

transfer procedure set forth in subsections (d) through (f). The following Rules do not apply to transfer procedures: 6.71 (Meaning of Premium Bids and Offers); 6.74 (Bids and Offers in Relation to Units of Trading); 6.75 (Priority of Bids and Offers); 6.76 (Priority of Split Price Transactions); 6.47 ("Crossing" Orders and Stock/Option, *SSF/Option* Orders); and 7.9 (Meaning of Premium Bids and Offers, Index Options).

.04—No change.

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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 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 IV below. The Exchange 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

PCX Rule 6.47(f) governs the execution process for complex orders including stock/option orders. The Exchange is proposing to amend this rule to authorize the execution of complex orders involving options and SSFs. The proposed procedures for the execution of SSF/option orders are virtually identical to the existing stock/option procedure and would permit members to enter SSF/option orders. As with stock/option orders, the option leg of the transaction would have priority over the bids (offers) of members at the same price in the trading crowd but not over bids (offers) in the limit order book.

When an SSF/option order is represented in the crowd for execution, the SSF transaction must be effected prior to the option leg of the trade pursuant to PCX Rule 6.47, Commentary .04. As with stock/option orders, if the parties are unable to execute the SSF leg of the transaction due to a change in market conditions, then they could cancel the option leg of the 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.

The Exchange also seeks to add a margin requirement as proposed PCX Rule 6.47(f)(2) that would require a Member or Member Organization who effects SSF/option order transactions to elect to be bound by the initial and maintenance margin requirements of either the CBOE or the NYSE as those rules may be in effect from time to time. The Member or Member Organization will be required to make its election in writing and file the same to the Exchange's Financial and Operational Compliance Department. Upon filing of the election, the Member or Member Organization will be bound to comply with the margin rules of the CBOE or the NYSE, as applicable, as though such rules were incorporated into the Exchange's rules.⁴

The Exchange also seeks to amend its Rule 6.62 that defines certain types of orders. Specifically, the Exchange seeks to modify PCX Rule 6.62(j) (Combination Orders) in order to: (i) Add a definition for SSF/option order types and (ii) modify the definition of stock/option order that correlates with the new proposed SSF definition. The Exchange proposes new PCX Rule 6.62(j)(2) in order to define a SSF/option order as an order to buy or sell a stated number of units of a single stock future or a security convertible into a SSF⁵ coupled with either: (A) the purchase or sale of option contracts on the opposite side of the market representing the same number of units of stock underlying the SSF or convertible SSF or the number of units of stock underlying the SSF 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 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. The proposed definition is identical to that used by the ISE.⁶

The Exchange also seeks to modify PCX Rule 6.62(j)(1) in order to amend its existing definition of stock/option order so that its provisions are parallel to its

newly proposed definition for SSF/option orders and identical to the definition used by ISE Rule 722.

The Exchange proposes to amend PCX Rule 6.75 regarding priority and order allocation procedures in order to clarify that in addition to stock/option orders, SSF/option orders will also have priority over the bids and offers of members in the trading crowd but not over bids and offers of the Order Book Official.

The Exchange proposes to amend PCX Rule 6.78, Commentary .03 regarding transactions off of the Exchange in order to clarify that SSF will be included as a component of the rules that do not apply to transfer procedures off the floor as set forth in sub-sections (d) through (f) of PCX Rule 6.78.

2. Statutory Basis

The PCX believes that the rule change is consistent with section 6(b) of the Act in general⁷ and section 6(b)(5) of the Act in particular.⁸ The Exchange believes that the proposed rule change is intended to remove impediments to and perfect the mechanism for a free and open market and a national market system, and, in general, to protect investors and the public interest. The Exchange also believes that making additional complex orders involving options and SSFs available to investors will offer investors new trading opportunities on the Exchange and enhance the Exchange's competitive position.

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

The proposed rule change does not 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

The Exchange has not solicited, and does not intend to solicit, comments on this proposed rule change. The Exchange has not received any unsolicited written comments from members or other interested parties.

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

Because the foregoing proposed rule change, as amended, does not: (i) Significantly affect the protection of investors or the public interest; (ii) impose any significant burden on

⁴ This proposal is substantially similar to Rule 1202 of the International Securities Exchange ("ISE").

⁵ To the extent that "a security convertible into a SSF" means an option on a SSF, the Commission notes that trading of such products has not yet been approved by the Commission and the Commodity Futures Trading Commission. Nothing in this notice should be interpreted as granting such approval.

⁶ See ISE Rule 722.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).