchange will be required to move its quotation to a price inferior to the Reference Price of the P/A Order.

(c) – (e) – No Change.

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