

change as described in items I, II and III below, which items have been substantially prepared by the PCX. On November 14, 2003, the PCX filed Amendment No. 1 to the proposed rule change.³ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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

The PCX proposes to amend its rules governing the execution of complex orders involving options and single stock futures ("SSF"). The text of the proposed rule change is set forth below. Proposed new language is in *italics*; proposed deletions are in [brackets].

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Rules of the Board of Governors

Rule 6

Options Trading

"Crossing" Orders and Stock/Option, SSF/Option Orders

Rule 6.47(a)–(e)—No change.

(f) Stock/Option and SSF/Option Orders.

(1) When a stock/option or SSF/option order is taken to a crowd for execution, the stock transaction or SSF transaction must be effected prior to the option transaction pursuant to Rule 6.47, Commentary .04. The following procedure applies to all executions of stock/option and SSF/option orders: After an agreement with other members of the crowd has been reached as to the terms of the transaction, the option order tickets must be written up and time stamped. However, the order tickets should not be turned in to the Order Book Official at this time. The members shall attempt to immediately

effect the transaction in the underlying or related security or SSF. If the stock or SSF transaction cannot be executed immediately or is effected at a price other than the agreed-upon price, the members shall not be held to the option transaction. If the stock or SSF transaction is effected at the agreed-upon price, then all the members who participated in the option transaction shall be held to their agreed-upon price. At the time the stock or SSF transaction is effected, the option trade tickets should be given to the Order Book Official.

(2) SSF/Option Orders Margin Requirements

(a) Any Member or Member Organization must elect to be bound by the initial and maintenance margin requirements of either the Chicago Board of Options Exchange or the New York Stock Exchange as the same may be in effect from time to time;

(b) Such election shall be made in writing by a notice filed with the Exchange.

(c) Upon the filing of such election, a Member will be bound to comply with the margin rules of the Chicago Board of Options Exchange or the New York Stock Exchange, as applicable, as though such rules were part of these rules.

Commentary:

.01–.06—No change.

Certain Types of Orders Defined

Rule 6.62(a)–(i)—No change.

(j) *Combination orders [with no-equity options legs]. One or more legs of a combination order may be to purchase or sell a stated number of units of another security.*

(1) Stock/option order. A stock/option order is an order to buy or sell a stated number of units of an underlying stock or a [related] security convertible into the underlying stock ("convertible security") coupled with either (A)[(i)] the purchase or sale of option contract(s) [of the same series] on the opposite side of the market representing either the same number of units of the underlying stock or convertible security or the number of units of the underlying stock necessary to create a delta neutral position; [or related security] or (B)[(ii)] the purchase [and] or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of units of [the underlying or related security,] stock as, and on the opposite side of the market from, the stock or convertible security portion of the order. [representing in aggregate twice the number of units of the underlying or related security.]

(2) *Single Stock Future ("SSF")/Option Order. An SSF/option order is an order to buy or sell a stated number of units of a single stock future or a security convertible into a single stock future ("convertible SSF") coupled with either (A) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of stock underlying the single stock future or convertible SSF, or the number of units of stock underlying the single stock future or convertible SSF necessary to create a delta neutral position; or (B) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of underlying stock, as and on the opposite side of the market from, the stock underlying the single stock future or convertible SSF portion of the order.*

Priority and Order Allocation Procedures

Rule 6.75. Except as provided by Rule 6.76 below, the following rules of priority shall be observed with respect to bids and offers:

(a)–(d)—No change.

(e) Notwithstanding anything in paragraphs (a) and (b) to the contrary, when a member holding a spread order, a straddle order, or a combination order and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with or within the bids and offers displayed by the Order Book Official or other members, in procedures determined by the Options Floor Trading Committee, then the order may be executed as a spread, straddle, or combination at the total credit or debit with one or more members without giving priority to bids or offers for the individual option series of the Order Book Official or of other members at the post that are no better than the bids or offers comprising such total credit or debit. Under the circumstances described above, a stock/option or SSF/option order has priority over the bids and offers of members in the trading crowd but not over the bids and offers of the Order Book Official.

(f)–(h)—No change.

Commentary:

.01–.04—No change.

Transactions Off the Exchange

Rule 6.78 (a)–(f)—No change.

Commentary:

.01–.02—No change.

.03 To the extent applicable, all other Exchange rules, including Rule 6.49, Solicited Transactions, will apply to the

³ See letter from Mai Sharif Shiver, Senior Attorney, Regulatory Policy, PCX, to Nancy J. Sanow, Assistant Director, Division of Market Regulation, Commission, dated November 13, 2003 ("Amendment No. 1") (replacing the form 19b-4 in its entirety). In Amendment No. 1, the Exchange, in part, clarified the margin requirements for members, requiring members who effect SSF/option order transactions to elect to be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or the New York Stock Exchange ("NYSE"), as those rules may be in effect from time to time. In addition, the Exchange amended the filing to make it immediately effective. For purposes of calculating the 60-day abrogation period, the Commission considers the period to have commenced on November 14, 2003, the date the PCX filed Amendment No. 1. In addition, the Exchange made a technical correction to its rule text and amended its discussion of its change to its proposed rule 6.62. Telephone conversation between Mai Sharif Shiver, Senior Attorney, Regulatory Policy, PCX, and Elizabeth MacDonald, Attorney, Division of Market Regulation, Commission, December 8, 2003.