



RULE
ADOPTION
NOTICE

RAN-05-78
December 2, 2005

**TO: All OTP Holders and OTP Firms
ETP Holders and Sponsored Participants**

FROM: Department of Regulatory Policy

**SUBJECT: Directed Order Process
(File No. SR-PCX-2005-56)**

On April 21, 2005, the Exchange filed a proposed rule change to amend PCXE Rule(s) 1.1, 7.22, 7.23, 7.31, and 7.37, to modify its Directed Order Process. On October 4, 2005, the Exchange filed Amendment No. 1 to the proposed rule change and on November 17, 2005, the Exchange further amended the proposed rule change. The Commission approved the proposed rule change and released the notice on December 1, 2005.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Janet Angstadt at 312/442-7147.

EXHIBIT 5

Text of the Proposed Rule Change:¹

Rules of PCX Equities, Inc.

Rule 1 Definitions

Definitions

Rule 1.1 (a) – (aaa) - No change.

(bbb) The term “Designated Market Maker” shall mean a registered Market Maker that participates in the Directed Order Process.

(ccc) The term “Lead Market Maker” shall mean a registered Market Maker that is the exclusive Designated Market Maker in listings for which the Corporation is the primary

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

market.

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Rule 7 Equities Trading

Registration of Market Makers in a Security

Rule 7.22 (a) – (b) – No change.

(c) The Corporation may limit the number of Designated Market Makers in a security upon prior written notice to ETP Holders.

(d) Designated Market Makers and Lead Market Makers shall be selected by the Corporation. Such selection shall be based on, but is not limited to, the following: experience with making markets in equities; adequacy of capital; willingness to promote the Exchange as a marketplace; issuer preference; operational capacity; support personnel; and history of adherence to Exchange rules and securities laws.

[(c)] (e) Voluntary Termination of Security Registration. A Market Maker may voluntarily terminate its registration in a security by providing the Corporation with a one-day written notice of such termination. A Market Maker that fails to give advanced written notice of termination to the Corporation may be subject to formal disciplinary action pursuant to Rule 10.

[(d)] (f) The Corporation may suspend or terminate any registration of a Market Maker in a security or securities under this Rule whenever, in the Corporation's judgment, the interests of a fair and orderly market are best served by such action.

[(e)] (g) An ETP Holder may seek review of any action taken by the Corporation pursuant to this Rule, including the denial of the application for, or the termination or suspension of, a Market Maker's registration in a security or securities, in accordance with Rule 10.13.

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Rule 7 Equities Trading

Designated Market Maker Performance Standards

Rule 7.24 [Reserved].

(a) Designated Market Makers will be required to maintain minimum performance standards the levels of which may be determined from time to time by the Corporation.

Such levels will vary depending on the price, liquidity, and volatility of the security in which the Designated Market Maker is registered. The performance measurements will include (i) percent of time at the NBBO; (ii) percent of executions better than the NBBO; (iii) average displayed size; (iv) average quoted spread; and (v) in the event the security is a derivative security, the ability of the Designated Market Maker to transact in underlying markets.

(b) Designated Market Makers that are Lead Market Makers will be held to higher performance standards in the securities in which they are registered as Lead Market Maker than Designated Market Makers that are not Lead Market Makers.

(c) Market Makers that are not Designated Market Makers will not be required to maintain the minimum performance standards as described in paragraph (a) above.

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Rule 7 Equities Trading

Registration of Odd Lot Dealers

Rule 7.25 (a) – No change.

(b) Market Makers Registered in a Security. For each security in which a Market Maker is registered, the Market Maker may become an Odd Lot Dealer in that security. For each security in which a Market Maker is registered as Lead Market Maker, the Lead Market Maker must also register as an Odd Lot Dealer in that security.

Rule 7.25 (c) – (e) – No change.

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Rule 7 Equities Trading

Orders and Modifiers

Rule 7.31 (a) – (h) – No change.

(i) Directed Order.

(1) Any market or limit order to buy or sell which has been directed to a particular Designated Market Maker by the User. Users must be permitted by Designated Market Makers to send a Directed Order to that Designated Market Maker.

[(2) The Corporation shall suspend the Directed Order Process for a security when a

locked or crossed market exists in that security. The Directed Order Process for that security shall resume when the locked or crossed market in that security no longer exists.]

(j) Directed Fill. Any Designated Market Maker [with the appropriate technology, as determined from time to time by the Corporation,] may submit a standing instruction to the Archipelago Exchange for the parameters of a Directed Fill, including, but not limited to, the size and price of the order.], the Users that may send such Market Maker a Directed Order, the price improvement algorithm and the period of time the instruction is effective.] The Market Maker's Directed Fill described in the instruction will only be generated in response to a Directed Order directed to such Market Maker. [The Directed Fill is a limit order with (1) a size that is equal to or less than the size of the Directed Order and (2) a price that improves the BBO by an automatically preset amount, which, except as provided in Rule 7.6(a), Commentary .06, must be equal to or greater than the MPII, pursuant to a price improvement algorithm; provided, however, the Directed Fill will not be generated if the price is not equal to or better than the NBBO.] A Market Maker may modify the parameters of the instruction for a Directed Fill at any time [from time to time], as the Corporation permits.

Rule 7.31 (k) – (hh) – No change.

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Rule 7

Equities Trading

Trading Sessions

Rule 7.34(a) – (d)(1)(C) – No change.

(D) [Neither the Directed Order Process nor t]The Tracking Order Process is not available during the Opening Session. For the purposes of the Opening Session, market Directed Orders are included in the Market Order Auction.

(E) – (3)(B) – No change.

(C) The [Directed Order and] Tracking Order Process[es are] is not available during the Late Trading Session.

(e) – (g) No change.

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Rule 7
Equities Trading

Order Execution

Rule 7.37

(a) Step 1: Directed Order Process. [During Core Trading Hours only,] [o]Orders may be matched and executed in the Directed Order Process as follows:

(1) If a User submits a marketable Directed Order to the Archipelago Exchange and the User's [d]Designated Market Maker has a standing instruction for a Directed Fill to the Archipelago Exchange, the Directed Order shall be [executed] matched against the Directed Fill of the [d]Designated Market Maker.

(2) If a User submits a marketable Directed Order to the Archipelago Exchange and the User's [d]Designated Market Maker has not submitted an instruction for a Directed Fill, the Directed Order shall enter the Display Order Process, as described in subsection (b) of this Rule.

(3) Directed Orders that are matched for execution against Directed Fills may be broken up by orders on the Arca Book if there is a displayed order on the Arca Book priced at or better than the matched order. In the event that the matched order is broken up, it will be handled as follows:

(i) If the remaining balance of the matched order results in the Designated Market Maker side of the order being unexecuted, the remaining balance of the order shall be returned to the Directed Process to be eligible as a Directed Fill instruction.

(ii) If the remaining balance of the matched order results in the User being unexecuted, the remaining balance of the order will be posted in the Arca Book.

(4) If a User submits any order other than a marketable Directed Order to the Archipelago Exchange, the User's order immediately shall enter the Display Order Process, as described in subsection (b) of this Rule, without interacting with any Directed Fills.

[(4) No Directed Order to buy (sell) shall be executed at a price equal to or better than the national best bid (offer) within the Directed Order Process. Such Directed Orders immediately shall enter the Display Order Process, as described in subsection (b) of this Rule, without interacting with any Directed Fills.]

Rule 7.37 (b) – (d) – No change.

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