

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-50346; File No. SR-PCX-2004-84)

September 10, 2004

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to the Definition of Firm Customer Quote Size and Firm Principal Quote Size Pursuant to the Intermarket Options Linkage Plan.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on September 1, 2004, the Pacific Exchange, Inc. (“PCX” or “Exchange”) submitted to the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the PCX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The Pacific Exchange, Inc. (“PCX” or “Exchange”) is proposing to amend the definitions of Firm Customer Quote Size (“FCQS”) and Firm Principal Quote Size (“FPQS”) pursuant to the intermarket options linkage (“Linkage”).

The text of the proposed fee schedule is below. Proposed additions are italicized.

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RULES OF THE PACIFIC EXCHANGE, INC.

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Definitions

Rule 6.92(a)(1)-(8) – (No Change).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

- (9) “Firm Customer Quote Size” with respect to a P/A Order means the lesser of (a) the number of option contracts that the Participant Exchange sending a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Customer orders entered directly for execution in that market; or (b) the number of option contracts that the Participant Exchange receiving a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of Eligible Option Class for Customer orders entered directly for execution in that market. This number will be at least 10 unless the receiving Participant Exchange is disseminating a quotation of less than 10 contracts, in which case this number may equal such quotation size.
- (10) “Firm Principal Quote Size” means the number of option contracts that a Participant Exchange guarantees it will execute at its disseminated quotation for incoming Principal Orders in an Eligible Option Class. This number will be at least 10 however if the Participant Exchange is disseminating a quotation size of less than 10 contracts, this number may equal such quotation size.
- (11) – (21) – (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 had received on the proposed rule change. The text of these statements may be examined at the places specified in

Item IV below. The 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

The purpose of this rule change is to implement proposed Joint Amendment No. 13 to the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage (“Linkage Plan”) into the PCX Rules.³ Joint Amendment No. 13, together with this proposed rule change, would change the definitions of both FCQS and FPQS. While Joint Amendment No. 13 and this proposed rule change would maintain a general requirement that the FCQS and FPQS be at least 10 contracts, such a minimum would not apply if the Exchange were disseminating a quotation of fewer than 10 contracts. In that case, the Exchange may establish a FQCS or FPQS equal to its disseminated size.⁴

As with Principal and Principal Acting as Agent (“P/A”) Orders today, if a Principal or P/A Order is of a size eligible for automatic execution (“auto-ex”),⁵ the receiving Participant must provide for the auto-ex of the order. If this is not the case (for example, the receiving Participant’s auto-ex system is not engaged), the receiving Participant may allow the order to

³ The participants in the Linkage Plan (“Participants”) have filed an amendment to the Linkage Plan to change the definitions of FCQS and FPQS (“Joint Amendment No. 13”). See Securities Exchange Act Release No. 50211 (August 18, 2004), 69 FR 52050 (August 26, 2004) (File No. 4-429).

⁴ The PCX would only disseminate a quotation of fewer than 10 contracts when the Exchange’s rule, as approved by the Commission, permitted such dissemination.

⁵ At the request of the Exchange, Commission staff removed an extraneous reference provided in the original filing regarding the automatic execution size at exchanges sending and receiving Principal Orders. Telephone conversation between Steven B. Matlin, Senior Counsel, Regulatory Policy, PCX and Tim Fox, Attorney, Division of Market Regulation, Commission, on September 10, 2004.

drop to manual handling. However, the receiving Participant must nonetheless provide manual execution of the order for at least the FCQS or FPQS, as appropriate (in this case, the size of its disseminated quotation of less than 10 contracts). The proposed rule change would allow the Exchange to accommodate natural size of quotations for Linkage Orders.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁶ in general, and furthers the objectives of Section 6(b)(5) of the Act⁷ in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade,⁸ to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

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 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.

⁶ 15 U.S.C. 78f(b).

⁷ 15 U.S.C. 78f(b)(5).

⁸ At the request of the Exchange, Commission staff made a technical correction to this section of the filing. Telephone conversation between Steven B. Matlin, Senior Counsel, Regulatory Policy, PCX and Tim Fox, Attorney, Division of Market Regulation, Commission, on September 10, 2004.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the PCX consents, the Commission will:

- (A) by order approve such proposed rule change; or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-PCX-2004-84 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609.

All submissions should refer to File Number SR-PCX-2004-84. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all

comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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 Section, 450 Fifth Street, NW, Washington, DC 20549. Copies of such filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-PCX-2004-84 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁹

Jill M. Peterson,
Assistant Secretary

⁹ 17 CFR 200.30-3(a)(12).