SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-52955; File No. SR-PCX-2005-102)

December 14, 2005

Self-Regulatory Organizations; Pacific Exchange, Inc.; Notice of Filing of a Proposed Rule Change Relating to the Elimination of Obsolete Rules Related to the Pacific Options Exchange Trading System

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 November 10, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with 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 PCX. PCX filed Amendment No. 1 to the proposed rule change on November 22, 2005.[3] 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 Exchange is proposing to amend various PCX Rules to eliminate obsolete rules related to the Pacific Options Exchange Trading System ("POETS") and Order Book Officials ("OBOs"). The Exchange has also proposed to make a number of corresponding changes to rules related thereto.

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1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 See Partial Amendment, submitted by Glenn H. Gsell, Director of Regulation, PCX ("Amendment No. 1"). In Amendment No. 1, PCX corrected a typographical error in the rule text. Because Amendment No. 1 is a technical amendment, it is not subject to notice and comment.

The text of the proposed rule change is available on the PCX's Web site (http://www.pacificex.com), at the PCX's principal office, and at the Commission's Public Reference Room.

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 Exchange 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 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 Exchange proposes to modify the PCX Rules to eliminate obsolete rules with respect to POETS and OBOs and make corresponding changes to related rules. As of March 2005, the Exchange completed its rollout of the PCX Plus System.[4] As such, options issues no longer trade on the POETS platform at the Exchange. Therefore, the Exchange proposes to eliminate rules related to POETS, including rules regarding OBOs, and to generally modify the rules as applicable in the current PCX Plus market structure.

a. Order Book Officials/Trading Officials

The Exchange proposes to modify or delete PCX Rules 6.51 through 6.59 to eliminate the term and general functionality of OBOs.

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4 See Securities Exchange Act Release No. 47838 (May 13, 2003), 68 FR 27129 (May 19, 2003) (Order Approving Proposal for PCX Plus).

Currently, PCX Rule 6.51 defines OBOs as Exchange employees who are responsible for maintaining the book with respect to the classes of options assigned to him, effecting proper executions of orders placed in the book, displaying bids and offers pursuant to PCX Rule 6.55, and monitoring the market for the classes of options assigned to him. Due to the elimination of the Order Book and full implementation of PCX Plus (and the fully electronic Consolidated Book), the order handling functionality of OBOs is no longer applicable. Also, many of the administrative duties of the OBO, such as tracking market maker appointments (as set forth in PCX Rule 6.51(b)) are now performed within the PCX Plus system. Certain PCX personnel, however, will continue to oversee trading crowds and otherwise assist in maintaining a fair and orderly market, similar to the current Trading Official and Exchange Official.[5] Therefore, the Exchange proposes to eliminate the definitions of OBO (as set forth in PCX Rule 6.51(a)) and Exchange Official (as set forth in PCX Rule 6.1(b)(41)) and combine their remaining functionality of maintaining a fair and orderly market with the functionality of the Trading Official. The Exchange proposes to modify the definition of Trading Official in PCX Rule 6.1(b)(34) to provide that a Trading Official will be an Exchange employee or officer who is appointed by the Chief Executive Officer or its designee or by the Chief Regulatory Officer or its designee. OTP Holders will no longer be designated as Trading Officials or involved in making decisions on regulatory matters. The Exchange believes that by restricting these decisions to qualified Exchange employees, the potential for partiality or conflicts of interest is removed from the process. An Exchange employee or officer designated as a Trading Official will from time to time as provided in the rules have the ability to recommend and enforce rules and regulations

[5] See PCX Rule 6.1(b)(34) and (41).

relating to trading access, order, decorum, health, safety and welfare on the Options Trading Floor.

In addition, the Exchange proposes to delete PCX Rule 6.52 in its entirety. PCX Rule 6.52 sets forth the procedures for OBOs to accept and execute orders. This provision is obsolete as the OBOs no longer accept and execute orders on behalf of OTP Holders and OTP Firms on PCX Plus. PCX Rule 10.13(c)(2), which deals with the issuance of a summary sanction related to PCX Rule 6.52(a), will also be eliminated. The Exchange proposes to reserve PCX Rule number 6.52 for future use.

Current PCX Rule 6.53 provides for the OBO's obligation to maintain a fair, orderly and competitive market. Specifically, the provision allows an OBO to call upon Market Makers appointed to act as such in a class of option contracts to make bids and/or offers if, in the OBO's opinion, the interests of a fair and orderly market would be best served by such action. The Exchange proposes to modify this provision to provide that a Trading Official could call upon Market Makers for bids and/or offers in such circumstances, as Trading Officials would retain the responsibility to maintain a fair and orderly market.

The Exchange proposes to delete PCX Rules 6.54 through 6.59. These rules are related to an OBO's duty to report unusual conditions, an OBO's duty to display bids and offers in the book, transactions outside the OBO's last quoted range, the OBO's duty not to disclose orders, designation of OBOs by the Exchange, and the liability of the Exchange for actions of OBOs. The Exchange proposes to delete these rules because they are directly related to an OBO's order handling responsibilities (and implications of order handling responsibilities) and therefore they are obsolete in the current PCX Plus market structure.

b. Elimination of POETS and Auto-Ex Functions

Current PCX Rule 6.87 sets forth the rules with respect to the Automated Execution System ("Auto-Ex") feature of POETS. The Exchange proposes to delete PCX Rules 6.87 (a)-(f) and (h)-(p) in order to delete the Auto-Ex provisions due to the elimination of POETS. All options issues are currently trading on the PCX Plus platform, therefore the POETS and Auto-Ex rules are obsolete.

In addition, the Exchange proposes to retain PCX Rule 6.87(g), which relates to trade nullification and price adjustment procedures ("Obvious Error Rule"), and renumber the rule as PCX Rule 6.87(a). The Obvious Error Rule is an options industry-wide set of procedures that was put into place to handle trade nullifications and price adjustments in a fair and consistent manner. These procedures are applicable to all trades executed on PCX Plus. The Exchange also proposes to rename PCX Rule 6.87 "Obvious Errors," as appropriate for the modified rule.

c. Modification of Fast Markets and Unusual Market Conditions

The Exchange proposes to modify PCX Rule 6.28, Fast Markets and Unusual Market Conditions, as the procedures set forth therein with respect to "fast markets" are inapplicable in the PCX Plus market structure. The current rule sets forth specific procedures that are obsolete in the current trading structure. Prior to the introduction of the all-electronic PCX Plus trading system, when a market was declared "fast" due to unusual market conditions certain modifications to standard trading practices were often needed in order to maintain a fair and orderly market. Both systemic and physical limitations that were commonplace in a non-automated trading environment are no longer applicable. Therefore the procedures presently in place to deal with these circumstances are no longer applicable (e.g., moving certain issues or series of options to other posts, or modifying the parameters of Auto-Ex). Market Makers will still be required to trade a minimum of one contract based on their quoted markets pursuant to PCX Rule 6.37, Commentary .05. With regard to the aforementioned changes, however, the Exchange believes it would be prudent to retain a level of basic and flexible procedures to be followed during unusual market conditions. Therefore, the Exchange proposes to modify the provision to enable the Exchange to respond to unusual market conditions. The proposed unusual market condition provisions are based on the rules of the International Securities Exchange ("ISE"),[6] and provide for the Exchange to determine the existence of unusual market conditions. The proposed rule will also allow for the Exchange to employ trading rotations or take such other actions as are deemed in the interest of maintaining a fair and orderly market.

d. Modification of Trading Rotations

The Exchange proposes to amend PCX Rule 6.64(a) and delete subsections (b)-(c) and Commentary .01 in order to delete references to opening rotations and automated opening rotations on POETS as these provisions are no longer applicable. Prior to the PCX Plus market structure a trading rotation was a time-consuming procedure, requiring manual processing by OBOs, Floor Brokers and LMMs. Trading rotations are now a fully automated process, overseen by a Trading Official. The PCX Plus Automated Opening Rotation provision set forth in PCX Rule 6.64(d) will remain unchanged.

The Exchange also proposes to modify the closing rotations rule as provided in PCX Rule 6.64(e)-(f). Currently, PCX Rule 6.64(e)-(f) sets forth time frames and parameters for conducting closing rotations. These procedures are antiquated and inapplicable in the current PCX Plus market structure. Therefore, the Exchange proposes to modify the closing rotations provisions to provide that closing rotations may be utilized when the Exchange concludes that

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6 See ISE Rule 703(c).

such action is appropriate in the interest of a fair and orderly market. The factors that may be considered include, but are not limited to, whether there has been a recent opening or reopening of trading in the underlying security, a declaration of an unusual market condition pursuant to PCX Rule 6.28, or a need for a rotation in connection with expiring individual stock options or index options, an end of the year rotation, or the restart of a rotation which is already in progress.

Finally, the Exchange proposes to modify PCX Rule 6.64(h) in order to eliminate the provision related to OBOs representing orders during rotations. Such procedures are no longer applicable in the current PCX Plus market structure.

e. Modification of Priority and Allocation

Currently, PCX Rule 6.75 sets forth priority and order allocation procedures with respect to options issues designated for trading on POETS (including those that result in execution via open outcry). PCX Rule 6.76 sets forth priority and order allocation procedures with respect to options issues designated for trading on PCX Plus. Due to the elimination of the POETS system, the Exchange proposes to modify PCX Rule 6.75(a) and (e) – (f) to apply only to orders executed by open outcry. In making this modification, the Exchange proposes to delete PCX Rule 6.75(d) as it relates to opening rotations, which is no longer applicable in the PCX Plus market structure. The Exchange also proposes to delete Commentary .01 - .03 as these commentaries relate to OBOs handling orders for purposes of priority and order allocation, which is no longer applicable.

Finally, the Exchange proposes to modify PCX Rule 6.76 and retain its provisions regarding priority and allocation procedures for orders executed on PCX Plus only.

f. Maximum Order Size

Currently, in addition to provisions regarding priority and allocation procedures, PCX Rule 6.76 states that a maximum size of an inbound order that may be eligible for execution on PCX Plus will be initially established by the Lead Market Maker ("LMM") in the issue, subject to the approval of the Exchange. Further, the rule states that any request by the LMM for changes to the Maximum Order Size must be accompanied by a verified statement indicating the business reason for the change and the estimated duration of such change. In addition, PCX Rule 6.90 sets forth a prohibition against unbundling an order to circumvent the maximum order size requirement. PCX Rules 10.12(h)(33) and (k)(i)(33) establishes minor rule plan violations for such prohibited actions.

In POETS, the Exchange was unable to disseminate the size associated with the quote. Therefore, the only way to limit the number of contracts executed electronically was to limit the size of the order for each options issue. As a result of the conversion to PCX Plus, the Market Makers (including LMMs) are able to disseminate a size that they are willing to trade on each individual series. Therefore, a maximum order size that covers an entire issue is no longer necessary in the current PCX Plus market structure. As such, the Exchange proposes to delete the requirement for a maximum order size in PCX Rule 6.76. In addition, the related provisions in PCX Rules 6.90 and 10.12 with respect to the prohibition on unbundling an order to circumvent the maximum order size and the minor rule plan violation are ineffectual and should be deleted.

g. Miscellaneous

The Exchange also proposes to make various corresponding modifications, including typographical and terminology changes, to its rules in order to update the rules applicable to the current PCX Plus market structure.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with the provisions of Section 6 of the Act,[7] in general, and with Section 6(b)(5) of the Act,[8] in particular, because it is designed to promote just and equitable principles of trade, 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 and to 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 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 neither solicited nor received any written comments on the proposed rule change.

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

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[7] 15 U.S.C. 78f(b).

[8] 15 U.S.C. 78f(b)(5).

such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization 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-2005-102 on the subject line.

Paper comments:

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-PCX-2005-102. 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 Room. 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-2005-102 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]

Jonathan G. Katz.
Secretary

[9] 17 CFR 200.30-3(a)(12).