

SR-PCX-2003-60. The file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, comments should be sent in hardcopy or by e-mail but not by both methods. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the PCX. All submissions should refer to the File No. SR-PCX-2003-60 and should be submitted by April 19, 2004.

#### IV. Commission's Findings and Order Granting Accelerated Approval of Proposed Rule Change

After careful review, the Commission finds that the proposed rule change, as amended, is consistent with the requirements of section 6(b)(5) of the Act<sup>23</sup> and the rules and regulations thereunder applicable to a national securities exchange.<sup>24</sup> The Commission believes that the PCX's proposal to update its trading rules and certain standards related to index options strikes a reasonable balance between the Commission's mandates under section 6(b)(5) of the Act<sup>25</sup> to remove impediments to and perfect the mechanisms of a free and open market and a national market system while protecting investors and the public interest.

The proposed rule, among other things, updates the rules that govern the trading sessions of index options, including the days and hours of business, the rules governing trading rotations at the opening, and the rules related to the trading halts or suspensions.<sup>26</sup> The proposed rule change provides updated definitions for terms related to index options.<sup>27</sup> The proposed rule further updates the procedures PCX members must follow with respect to the exercise of

American-style, cash settled index options.<sup>28</sup> The proposed rule also updates position limits for broad-based index options<sup>29</sup> and exercise limits for broad-based and narrow-based index options.<sup>30</sup> In addition, the proposed rule updates the hedge exemption standards from position and exercise limits and procedures for requesting exemptions from the proposed rule.<sup>31</sup> The Commission notes that the PCX has not amended its Rule 7.3 to provide for generic listing standards for narrow-based index options that would be eligible for streamlined listing and trading pursuant to Rule 19b-4(e) under the Act.<sup>32</sup> Because the PCX has not established generic listing standards for narrow-based index options, the Exchange would be required to submit a proposed rule change pursuant to section 19(b)(2) of the Act,<sup>33</sup> if it were to seek the listing and trading of a class of a new narrow-based index option,<sup>34</sup> notwithstanding the provision of PCX Rule 7.3(b), which suggests that the Exchange can list a class of certain narrow-based index options pursuant to section 19(b)(3)(A) of the Act.<sup>35</sup>

The Commission believes that trading options on an index of securities permits investors to participate in the price movements of indexes' underlying securities and allows investors holding positions in some or all of such securities to hedge the risks associated with their portfolios. The Commission further believes that trading options on an index provides investors with an important trading and hedging mechanism that is designed to reflect accurately the overall movement of the component stocks.

The Commission finds good cause, pursuant to section 19(b)(2) of the Act,<sup>36</sup> for approving the proposed rule change prior to the thirtieth day after the date

<sup>28</sup> See Proposed PCX Rule 6.11 and 7.15.

<sup>29</sup> See Proposed PCX Rule 7.5.

<sup>30</sup> See Proposed PCX Rule 7.8.

<sup>31</sup> See Proposed PCX Rule 7.7.

<sup>32</sup> 17 CFR 240.19b-4(e). Rule 19b-4(e) provides that the listing and trading of a new derivative securities product by an SRO shall not be deemed a proposed rule change, pursuant to paragraph (c)(1) of Rule 19b-4, if the Commission has approved, pursuant to section 19(b) of the Act, the SRO's trading rules, procedures, and listing standards for the product class that include the new derivative securities product and the SRO has a surveillance program for the product class. When relying on Rule 19b-4(e), the SRO must submit Form 19b-4(e) to the Commission within five business days after the SRO begins trading the new derivative securities products. See Securities Exchange Act Release No. 40761 (December 8, 1998), 63 FR 70952 (December 22, 1998) (File No. S7-13-98) ("19b-4(e) Release").

<sup>33</sup> 15 U.S.C. 78s(b)(2).

<sup>34</sup> See 19b-4(e) Release, *supra* note 32, at fn 135.

<sup>35</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>36</sup> 15 U.S.C. 78s(b)(2).

of publication of the notice of the filing thereof in the **Federal Register**. The Commission believes that granting accelerated approval will provide PCX members with updated trading rules and standards that should serve to protect the interests of investors. In making this finding, the Commission notes that all of the proposed new Exchange Rules and changes to existing Exchange Rules are comparable to the existing rules of the other options exchanges.<sup>37</sup>

#### V. Conclusion

*It is therefore ordered*, pursuant to section 19(b)(2) of the Act,<sup>38</sup> that the proposed rule change (SR-PCX-2003-60) is hereby approved, as amended, on an accelerated basis.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>39</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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#### SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-49417A; File No. SR-PCX-2004-07]

#### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change by the Pacific Exchange, Inc. To Amend PCX Rule 1.26 To Clarify and Update Its Registration Rule for Employees of Member Organizations; Correction

March 23, 2004.

In FR document No. 04-6452 beginning on page 13610 in the issue of Tuesday, March 23, 2004, the first sentence incorrectly describes the proposed rule change as having been filed by the Pacific Exchange, Inc. ("PCX") through its subsidiary PCX Equities, Inc. The proposed rule change was filed only by the PCX.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>1</sup>

**Margaret H. McFarland,**  
*Deputy Secretary.*

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<sup>37</sup> See, e.g., CBOE Rules 4.11, 4.16, 6.2, 6.7, 8.7, 11.1, and 24.1 through 24.14; ISE Rules 413, 418, 701, 705, 803, 1100, and 2000 through 2012.

<sup>38</sup> 15 U.S.C. 78s(b)(2).

<sup>39</sup> 17 CFR 200.30-3(a)(12).

<sup>1</sup> 17 CFR 200.30-3(a)(12).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

<sup>24</sup> In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>25</sup> See note 21 *supra*.

<sup>26</sup> See Proposed PCX Rule 7.10.

<sup>27</sup> See Proposed PCX Rule 7.1.