

order)¹⁴ that is routed away via ArcaEx and executed by another market center or participant. The proposed transaction fee of \$0.004 per share is the same amount that is currently applied to orders in exchange-listed securities that are routed away and executed by another market center or participant. The Exchange believes that this fee is reasonable and is structured to allocate fairly the costs of operating the ArcaEx facility.

(b) *Odd and Mixed Lots.* The Exchange proposes to charge all odd-lot orders executed in Nasdaq securities (including the odd-lot portion of a mixed lot) a \$0.03 per share transaction fee for orders that extract liquidity by responding to, and executing against, orders residing in the ArcaEx Book. In addition, the PCX proposes to adopt a \$0.03 per share transaction fee for orders in Nasdaq securities that are routed away and executed by another market center or participant. These proposed transaction fees for Nasdaq securities are of the same amount as currently applied to odd-lot orders in exchange-listed securities. The PCX notes that odd-lot orders that are created as a result of a partial fill of a round lot will be excluded from these fees.

Market Maker Transaction Credits

The Exchange proposes to increase the level of the transaction credit paid to Market Makers who provide liquidity in exchange-listed securities. Currently, Market Makers who enter Q Orders¹⁵ in exchange-listed securities that are subsequently executed against incoming marketable orders, earn a credit of \$0.0015 per share.¹⁶ The Exchange proposes to increase the level of the transaction credit for exchange-listed securities from \$0.0015 to \$0.0025 per share.¹⁷ The Exchange is also proposing to establish a \$0.002 credit per share for Nasdaq securities. In addition, \$0.02 per share will be credited to any Market Maker that executes against an odd-lot order in a Nasdaq security during the Odd Lot Tracking Process.¹⁸ These

credits are intended to provide an additional incentive to firms to become Market Makers in exchange-listed and Nasdaq securities and to build liquidity in the Book, which will foster price competition and order interaction.

Other Fees, Charges and Credits

(a) *User Transaction Credit.* PCX proposes to establish a transaction credit for Users who provide liquidity in the Book in Nasdaq securities. Under the proposal, a User that enters a resting limit order into the Book that is subsequently executed against an incoming marketable order in a Nasdaq security will receive a credit of \$0.002 per share. This credit is designed to enhance market efficiency and fairness by offering incentives to market participants that provide liquidity through ArcaEx. Any credit received by a User will be applied to reduce any charges payable to ArcaEx. Any remaining balance may be paid directly to the User.

(b) *"Drop Copy" Processing Fee.* The PCX currently charges Market Makers a \$0.001 per share fee for processing "drop copies"¹⁹ of their transactions executed on other market centers. The Exchange proposes to broaden the application of this fee to include any ETP Holders that want to receive drop copies of such off-board transactions. The current fee of \$0.001 per share will remain in effect and will apply to such off-board transactions in exchange-listed and Nasdaq securities. In addition, the Exchange notes that Market Maker transactions that are subject to this fee will continue to be ineligible to receive the Market Maker Transaction Credit or User Transaction Credit. The Exchange believes that this fee is reasonable and is structured to allocate fairly the costs of operating the ArcaEx facility.

2. Statutory Basis

The Exchange believes the proposal is consistent with section 6(b) of the Act,²⁰ in general, and section 6(b)(4) of the Act,²¹ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among its members.

registered as an Odd Lot Dealer. See PCXE Rules 7.31(g) and 7.37(c).

¹⁹ Under the current fee schedule, a "drop copy" is an electronic report of a transaction for a Market Maker's account that is executed on another market center and that has been prepared for informational purposes (e.g., Market Maker inventory tracking, surveillance audit trail). Market Maker transactions that are subject to this fee will not be eligible to receive the Market Maker Transaction Credit or User Transaction Credit.

²⁰ 15 U.S.C. 78f(b).

²¹ 15 U.S.C. 78f(b)(4).

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

Written comments on the proposed rule change were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The proposed rule change has become effective pursuant to section 19(b)(3)(A)(ii) of the Act²² and subparagraph (f)(2) of Rule 19b-4 thereunder,²³ because it establishes or changes a due, fee, or other charge. At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposal is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to file number SR-PCX-2003-04 and should be submitted by April 16, 2003.

²² 15 U.S.C. 78s(b)(3)(A)(ii).

²³ 17 CFR 240.19b-4(f)(2).

¹⁴ See footnote 10, *supra*.

¹⁵ Q Orders are limit orders that are submitted to ArcaEx by a Market Maker in those securities in which the Market Maker is registered to trade. See PCXE Rule 7.31(k).

¹⁶ The transaction credit applied to orders in Exchange-Traded Funds ("ETFs") and American Depositary Receipts ("ADRs") is currently \$0.002 per share.

¹⁷ The current \$0.02 per share credit that is provided to any Market Maker that executes against an odd-lot order in the Odd Lot Tracking Order Process will remain in effect.

¹⁸ The Tracking Order Process is the fourth step of the ArcaEx execution algorithm. If the unfilled marketable order (or portion of an order) that enters the Tracking Order Process is an odd lot, such order will be executed against a Market Maker that is