



RULE
ADOPTION
NOTICE

RAN-06-02
January 6, 2006

TO: All OTP Holders and OTP Firms

FROM: Department of Regulatory Policy

**SUBJECT: Obligations of Lead Market Makers in Options Trading
(File No. SR-PCX-2005-132)**

On December 30, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission a proposed rule change to amend PCX Rule 6.82 to delete the requirement of Lead Market Makers ("LMMs") to send orders to a competing exchange via Intermarket Linkage in the event that an LMM does not execute the order at the better price displayed on another exchange. Public customer orders that are not executed on the PCX can still be rejected to the initiating brokerage firm for rerouting to a competing exchange. The proposed rule change became effective upon filing on December 30, 2005 and the Commission released the notice on January 4, 2006.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Janet Angstadt at 312/442-7147.

EXHIBIT 5

Text of the Proposed Rule Change:¹

Rules of the Pacific Exchange, Inc.

**Rule 6
Options Trading**

Lead Market Makers

Rule 6.82 (a) – (b) – No Change

(c) Obligations of Lead Market Makers:

Each LMM must meet the following obligations:

(1) – (14) – No Change

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

[(15) As soon as practical, address public customer orders that are not automatically executed because there is a displayed bid or offer on another exchange trading the same options contract that is better than the best bid or offer on the Exchange, either (i) by executing a public customer order at a price that matches the best price displayed or (ii) by sending to any other exchange(s) displaying the best price a Linkage Order(s) according to the Rules 6.92 through 6.99. This provision becomes operative on January 1, 2006.]

(d) – (h) – No Change

Commentary:

.01 – No Change

.02 An LMM must act with due diligence in handling orders of public customers and must accord priority to such orders [addressed pursuant to paragraph (c)(15) of this Rule] over the LMM's principal orders.

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