

change from interested persons. For the reasons described below, the Commission is granting accelerated approval to the proposed rule change.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

PCX is proposing to amend its rules to extend the Automatic Execution System ("Auto-Ex") Book Function Pilot Program to June 30, 2004. The text of the proposed rule change is available at the principal office of the PCX and at the Commission.

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 PCX 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 III below. PCX 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

On June 17, 2002, the Commission approved, on a one-year basis, the Exchange's proposal to amend Rule 6.87, which governs the operation of its Auto-Ex⁴ Book Function.⁵ The pilot program is currently set to expire on June 22, 2003.

The Auto-Ex Book Function of POETS permits orders in the Limit Order Book to be executed via the Auto-Ex system when those orders become marketable subject to certain procedures. The function may be used when one or more orders in the Limit Order Book become marketable, as indicated by a locked or crossed market being displayed on the trading floor. When this occurs, the Lead Market Maker may direct the

Order Book Official to initiate the Auto-Ex Book Function, which will cause marketable orders in the Limit Order Book to be automatically executed against the accounts of Market Makers who are participating on the Auto-Ex system at the time.

The Exchange is requesting an additional extension of the pilot program to June 30, 2004, when the Exchange's new trading platform for options, "PCX Plus", will become completely operative. The added time permits the Exchange to phase in PCX Plus on an issue-by-issue basis.⁶ As each issue is phased into PCX Plus, the Exchange will simultaneously phase out such issue from the Auto-Ex Book Function. PCX Plus will eventually replace the Auto-Ex Book Function in its entirety. Currently, the Auto-Ex Book Function is operating as intended and provides a service to both customers and members by facilitating the execution of orders in the Limit Order Book. Therefore, the Exchange believes that a one-year extension of the program is warranted.

2. Statutory Basis

PCX believes that this proposal is consistent with section 6(b) of the Act,⁷ in general, and furthers the objectives of section 6(b)(5),⁸ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to enhance competition and to protect investors and the public interest.

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

PCX 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. 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 No. SR-PCX-2003-15 and should be submitted by July 14, 2003.

IV. Commission's Findings and Order Granting Accelerated Approval of the Proposed Rule Change

After careful review, the Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange, and, in particular, the requirements of section 6 of the Act.⁹ Specifically, the Commission finds that the proposal is consistent with section 6(b)(5) of the Act, which requires that the rules of a national securities exchange be designed to promote just and equitable principles of trade, as well as to remove impediments to and perfect the mechanism of a free and open market, and, in general, to protect investors and the public interest.¹⁰ The Commission believes that extension of the pilot program until June 30, 2004, provides an appropriate period of time for the Exchange to continue its Auto-Ex Book Function while it phases in its new trading platform for options, PCX Plus, on an issue-by-issue basis. In this way, the Auto-Ex Book Function can continue uninterrupted for each options class until PCX Plus is operative for that option class. Once PCX Plus is fully operational, the Exchange no longer will need to operate its Auto-Ex system.¹¹

The Commission further finds good cause for approving the proposed rule change prior to the 30th day after the date of publication of notice thereof in the **Federal Register**. The Commission notes that this proposal would merely extend an existing pilot program to June

⁴ Auto-Ex is the Automated Execution system feature of POETS for market or marketable limit orders. The Pacific Options Exchange Trading System ("POETS") is an automated trading system comprised of an options order routing system, an automatic execution system ("Auto-Ex"), an on-line limit order book system and an automatic market quote update system. Option orders can be sent to POETS via the Exchange's Member Firm Interface ("MFI"). Market and marketable limit orders sent through the MFI will be executed by Auto-Ex if they meet order type and size requirements of the Exchange.

⁵ See Exchange Act Release No. 46082 (June 17, 2002), 67 FR 42307 (June 21, 2002).

⁶ See Exchange Act Release No. 47838 (May 13, 2003), 68 FR 27129 (May 19, 2003) (Order approving PCX Plus) ("PCX Plus Order").

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

⁹ In approving the proposal, the Commission has considered the rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹⁰ 15 U.S.C. 78f(b)(5).

¹¹ See PCX Plus Order, *supra* n. 6.