



RULE
ADOPTION
NOTICE

RAN-06-10
February 24, 2006

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

FROM: Department of Regulatory Policy

**SUBJECT: Closing Auction Modification
(File No. SR-PCX-2005-141)**

On December 21, 2005, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission a proposed rule change to amend PCXE Rules 7.31 and 7.35 to clarify the Closing Auction functionality and limit the use of the Closing Auction to primary listed securities. The Commission approved the proposed rule change and released the notice on February 21, 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 7

Orders and Modifiers

Rule 7.31

(a) – (cc) – No change.

(dd) Market-on-Close Order ("MOC"). A Market Order that is to be executed only during the Closing Auction. The Corporation will reject MOC Orders in the following circumstances: (i) in securities for which the Corporation is not the primary market; or (ii) when the auction is suspended pursuant to PCXE Rule 7.35(g).

(ee) Limit-on-Close Order ("LOC"). A Limited Price Order that is to be executed only

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

during the Closing Auction. The Corporation will reject LOC Orders in the following circumstances: (i) in securities for which the Corporation is not the primary market; or (ii) when the auction is suspended pursuant to PCXE Rule 7.35(g).

(ff) – (hh) – No change.

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Rule 7

Auctions

Rule 7.35(a) – (d) – No change.

(e) Closing Auction

The Corporation will conduct a Closing Auction only for Exchange-listed securities (including Exchange-listed exchange traded funds) for which the Corporation is the primary market. The Corporation may suspend the Closing Auction in these securities pursuant to PCXE Rule 7.35(g).

(1) Publication of Indicative Match Price and Imbalances

(A) Beginning at 12:00 pm (Pacific Time), and updated real-time thereafter, the Indicative Match Price of the Closing Auction and the volume available to trade at such price, and the Total Imbalance and Market Imbalance associated with the Closing Auction, if any, will be, published via electronic means. [The Imbalance shall include both the Total Imbalance and Market Imbalance.]

Example 1:

- (1) Limit-on-Close Order to buy 1000 shares at 50;
- (2) Limit-on-Close Order to sell 5000 shares at 40; and
- (3) Market-on-Close Order to sell 2000 shares.

The Archipelago Exchange will publish an Indicative Match Price of 40, a match volume of 1000 shares, a Market Imbalance of 1,000 shares and a Total Imbalance of 6,000 shares. The last sale during normal market hours as determined by the consolidated tape was 40.

Example 2:

- (1) Market-on-Close Order to buy 3000 shares;
- (2) Market-on-Close Order to sell 1000 shares;
- (3) Limit Order to sell 1000 shares at 41; and
- (4) Limit Order to sell 1000 shares at 41.25.

The last sale during normal market hours as determined by [T]the [C]consolidated [T]tape [last sale] was 41.25. The Archipelago Exchange will publish an Indicative Match Price of 41.25 and a match volume of 3000 shares and will not publish an Imbalance.

[(B) If an Indicative Match Price does not exist, the Archipelago Exchange shall indicate via electronic means that an Indicative Match Price does not exist.

(C) If the difference between the Indicative Match Price and the last sale during normal market hours, as determined by the consolidated tape, is equal to or greater than a pre-determined amount, as determined from time to time by the Corporation, the Archipelago Exchange will assign a "SIG" designator to such Indicative Match Price and publish such designator via electronic means.]

(2) Reduction of Imbalances

(A) Any Imbalance in the Closing Auction may be reduced by new orders, entered on the side of the market opposite the Imbalance. [,] Orders on the side of the Imbalance shall be executed pursuant to the following priority:

- (i) Market-on-Close Orders;
- (ii) Limit Orders entered prior to the Closing Auction; and
- (iii) Limit-on-Close Orders.

(B) Between 12:58 pm (Pacific Time) and the conclusion of the Closing Auction, Limited Price Orders (except Limit-on-Close Orders) may be cancelled. [, but] Market-on-Close Orders and Limit-on-Close Orders may not be cancelled.

(C) Between 12:58 pm (Pacific Time) and the conclusion of the Closing Auction, Market-on-Close Orders and Limit-on-Close Orders may not be entered on the same side as the Imbalance. Market-on-Close Orders and Limit-on-Close Orders that reduce the Imbalance may be entered on the opposite side of the Imbalance, however, any time before the conclusion of the Closing Auction. Market-on-Close Orders and Limit-on-Close Orders that create equilibrium and thereafter convert the Imbalance from a buy to a sell (or convert the Imbalance from a sell to a buy) Imbalance will be rejected.

Example:

(1) Limit-on-Close Order to buy 1000 shares;

(2) Limit-on-Close Order to sell 1500 shares, creating an Imbalance of 500 shares on the sell side. A Market-on-Close Order or Limit-on-Close Order to buy 500 shares would be permitted because it achieves equilibrium. However, a Market-on-Close Order or Limit-on-Close Order to buy 1000 shares would not be permitted as it would inverse the Imbalance of 500 shares on the sell side to an Imbalance of 500 shares on the buy side.

(3) Determination of Closing Auction Price

(A) [If there is no Imbalance,] If there are Limited Price Orders in the Closing Auction eligible for execution, all orders eligible for execution in the Closing Auction pursuant to PCXE Rule 7.34(d) will be executed [in the Closing Auction] at the Indicative Match Price as of 1:00 p.m. (Pacific Time).

(B) [If an Imbalance exists, or if equilibrium exists between buy Market-on-Close Orders and sell Market-on-Close Orders and an Indicative Match Price does not exist,] If there are no Limited Price Orders eligible for execution in the Closing Auction, Market-on-Close Orders shall be rejected. [as many buy Market-on-Close Orders and sell Market-on-Close Orders as possible shall be matched, on a time priority basis as follows:]

[(i) At the midpoint of the NBBO at 1:00 pm (Pacific Time), provided that the NBBO of the market centers that are still open is not locked or crossed; or

(ii) At the locked price if the NBBO is locked at 1:00 pm (Pacific Time); or

(iii) if the NBBO is crossed at 1:00 pm (Pacific Time) and the Archipelago Exchange is a party to the crossed market, at the bid (offer) side of the BBO which is crossed with the NBBO; or

(iv) if the NBBO is crossed at 1:00 pm (Pacific Time) and the Archipelago Exchange is not a party to the crossed market, at the last sale during the regular market hours as determined by the consolidated tape.]

(C) The Market-on-Close Orders that are eligible for, but not executed in, the Closing Auction shall be cancelled immediately upon conclusion of the Closing Auction.

(D) [Such] All Closing Auction executions shall be designated with a modifier to identify them as Closing Auction trades. [The Market-on-Close Orders that are eligible for, but not executed in, the Closing Auction shall be cancelled immediately upon conclusion of the Closing Auction.]

[(C) If the Closing Auction Price established by subsections 7.35(e)(3)(A)-(B) is outside the benchmarks established by the Corporation by a threshold amount, the Closing

Auction Price will occur at a price within the threshold amounts that best satisfies the conditions of subsections 7.35(e)(3)(A)-(B). The Corporation shall set and modify such benchmarks and thresholds from time to time upon prior notice to ETP Holders.]

(f) – No change.

(g) Whenever in the judgment of the Corporation the interests of a fair and orderly market so require, the Corporation may adjust the timing of or suspend the auctions set forth in this Rule with prior notice to ETP Holders.

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