



RULE
ADOPTION
NOTICE

RAN-03-15
May 16, 2003

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

**SUBJECT: One Tick Step Up Requirement for Auto-Ex in Certain Option Issues
(File No. SR-PCX-2002-54)**

On August 27, 2002, the Exchange filed with the Securities and Exchange Commission a proposed rule change to adopt a one-tick step up requirement for market makers who are participating on the Exchange's Automatic Execution System ("Auto-Ex"). On March 19, 2003, the Exchange submitted Amendment No. 1 to the proposed rule change. The Commission approved the proposal on May 13, 2003 as amended. The following is the text of the rule change. Questions regarding this bulletin may be directed to Mai Shiver at (415) 393-4266.

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Exhibit A

PACIFIC EXCHANGE, INC

RULES OF THE BOARD OF GOVERNORS¹

¶ 5231 Automatic Execution System

Rule 6.87(a) – (d)– No change.

(e) *Market Maker Requirements and Eligibility.* Any Exchange Member who is registered as a Market Maker and who has obtained written authorization from a clearing member is eligible to participate on the Auto-Ex system, subject to the following conditions and requirements:

(1) – (7) – No change

(8) *Auto-Ex Tick Better Requirement in Certain Issues.*

(A) Except as provided in subsection (B), below, Lead Market Makers who are participating on Auto-Ex must assure that Exchange staff (i.e., the Order Book Official or Control Room staff) has set the Auto-Ex System either:

¹New text is underscored.

(i) to execute incoming electronic orders at prices that are one trading increment better than the Exchange's disseminated bid or offering price when another options exchange is disseminating the national best bid or offer at a price that is one trading increment better than the price being disseminated by the Exchange. The order will default for manual representation in the trading crowd when another options exchange is disseminating a price that is more than one trading increment better than the price being disseminated by the Exchange, or

(ii) to execute incoming electronic orders at the NBBO pursuant to Rule 6.87(i).

(B) *Applicability.* The requirements of subsection (A), above, will apply only to non-broker-dealer orders for ten contracts or less in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally for a specified month based on volume as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month. In addition, the requirements of Subsection (A), above, will only apply to orders in option series that are not designated as LEAPS pursuant to Rule 6.4(e)