

ensure that its own systems and those of the Options Price Reporting Authority ("OPRA") have the capacity to handle the potential increased capacity requirements. Also, due to recent trends in the securities markets, there has been a marked increase in the number of underlying securities that, but for the pricing standard, would otherwise qualify for options listing on the Exchange. The Exchange states that changing the pricing standard to the proposed \$3.00 market price per share requirement would allow the Exchange to evaluate whether to list options on a greater number of classes without compromising investor protection.

The Exchange notes that although this proposal amends the closing market price for an underlying security which is deemed a Covered Security, as well as the time period for which it must trade at that price prior to it being listed on the Exchange, the Exchange will continue to maintain its initial listing standards. The Exchange does not propose to amend any of the other criteria in PCX Rule 3.6, including the requirements that: there must be a minimum of 7,000,000 shares of the underlying security owned by public investors; there must be a minimum of 2,000 holders of the underlying security; and, that there must be a trading volume of at least 2,400,000 shares in the preceding twelve months. Additionally, by requiring the underlying security to be listed on the New York Stock Exchange, Inc., American Stock Exchange LLC ("Amex"), or Nasdaq National Market System ("Nasdaq"),⁴ the Exchange states that this would ensure that the underlying security meets the highest listing standards in the securities industry. However, if the underlying security does not qualify as a Covered Security, the \$7.50 market price per share standard still will apply.

The Exchange believes that the proposed \$3.00 market price per share standard is also consistent with the guideline price in the PCX Delisting Criteria Rule 3.7 which is used to determine whether an underlying security previously approved for Exchange options transactions no longer meets the requirements for the continuance of approval. Commentary .02 to PCX Rule 3.7 sets a \$3 market price per share as the threshold for determining whether the Exchange may continue listing and trading options on an underlying security that was previously approved for options trading under PCX Rule 3.6. As long as a \$3.00 standard is recognized as an acceptable pricing standard for options trading,

albeit as a standard for continued listing, the Exchange believes that the proposed \$3.00 should be the threshold standard for initial listing standards as well.

The Exchange also proposes, as a safeguard against price manipulation, that the underlying security have a closing market price of at least \$3.00 per share for the previous five consecutive business days preceding the date on which the Exchange submits a certificate to the Options Clearing Corporation for listing and trading. The market price of such underlying security would be measured by the closing price reported in the primary market in which the underlying security is traded. The Exchange believes that a "look back" period of five consecutive days would provide a sufficient measure of protection from any attempts to manipulate the market price of the underlying security.

The Exchange also believes that the proposed rule change would encourage the delisting of inactive option classes, particularly those classes in which the market price of the underlying security is below \$7.50. Currently, a Lead Market Maker ("LMM") on the Exchange to whom an option class has been allocated may be reluctant to delist an inactive option class if the market price of the underlying security is below \$7.50 because once delisted, the Exchange's current initial listing criteria must be met to re-list the option class, including the requirement that the market price per share of the underlying security be at least \$7.50 for the majority of business days during the preceding three months. The Exchange also notes that the Commission recently granted PCX approval to list additional series on an option class even though the market price of the underlying security is below \$3, provided that at least one other options exchange trades the series to be added, and at the time the other options exchange added that series, it met the requirements to add new series, including the \$3 price requirement.⁵

The proposed \$3 price standard and the five-day look-back period would provide a reliable test for stability and, at the same time, presents a more

reasonable time period for qualifying the price of an underlying security. The Exchange further believes that this proposed abbreviated qualification period, in combination with the Exchange's existing quarterly delisting program,⁶ would contribute to reducing unnecessary quote traffic.

Finally, for the purposes of consistency within the PCX Rules, the Exchange proposes to amend PCX Rule 3.6 Commentary .05 with respect to Restructure Securities. Currently, Commentary .05 provides a method to certify that the market price of a Restructure Security satisfies the pricing requirement of PCX Rule 3.6 and specifically references the \$7.50 market price per share. In order to make the Rule consistent with the pricing standard change of this proposal, the amended rule would reflect that the market price standard for Restructure Securities also will be reduced from \$7.50 to \$3.00 as long as the Restructure Security is a Covered Security.

2. Statutory Basis

The Exchange believes that the current proposal will allow the Exchange to provide investors with those options that are most useful and demanded by them without sacrificing any investor protection. As such, the Exchange believes that the proposed rule change is consistent with section 6(b) of the Act⁷ in general and furthers the objectives of section 6(b)(5)⁸ in particular in that it will promote just and equitable principles of trade; facilitate transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system; and 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.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments were solicited or received with respect to the proposed rule change.

⁶ The Exchange states that it maintains an active delisting program which requires the quarterly delisting of multiply listed option classes that do not trade more than 20 contracts per day on the Exchange.

⁷ 15 U.S.C. 78f(b).

⁸ 15 U.S.C. 78f(b)(5).

⁵ See Securities Exchange Act Release No. 46406 (August 23, 2002), 67 FR 55446 (August 29, 2002) (approving SR-PCX-2002-51). The Exchange represents that these rules are consistent with similar rules regarding listing and maintenance standards of the American Stock Exchange LLC ("Amex"), International Securities Exchange, Inc. ("ISE"), Chicago Board of Options Exchange, Inc. ("CBOE") and the Philadelphia Stock Exchange, Inc. ("Phlx"). See Interpretation and Policy .02 to CBOE Rule 5.4; Commentary .02 to Amex Rule 916; Commentary .02 to Phlx Rule 1010; and ISE Rule 503(c).

⁴ See 15 U.S.C. 77r(b)(1)(A).