



RULE
ADOPTION
NOTICE

RAN-01-42
November 7, 2001

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Automatic Execution of Broker-Dealer Orders
(File No. SR-PCX-00-05)

On November 6, 2001, the Securities and Exchange Commission approved a PCX rule change proposal to permit broker-dealer orders to be executed on the Exchange's automatic execution system ("Auto-Ex"). This rule change will be implemented on an issue-by-issue basis, subject to the approval of the Options Floor Trading Committee ("OFTC").

Under the rule change, as approved, Lead Market Makers ("LMMs") may designate only those broker-dealer orders that are not for the accounts of registered market makers and specialists as eligible for automatic execution. In addition, LMMs who accept broker-dealer orders for automatic execution may: (a) designate an Auto-Ex size guarantee for such orders that is less than the size guarantee for public customer orders; (b) determine to step-up to the NBBO for customer orders but not broker-dealer orders; and (c) designate that broker-dealer orders, but not customer orders, will be re-routed to a floor broker hand-held terminal when the NBBO is crossed or locked. An LMM's use of these different settings for automatic execution is subject to OFTC approval.

Finally, pursuant to the rule change, PCX Market Makers must assure that orders for their own accounts are not entered on the PCX and represented or executed in violation of the following provisions: Rule 6.84(h) (concurrent representation of a joint account), Rule 6.85(a) (concurrent representation of a market maker account), and Section 9 of the Securities Exchange Act of 1934 (wash sales).

Following is the text of the approved rule change. Questions regarding this bulletin may be directed to Michael Pierson at (415) 393-4107.

EXHIBIT A

Text of the Rule Change¹

¶5231

Automatic Execution System

Rule 6.87(a) – No change

(b) *Eligible Orders.*

(1) Only non-broker/dealer customer orders are eligible for execution on the Exchange's Auto-Ex System, except that the Options Floor Trading Committee (“OFTC”) may determine, on an issue-by-issue basis, to allow the following types of orders to be executed on Auto-Ex:

(A) Broker-dealer orders; or

(B) Broker-dealer orders that are not for the accounts of Market Makers or Specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

Broker-dealer orders entered through the Exchange's Member Firm Interface (MFI) will not be automatically executed against orders in the limit order book. Broker-dealer orders may interact with orders in the limit order book only after being re-routed to a floor broker for representation in the trading crowd. Broker-dealer orders are not eligible to be placed in the limit order book pursuant to Rule 6.52.

(2) If the OFTC permits broker-dealer orders to be automatically executed in an issue pursuant to this Rule, then it may also permit the following with respect to such orders:

(A) The maximum order size eligibility for broker-dealer orders may be less than the applicable order size eligibility for non-broker-dealer customer orders.

(B) Non-broker-dealer customer orders may be eligible for automatic execution at the NBBO pursuant to Rule 6.87(i) while broker-dealer orders are not so eligible.

(C) Broker-dealer orders may be re-routed for manual representation when the NBBO is crossed or locked pursuant to Rule

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

6.87(j) while non-broker-dealer customer orders would not be re-routed for manual handling in such circumstances.

(3) PCX Market Makers must assure that orders for their own accounts are not entered on the PCX and represented or executed in violation of the following provisions: Rule 6.84(h) (concurrent representation of a joint account), Rule 6.85(a) (concurrent representation of a market maker account), and Section 9 of the Securities Exchange Act of 1934 (wash sales).

(4) For purposes of this Rule, the term “broker/dealer” includes foreign broker/dealers.

[(2) – (3)] – (5) – (6) – No change.