

5231 Automatic Execution System

Rule 6.87(a)–(d)—No change.

(e) Market Maker Requirements and Eligibility. Any Exchange Member who is registered as a Market Maker and who has obtained written authorization from a clearing member is eligible to participate on the Auto-Ex system, subject to the following conditions and requirements:

(1)–(7)—No change.

(8) Auto-Ex Tick Better Requirement in Certain Issues.

(A) Except as provided in subsection (B), below, Lead Market Makers who are participating on Auto-Ex must assure that Exchange staff (i.e., the Order Book Official or Control Room staff) have set the Auto-Ex System either:

(i) to execute incoming electronic orders at prices that are one trading increment better than the Exchange's disseminated bid or offering price when another options exchange is disseminating the national best bid or offer at a price that is one trading increment better than the price being disseminated by the Exchange. The order will default for manual representation in the trading crowd when another options exchange is disseminating a price that is more than one trading increment better than the price being disseminated by the Exchange, or

(ii) to execute incoming electronic orders at the NBBO pursuant to Rule 6.87(i).

(B) Applicability. The requirements of subsection (A), above, will apply only to non-broker-dealer orders for ten contracts or less in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally for a specified month based on volume as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month. In addition, the requirements of Subsection (A), above, will only apply to orders in option series that are not designated as LEAPS pursuant to Rule 6.4(e).

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for

the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in item IV below. The Exchange has prepared summaries, set forth in sections A, B and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange is proposing to adopt new PCX rule 6.87(e)(8) relating to the Exchange's Auto-Ex System for options trading. Currently, Options Market Makers who are logged on to Auto-Ex are obligated to meet certain requirements as set forth in PCX rule 6.87(e)(1)–(7). The Exchange is proposing to adopt a new rule requiring Lead Market Makers ("LMMs") on Auto-Ex to "step up" and execute certain orders at better prices than the Exchange is disseminating, if another options exchange is disseminating that better price.

Current PCX rule 6.87(i) allows Auto-Ex to be set to execute inbound electronic orders at prices reflecting the national best bid or offer ("NBBO") in selected issues, subject to the approval of the Options Floor Trading Committee ("OFTC"). Under the proposal, LMMs who are participating on Auto-Ex must assure that Exchange staff (i.e., the Order Book Official or Control Room staff) sets the Auto-Ex System in either of two ways for the selected issues as defined in PCX Rule 6.87(e)(8)(B). First, when another options exchange is disseminating a price at the NBBO and that price is one trading increment better than the price being disseminated by the Exchange, the Exchange staff may set the Auto-Ex system may to execute incoming electronic orders at prices that are one trading increment better than the Exchange's disseminated bid or offering price. Where the Exchange is disseminating a price that is more than one trading increment inferior to the price being disseminated by another options exchange, the order will default for manual representation in the trading crowd.

Alternatively, an LMM may have the Exchange staff set the Auto-Ex system to execute incoming electronic orders at the NBBO pursuant to PCX rule 6.87(i). Pursuant to PCX rule 6.87(i), any order that is not executed at the NBBO will be manually presented in the trading crowd if it is more than one trading

increment away from the PCX market price.

Proposed PCX rule 6.87(e)(8) will apply only to non-broker-dealer orders for ten contracts or less in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally for a specified month based on volume as reported by the Options Clearing Corporation. In addition, the rule will only apply to orders in option series that are not designated as LEAPS pursuant to PCX rule 6.4(e).

The Exchange's determination of whether an equity option ranks in the top 120 most active, nationally-traded issues will be based on volume statistics reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month. The Exchange intends to notify its Members of the issues that are designated to be in the top 120 via a regulatory bulletin that will be published at the beginning of each month.

2. Basis

The Exchange believes that the proposal is consistent with section 6(b)(5)³ of the Act in that it designed to promote just and equitable principles of trade, to remove impediments and to perfect the mechanism of a free and open market and a national market system, and in general, to protect investors and the public interest.

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

Within 35 days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to

³ 15 U.S.C. 78s(b)(2).