

Firm booth by telephone or be sent to the Member Firm's printer located on the Floor, and immediately entered into the EOC booth device, which will electronically assign the time of receipt on the Exchange; or (3) Orders may be received during outgoing telephone calls that are initiated at the option post, and then immediately entered into the EOC booth device, which will electronically assign the time of receipt on the Exchange pursuant to PCX Rule 6.2(h)(3)(B).<sup>19</sup> The EOC booth device that is used to record the details of the order upon receipt on the Floor is an Exchange provided system.<sup>20</sup> The EOC booth device and the enhancements to the existing Floor Broker Hand Held Terminal applications will support the entry of all order types (including contingency and complex orders, *i.e.*, multiple-leg option and stock/option orders) and all required information, as well as provide quick entry templates to speed data entry. Once a Member Firm's booth clerk records the details of an order into EOC or in the case when a Floor Broker receives an order pursuant to PCX Rule 6.2(h)(3)(B), the order is routed electronically to a Floor Broker Hand Held Terminal for representation in the trading crowd.<sup>21</sup> Member Firms will have the capability to track and display all orders that are submitted through the EOC booth device, as all orders will be assigned an unique identifier that will be used throughout the life of the order.

Once an order has been executed, the Floor Broker Hand Held Terminal system will route trade information to POETS (via the EOC interface), which will then route the information to POPS for trade match and clearing purposes. At the same time, the Exchange will send a report to the Member Firm that entered the order and will transmit trade information to OPRA.

The Exchange believes that the implementation of EOC, as described above, will improve order information management features resulting in operational efficiencies for Member Firms.

<sup>19</sup> The Exchange's order processing systems have been designed so that the clocking mechanisms do not deviate by more than three seconds from the Naval Observatory atomic clock in Washington, D.C.

<sup>20</sup> The EOC will not initially support the use of a Member Firm's proprietary system to comply with the proposed order entry requirements.

<sup>21</sup> Orders sent via the EOC interface to a Floor Broker in the trading crowd may subsequently be transmitted electronically to another Floor Broker on the Floor. When an order is transmitted from one Member to another, the EOC will capture each phase of processing as the order moves from entry to execution.

## (2) Order Format Requirements

The Exchange's current rules governing the order format requirements in transmitting orders to the Exchange are set forth in PCX Rule 6.67(a). The Exchange is proposing to add interpretive language to make it clear that EOC is an approved format for transmitting orders for purposes of this Rule. In addition, proposed PCX Rule 6.67(b) requires that orders sent to the Exchange for execution must comply with the order format requirements established by the Exchange relating to, among other things, option symbol, expiration month, exercise price, type of option (call or put), quantity of option contracts, clearing member organization, whether the order is to buy or sell, and whether the order is market or limit.

## (3) Exceptions to EOC Entry Requirement

An exception to the requirement for recording order information into EOC is contained in proposed PCX Rule 6.67(d). Under this proposed rule, if a disruption or malfunction to EOC or any other Exchange electronic order processing system occurs, the EOC entry requirement will be suspended upon the approval of two Floor Officials, and the EOC Contingency Procedures will be in effect pursuant to PCX Rule 6.67(d)(1).<sup>22</sup> If the Exchange is still able to process and disseminate quotes accurately, then any orders received by the Exchange will be processed manually through the use of paper tickets. In such circumstances, all other Exchange rules governing options trading will remain in effect. Accordingly, the Exchange intends to retain its existing rules that are applicable to the manual processing of order tickets. Minor changes have been made throughout the existing options trading rules to allow for manual processing of trade tickets when necessary.

## (4) Record of Orders

Current PCX Rule 6.68(a) requires Member Organizations to maintain and preserve certain information items relating to the terms of each option order. The Exchange is proposing to make minor technical changes to the text by renaming and renumbering certain information items enumerated in the Rule for clarity. The proposed rule change does not replace existing

<sup>22</sup> Under the proposed rule, member firms must use a backup supply of tickets to record the details of the order received through non-electronic means and time stamp the order of events. Once the disruption or malfunction has been corrected, as determined by two Floor Officials, member firms must input all orders into an EOC device using the "as-of" field.

requirements for recording orders contained in this Rule.

The Exchange is also proposing to add new PCX Rule 6.68(b) to make it clear that Members and Member Organizations must comply with their record keeping obligations under this Rule by immediately entering orders upon receipt (including any modifications and cancellations) into EOC or the MFI and retaining the record of such orders.<sup>23</sup>

## (5) Reporting of Trade Information

The Exchange proposes to rescind current PCX Rule 6.69, Commentary .02, which relates to the trade reporting requirements of Members. The Exchange believes that this rule is superfluous and that it is inconsistent with PCX Rule 6.69(b), which already requires that the Member representing the sell side of a transaction is responsible for reporting the transaction to the Exchange in a form and manner prescribed by the Exchange. Therefore, because current PCX Rule 6.69(b) accurately reflects the PCX's existing trade reporting requirements, the Exchange is proposing to eliminate Commentary .02 of this rule for clarity.

Proposed new PCX Rule 6.69, Commentary .02 specifies the reporting procedures for orders that are manually processed when there is a disruption or malfunction with the EOC pursuant to PCX Rule 6.67(d). This proposed new rule was adapted from current PCX Rule 6.67, Commentary .01.

## (6) Implementation Date

The system entry requirement proposed in this rule change will be operative on or before August 29, 2003.<sup>24</sup> This date is consistent with the extension deadline provided by the Commission to the PCX (and other respondent exchanges) for compliance with Section IV.B.e.(v) of the SEC Order to incorporate into the audit trail all non-electronic orders.<sup>25</sup>

## (7) Miscellaneous Changes

The Exchange proposes to make several minor, non-substantive changes to the text of several existing PCX Rules to correct stylistic, grammatical and typographical errors and to conform the

<sup>23</sup> Former PCX Rule 6.68(b) is being renumbered as new Rule 6.68(c).

<sup>24</sup> See proposed PCX Rule 6.67(f).

<sup>25</sup> See Letter from Annette L. Nazareth, Director, Division of Market Regulation, Stephen M. Cutler, Director, Division of Enforcement, and Lori A. Richards, Director of Office of Compliance Inspections and Examinations, Securities and Exchange Commission to Kathryn L. Beck, Pacific Exchange, Inc., dated June 10, 2003.