

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53384; File No. SR-PCX-2005-135)

February 27, 2006

Self-Regulatory Organizations; Pacific Exchange, Inc.; Order Approving Proposed Rule Change
Relating to Exposure of Orders in the PCX Plus Crossing Mechanism

On December 22, 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 reduce the exposure period in the Crossing Mechanism of the PCX Plus System (“PCX Plus” or “System”) from 10 seconds to 3 seconds. The proposed rule change was published for comment in the Federal Register on January 23, 2006.³ The Commission received no comments on the proposal. This order approves the proposed rule change.

PCX rules provide that a PCX Broker may not facilitate orders or cross two orders, using the System’s Crossing Mechanism, unless it enters into the System the terms of each order that is to be included as part of a Cross Order,⁴ pursuant to PCX Rule 6.76(c)(2)(A). Both facilitation crosses and non-facilitation crosses are executed in the same manner in PCX Plus. Upon entry into PCX Plus, the System will evaluate the terms of the Cross Order and, after accepting the Cross Order, will execute the cross in accordance with PCX Rule 6.76(c)(2)(B). Among other

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 53133 (January 17, 2006), 71 FR 3598.

⁴ See PCX Rule 6.76(c)(1)(A), which defines “Cross Order” for the purposes of PCX Rule 6.76(c) as “two orders with instructions to match the identified buy-side with the identified sell-side at a specified price (the “Cross Price”).”

conditions, Rule 6.76(c)(2)(B) currently requires a 10-second exposure period in which OTP Holders and OTP Firms may enter orders to trade against the side of the Cross Order that has been designated as the Exposed Order.⁵ The Exchange proposes to shorten the duration of this exposure period, as set forth in PCX Rule 6.76(c)(2)(B)(i)(a) and PCX Rule 6.76(c)(2)(B)(ii)(b),⁶ from 10 seconds to 3 seconds. The Exchange represents that all market participants on the PCX utilize electronic trading systems that monitor all updates to the PCX market, including changes resulting from orders being entered into the Crossing Mechanism, and can automatically respond based upon pre-set parameters.

After careful consideration, the Commission finds that the proposed rule change is consistent with the requirements of Section 6(b) of the Act⁷ and the rules and regulations thereunder applicable to a national securities exchange,⁸ and in particular with Section 6(b)(5) of the Act.⁹ The Commission believes that, in the electronic environment of PCX Plus, reducing the exposure period to 3 seconds could facilitate the prompt execution of orders, while providing participants in PCX Plus with an adequate opportunity to compete for those orders.

⁵ See PCX Rule 6.76(c)(1)(D), which defines “Exposed Order” as follows: “the buy or sell side of a Cross Order that has been designated by a PCX Broker as the side to be exposed to the market and that is eligible for execution against all trading interest. Public Customer orders will always be deemed to be the Exposed Order in a Cross Order. In the case of a Cross Order involving a non-customer on both the buy side and sell side, the PCX Broker must designate one side of the Cross Order as the Exposed Order.”

⁶ PCX Rules 6.76(c)(2)(B)(i) and 6.76(c)(2)(B)(ii) govern the execution of Cross Orders when the Cross Price is between the Best Bid and Offer (“BBO”) and when it is at the BBO, respectively.

⁷ 15 U.S.C. 78f(b).

⁸ 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).

⁹ 15 U.S.C. 78f(b)(5).

IT IS THEREFORE ORDERED, pursuant to Section 19(b)(2) of the Act,¹⁰ that the proposed rule change (SR-PCX-2005-135) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹¹

Nancy M. Morris
Secretary

¹⁰ 15 U.S.C. 78s(b)(2).

¹¹ 17 CFR 200.30-3(a)(12).