



RULE
ADOPTION
NOTICE

RAN-06-03
January 12, 2006

**TO: All OTP Holders and OTP Firms
ETP Holders and Sponsored Participants**

FROM: Department of Regulatory Policy

**SUBJECT: Minimum Price Variations for Quoting and Entry of Orders in
Equity Securities
(File No. SR-PCX-2006-01)**

On January 4, 2006, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission a proposed rule change to amend PCXE Rule 7.6 and 6.16 to amend PCXE Rule 7.6, Commentary .04 to provide that (1) the Exchange will accept orders in equity securities traded on ArcaEx that are priced less than \$1.00 per share in increments as small as \$0.0001 per share, as permitted under Rule 612; (2) it will round such orders to whole penny increments following the same rounding conventions described above; and (3) it will display the rounded quotes in the consolidated quotation system. The proposed rule change became effective upon filing on January 6, 2006 and the Commission released the notice on January 11, 2006.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Bridget Farrell at 312/442-7975.

EXHIBIT 5
Text of the Proposed Rule Change:¹

PCX Equities, Inc.

Rule 6

Business Conduct

Rule 6.16 Trading Ahead of Customer Limit Orders

(a) – (d) No change.

[*Commentary:*

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

.01 For all securities that are traded pursuant to the pilot program under Commentary. 05 of PCXE Rule 7.6(a), the minimum amount of price improvement necessary to execute an incoming marketable order on a proprietary basis by an ETP Holder when holding an unexecuted customer limit order otherwise due an execution pursuant to Rule 6.16(a) in that same security is \$0.01.]

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Rule 7

Equities Trading

Rule 7.6 Trading Differentials

(a) The Corporation shall determine the trading differentials for equity securities traded on the Corporation.

Commentary:

.01 – .03 No change.

.04 The minimum price variation ("MPV") for quoting and entry of orders in equity securities traded on the Archipelago Exchange is \$0.01, with the exception of securities that are priced less than \$1.00 for which [in which case, on a pilot basis through September 30, 2005,] the MPV for order entry is \$0.0001 [will be \$0.001], provided, however, that the Corporation shall round the bid down to the next whole penny or the offer up to the next whole penny and display the rounded bid or offer in the consolidated quotation system.

[.05 The minimum price variation ("MPV") for quoting and entry of orders in equity securities traded on the Archipelago Exchange is \$0.01, with the exception of securities that are priced less than \$1.00 in which case, on a pilot basis through September 30, 2005, the MPV will be less than \$0.01. Notwithstanding the foregoing, with prior notice to ETP Holders and subject to a Commission exemption granted to PCXE that extends until August 29, 2005, an ETP Holder may submit a bid or offer priced in increments less than \$0.01 to the Corporation. The Corporation shall round the bid down to the next whole penny or the offer up to the next whole penny and display the rounded bid or offer in the consolidated quotation system without a rounding identifier.]

.05 [.06] Notwithstanding Commentaries .03 and .04 [.05] above, Midpoint Cross Orders and Midpoint Directed Fills may be executed and reported in increments as small as one-half of the minimum price variation.

(b) No change.

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