



RULE
ADOPTION
NOTICE

RAN-01-22
April 9, 2001

TO: All PCX Member and Member Organizations

FROM: Department of Regulatory Policy

**SUBJECT: Rules Relating to Trading of Standardized Equity Options on Trust Issued Receipts
(File No. SR-PCX-01-15)**

On March 30, 2001, the Securities and Exchange Commission ("SEC") approved an Exchange rule relating to trading of Standardized Equity Options on Trust Issued Receipts. The purpose of the rule change was to adopt new listing and maintenance standards to allow for the trading of options, including FLEX equity options, on trust issued receipts. The new listing and maintenance standards for options on trust issued receipts are set forth respectively in Commentary .07 to PCX Rule 3.6, and in Commentary .11 to PCX Rule 3.7.

Following is the text of the rule changes that the SEC has approved. Questions regarding this notice may be addressed to Hassan Abedi, Attorney, at (415) 393-5958.

EXHIBIT A

Text of Rule Change:¹

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OPTIONS

Rule 3.6 (a)–(b) – No Change.

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Commentary

.01–.06 – No change.

.07 Securities deemed appropriate for options trading shall include shares or other securities (“Trust Issued Receipts”) that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:

(a)(i) the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Rule 3.6(a); or

(ii) the Trust Issued Receipts must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and

(b) not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.

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Withdrawal of Approval of Underlying Securities

Rule 3.7(a) – (b) – No Change.

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Commentary

.01–.10 – No change.

.11 Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .07 to PCX Rule 3.6 (such securities are defined and referred to in that Commentary as “Trust Issued Receipts”) shall be deemed to meet the Exchange’s requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the

¹ New text is underscored and deleted text is in brackets.

suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

(1) In accordance with the terms of Commentary .01 of this Rule in the case of options covering Trust Issued Receipts when such options were approved pursuant to paragraph (a)(i) of Commentary .07 under Rule 3.6;

(2) The Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;

(3) The Trust has fewer than 50,000 receipts issued and outstanding;

(4) The market value of all receipts issued and outstanding is less than \$1,000,000; or

(5) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

.12 For Holding Company Depositary Receipts (HOLDRs), the Exchange will not open additional series of options overlying HOLDRs (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or (2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.