

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-51727; File No. SR-PCX-2005-51)

May 24, 2005

Self-Regulatory Organizations; Pacific Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 Thereto Relating to Revisions to the Series 4 Examination Program

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 12, 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 has designated the proposed rule change as one constituting a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of PCX pursuant to Section 19(b)(3)(A)(i) of the Act<sup>3</sup> and Rule 19b-4(f)(1) thereunder,<sup>4</sup> which renders the proposal effective upon filing with the Commission. The Exchange filed Amendment No. 1 to the proposed rule change on May 16, 2005.<sup>5</sup> The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>4</sup> 17 CFR 240.19b-4(f)(1).

<sup>5</sup> In Amendment No. 1, PCX provided a new statutory basis for the proposed rule change and made technical corrections to the proposed rule change. PCX also included a copy of a Commission letter regarding procedures for filing qualification exams. See letter from Belinda Blaine, Associate Director, Division of Market Regulation, Commission, to Alden S. Adkins, Senior Vice President & General Counsel, NASD Regulation, Inc., dated July 24, 2000. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change under Section 19(b)(3)(C) of the Act, the Commission considers the period to commence on May 16, 2005, the date on which the Exchange filed Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C).

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

Pursuant to the provisions of Section 19(b)(1) of the Act,<sup>6</sup> the Exchange is filing with the Commission revisions to the study outline and selection specifications for the Limited Principal – Registered Options (Series 4) examination (“Series 4 Examination”). The proposed revisions update the material to reflect changes to the laws, rules, and regulations covered by the Series 4 Examination. PCX is not proposing any textual changes to its rules.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, 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. 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

Pursuant to Section 6(c)(3) of the Act,<sup>7</sup> which allows PCX to examine and verify the standards of training, experience, and competence for persons associated with PCX Options Trading Permit (“OTP”) Holders or OTP Firms, PCX has developed examinations, and requires satisfaction of examinations developed by other self-regulatory organizations (“SROs”), that are designed to establish that persons associated with PCX OTP Holders or OTP Firms have attained specified levels of competence and knowledge. PCX periodically reviews the content of examinations to

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<sup>6</sup> 15 U.S.C. 78s(b)(1).

<sup>7</sup> 15 U.S.C. 78f(c)(3).

determine whether revisions are necessary or appropriate in view of changes pertaining to the subject matter covered by the examinations.

PCX Rule 9.18 states that no OTP Firm or OTP Holder shall be approved to transact business with the public in options contracts, unless those persons associated with the OTP Firm or OTP Holder who are designated as Options Principals or who are designated as Registered Representatives have been approved by and registered with the Exchange. The Series 4 Examination, an industry-wide examination, qualifies an individual to function as an Options Principal. The Series 4 Examination tests a candidate's knowledge of options trading generally, the PCX's rules applicable to trading of options contracts, and the rules of registered clearing agencies for options. The Series 4 Examination covers, among other things, equity options, foreign currency options, index options, and options on government and mortgage-backed securities.

The Series 4 Examination is shared by PCX and the following SROs: the American Stock Exchange LLC, the Chicago Board Options Exchange, Incorporated, the National Association of Securities Dealers, Inc., the New York Stock Exchange, Inc., and the Philadelphia Stock Exchange, Inc.

A committee of industry representatives, together with the staff of PCX and the SROs referenced above, recently undertook a periodic review of the Series 4 Examination. As a result of this review and as part of an ongoing effort to align the Series 4 Examination more closely to the supervisory duties of a Series 4 principal, PCX is proposing to modify the content of the Series 4 Examination to track the functional workflow of a Series 4 principal. More specifically, PCX is proposing to revise the main section headings and the number of questions on each section of the Series 4 study outline as follows: Options Investment Strategies, decreased from 35 to 34 questions; Supervision of Sales Activities and Trading Practices, increased from 71 to 75 questions; and Supervision of Employees, Business Conduct and Recordkeeping and Reporting Requirements,

decreased from 19 to 16 questions. PCX is further proposing revisions to the study outline to reflect the new Commission short sale requirements. The revised Series 4 Examination continues to cover the areas of knowledge required to supervise options activities.

PCX is proposing similar changes to the corresponding sections of the Series 4 Examination selection specifications and question bank. The number of questions on the Series 4 Examination will remain at 125, and candidates will have three hours to complete the exam. Also, each candidate must correctly answer 70 percent of the questions to receive a passing grade.

## 2. Statutory Basis

PCX believes that the proposed rule change is consistent with Section 6(b) of the Act,<sup>8</sup> in general, and furthers the objectives of Section 6(b)(1)<sup>9</sup> in particular, in that it is designed to enforce compliance by OTP Holders and OTP Firms and persons associated with the rules of the Exchange.

### 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.

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

The proposed rule change has become effective pursuant to Section 19(b)(3)(A)(i) of the

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<sup>8</sup> 15 U.S.C. 78f(b).

<sup>9</sup> 15 U.S.C. 78f(b)(1).

Act<sup>10</sup> and Rule 19b-4(f)(1) thereunder,<sup>11</sup> in that the proposed rule change constitutes a stated policy, practice, or interpretation with respect to the meaning, administration, or enforcement of an existing rule of PCX.

At any time within 60 days of the filing of the proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change, as amended, 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](mailto:rule-comments@sec.gov). Please include File Number SR-PCX-2005-51 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-2005-51. 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

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<sup>10</sup> 15 U.S.C. 78s(b)(3)(A)(i).

<sup>11</sup> 17 CFR 240.19b-4(f)(1).

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 at the principal office of PCX. 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 the File Number SR-PCX-2005-51 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.<sup>12</sup>

Margaret H. McFarland  
Deputy Secretary

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<sup>12</sup> 17 CFR 200.30-3(a)(12).