SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-51799; File No. SR-PCX-2005-27)

June 7, 2005

Self-Regulatory Organizations; Pacific Exchange, Inc.; Order Granting Approval of Proposed Rule Change and Amendment No. 1 Thereto Relating to the Exchange's Calculation of the National Best Bid or Offer When Another Market Is Disconnected from the Intermarket Option Linkage

On March 31, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange"), filed with the Securities and Exchange Commission ("Commission") a proposed rule change pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")[1] and Rule 19b-4 thereunder,[2] to amend its rule regarding the PCX's calculation of the National Best Bid or Offer ("NBBO") when another market is disconnected from the Linkage.[3] On April 19, 2005, the Exchange filed Amendment No. 1 to the proposed rule change.[4] The proposed rule change, as amended, was published for comment in the Federal Register on May 4, 2005.[5] The Commission received no comments on the proposal. This order approves the proposed rule change, as amended.

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

2 17 CFR 240.19b-4.

3 The term "Linkage" means the systems and data communications network that link electronically the options markets to one another for the purpose of sending and receiving Linkage Orders, related confirmations, order statuses and Administrative Messages. See Section 2(14) of the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage ("Linkage Plan").

4 See Form 19b-4 dated April 19, 2005 ("Amendment No. 1"). Amendment No. 1 replaced and superseded the original filing it its entirety.

5 See Securities Exchange Act Release No. 51627 (April 28, 2005), 70 FR 23290.

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of Section 6 of the Act[6] and the rules and regulations thereunder applicable to a national securities exchange.[7] In particular, the Commission finds that the proposed rule change is consistent with Section 6(b)(5) of the Act,[8] which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. The Commission believes that it is appropriate for PCX to remove a market's disseminated quote from PCX's calculation of the NBBO when a market is disconnected from Linkage because access to that market's quote is limited during such times. The Commission further believes that the proposed rule establishes an appropriate procedure to notify PCX OTP Holders[9] and OTP Firms[10] of such removal and establishes an appropriate standard for when to resume inclusion of the affected market's quote in PCX's calculation of the NBBO. The Commission also believes that it is consistent with the Act for PCX to move its current provisions for declaring an away market unreliable from PCX Rule 6.87(h)(4) to proposed PCX Rule 6.94(e) because eliminating certain markets' disseminated quotes from PCX's calculation of the NBBO removes such quotes from the applicability of other provisions of PCX Rule 6.94 that relate to

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6 15 U.S.C. 78f.

7 In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. See 15 U.S.C. 78c(f).

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

9 See Exchange Rule 1.1(q).

10 See Exchange Rule 1.1(r).

the rights and obligations of PCX OTP Holders and OTP Firms in the event of a Trade-Through.[11]

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,[12] that the proposed rule change (SR-PCX-2005-27) as amended, is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.[13]

Margaret H. McFarland
Deputy Secretary

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[11] A "Trade-Through" is a transaction in an options series at a price that is inferior to the NBBO. See Section 2(29) of the Linkage Plan.

[12] 15 U.S.C. 78s(b)(2).

[13] 17 CFR 200.30-3(a)(12).