



RULE
ADOPTION
NOTICE

RAN-01-41
October 29, 2001

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Auto-Ex Split Price Executions
(File No. SR-PCX-2001-35)

On October 15, 2001, the Securities and Exchange Commission approved the PCX's rule proposal to modify the Automatic Execution System ("Auto-Ex") to permit split-price executions. The rule change permits split-price executions of orders when an order in the book represents the best PCX market and is for a size less than the Auto-Ex guaranteed size in the issue. That best bid or offer will be denoted in the Exchange's disseminated quote by a "Book Indicator" to alert brokers and the public that their orders may be subject to split-price execution. In such cases, an incoming order will be executed against the actual book size and the balance of the order will be executed up to the firm quote size for the issue and will be assigned to market makers on the Auto-Ex wheel at the same price at which the initial portion of the order was executed. If any portion of the order remains unfilled, the balance will be executed at the next prevailing bid or offering price, *i.e.*, the book price and/or the Auto-Quote price. The NBBO will be checked after each quote update to ensure that automatic executions do not occur at inferior prices.

Following is the text of the approved rule change. Questions regarding this bulletin may be directed to Cindy Sink at (415) 393-7926.

EXHIBIT A

Text of the Rule Change¹

Rule 6.87(a) - (m) – No change.

(n) - (o) – Reserved.

¹ New text is underscored. Deleted text is in brackets.

(p) Auto-Ex Split-Price Executions. When the best bid or offer on the Exchange's book constitutes the best bid or offer on the Exchange, contra-side incoming Auto-Ex orders will be executed as follows:

(1) When the best bid or offer on the Exchange's book constitutes the best bid or offer on the Exchange and is for a size less than the Auto-Ex guaranteed size for the issue, that best bid or offer will be denoted in the Exchange's disseminated quote by a "Book Indicator". An incoming Auto-Ex order will be executed against the order in the book. In the event the order in the book is for a smaller number of contracts than the Auto-Ex order, the balance of the Auto-Ex order up to the firm quote size for the issue will be assigned to Market-Makers on the Auto-Ex wheel at the same price at which the initial portion of the order was executed. Any remaining balance thereafter will be:

(A) Assigned to Market Makers on the Auto-Ex wheel at the Auto-Quote price if Auto-Quote constitutes the new prevailing market bid or offer that is equal to or better than the NBBO; or

(B) Executed against any order in the book that constitutes the new prevailing market bid or offer with the balance of the Auto-Ex order being assigned to Market Makers on the Auto-Ex wheel at that price up to the firm quote size. Any additional remaining balance of an Auto-Ex order shall be handled in accordance with (A) or (B) of this paragraph.

(2) Notwithstanding paragraph (1) above, if the bid or offer generated by the Exchange's Auto-Quote system (or any Exchange approved proprietary quote generation system used in lieu of the Exchange's Auto-Quote system) crosses or locks the Exchange's best bid or offer established by an order in the Exchange's customer limit order book, or is outside the NBBO, then Auto-Ex orders for options of that series will not be automatically executed but instead will be rerouted to Floor Broker Hand-Held Terminals or to another location in the event of system problems or contrary firm routing instructions. These rerouted orders will be executed in accordance with Rule 6.86.

Commentary:

.01 For purposes of this rule, the firm quote size is the minimum quotation size established by Rule 6.86.