

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53394; File No. SR- PCX-2006-07)

March 1, 2006

Self-Regulatory Organizations; Pacific Exchange, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Add Open Order Modifiers

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² notice is hereby given that on February 1, 2006, the Pacific Exchange, Inc. (“PCX” or “Exchange”), submitted to the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by PCX. PCX filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ which renders it effective upon filing with the Commission. On February 28, 2006, PCX filed Amendment No. 1 to the proposed rule change.⁴ The Commission is publishing this notice to solicit comments on the proposed rule change, as amended, from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

PCX, through its wholly-owned subsidiary PCX Equities, Inc. (“PCXE”), proposes to amend its rules governing the Archipelago Exchange (“ArcaEx”), the equity trading facility of PCXE, to add GTC and GTD modifiers for use on the Exchange and to specify the method in which GTC and GTD Orders will be adjusted in the event of a corporate action. The text of the proposed rule change is below. Additions are underlined; deletions are in [brackets].

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ Amendment No. 1 replaced and superseded the original filing in its entirety.

Rules of PCX Equities, Inc.

Rule 7

Equities Trading

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Rule 7.31 Orders and Modifiers

(a) – (b) No change.

(c) Time in Force

(1) Day Order. An order to buy or sell which, if not executed, expires at the end of the day on which it was entered.

(2) Good Till Cancelled (“GTC”) Order. An order to buy or sell (or unexecuted portion thereof) which, if not executed, remains in effect until executed, cancelled by the entering party, or expiration, whichever comes first. All unexecuted portions of GTC Orders will be cancelled by the Corporation one year after initial entry.

(3) Good Till Date (“GTD”) Order. An order to buy or sell (or unexecuted portion thereof) set to expire following the close of the core session of the pre-determined date specified by the entering party which, if not executed, remains in effect until executed, cancelled by the entering party, or expiration, whichever comes first. All unexecuted portions of GTD Orders will be cancelled by the Corporation one year after initial entry.

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Rule 7.39 [Reserved] Adjustment of Open Orders

The Archipelago Exchange will automatically adjust the price and/or size of round and odd lot Open Orders, as defined in PCXE Rule 7.31, in all ArcaEx eligible securities (unless instructed

otherwise by the entering party) resident in the system in response to issuer corporate actions (i.e. dividend payment or distribution, stock split, mergers and acquisitions), as follows:

(a) Sell Orders--Sell Orders in the system shall not be adjusted by the Corporate Action Processing ("CAP") System and must be modified, if desired, by the entering party, except for reverse splits where such sell side orders shall be purged from the system.

(b) Buy Orders--Buy side orders shall be adjusted by the CAP System based on the particular corporate action impacting the security as set forth below:

(1) Cash Dividends: Buy side order prices shall be first reduced by the dividend amount and the resulting price will be rounded to the nearest penny.

(2) Stock Dividends and Stock Splits: Buy side order prices shall be determined by first rounding up the dollar value of the stock dividend or split to the nearest penny. The resulting amount shall then be subtracted from the price of the buy order. The size of the order shall be adjusted by first, (A) multiplying the size of the original order by the numerator of the ratio of the dividend split, then (B) dividing that result by the denominator of the ratio of the dividend split, then (C) rounding that result to the next lowest share.

(3) Dividends Payable in Either Cash or Securities at the Option of the Stockholder: Buy side order prices shall be reduced by the dollar value of either the cash or securities, whichever is greater. The dollar value of the cash shall be determined using the formula in paragraph (1) above, while the dollar value of the securities shall be determined using the formula in paragraph (2) above. If the stockholder opts to receive securities, the size of the order shall be increased pursuant to the formula in subparagraph (2) above.

(4) Combined Cash and Stock Dividends/Split: In the case of a combined cash dividend and stock split/dividend, the cash dividend portion shall be calculated first as per section (1) above, and stock portion thereafter pursuant to sections (2) and/or (3) above.

(5) Reverse Splits: All orders (buy and sell) shall be cancelled and returned to the entering party.

(c) Stop Orders To Sell--Sell Stop Orders will be handled in the same manner as Buy Orders as mentioned in section (b) in the event of a corporate action

(d) Open Orders that are adjusted by the CAP System pursuant to the above rules, and that thereafter continuously remain in the system, shall retain the time priority of their original entry.

(e) In the event a corporate action is identified by the Corporation at a time in which an adjustment to all affected open buy orders and sell stop orders could not be made, the Corporation will cancel all such orders and notify the entering party(ies).

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The Exchange proposes to amend PCXE Rule 7.31 to introduce new time-in-force modifiers to be available for certain order types as part of its continuing efforts to enhance participation on the ArcaEx trading facility.

The modifiers, known as Good Till Cancelled (GTC) and Good Till Date (GTD), would permit certain orders to buy or sell to remain in effect until executed, cancelled by the entering party, or until they expire. Currently, all non-marketable orders submitted by ETP Holders are eligible for execution only on the date on which they were entered. All unexecuted orders expire at the end of the day on which they were entered. This proposal seeks to add time-in-force modifiers that would be available to extend beyond the current trading session and provide ETP Holders with more flexibility in managing their orders. The proposed modifiers are similar to those found on other market centers.⁵

GTC and GTD Order Type Modifiers

A GTC or GTD Order Modifier (also known as “Open Orders”) would be a time-in-force order parameter to permit orders to buy or sell to remain in effect until executed, cancelled by the entering party, or expiration. All valid Open Orders remaining on the ArcaEx book at the end of the core trading session (1:00 p.m. Pacific Time) would be held open and be available for execution in the Arca Book beginning at 6:30 a.m. Pacific Time the following day.

The difference between the various Open Orders is described as follows. A GTC modifier would be an order (or unexecuted portion thereof) to buy or sell which would remain in

⁵ See New York Stock Exchange, Inc., Rule 13, and National Association of Securities Dealers, Inc., Rule 4706.

effect until executed or until cancelled by the entering party. Orders with a GTD modifier would be an order (or unexecuted portion thereof) to buy or sell set to expire following the close of the core session of the pre-determined date specified by the entering party and would remain in effect until executed, expired, or cancelled by the entering party. All Open Orders not executed, expired, or cancelled by the entering party within one year from date of entry would be automatically cancelled by the Exchange following notification of such action being sent to the entering party.

Open Order Execution Priority in ArcaEx

All orders subject to a GTC and GTD modifier may be entered during any trading session but would be eligible for execution only during the core session. The orders would be ranked in accordance with PCXE Rule 7.36 and would be executed in such a price/date/time priority in accordance with PCXE Rule 7.37 based on the time and date stamp and conditions from initial entry.

Orders Types Eligible For GTC or GTD Modifiers

ETP Holders, upon prior notice from PCXE, would be permitted to enter GTC or GTD modifiers for certain order types available on ArcaEx. Initially, these would include: Limit Orders, Stop Orders, and Stop Limit Orders.⁶ All other order types would be accepted if entered with any of the proposed order modifiers but would be treated as they are currently and be cancelled at the end of the core trading session, rather than be available for execution the following day.

⁶ As defined by PCXE Rule 7.31.

Corporate Actions

PCX also proposes to add Rule 7.39 to identify the procedures the Exchange will follow to adjust Open Orders on the ArcaEx book in the event of a corporate action. These procedures are similar to those found on other market centers.⁷

All valid Open Orders remaining on the ArcaEx book at the end of the core trading session would be removed and stored within a separate database. During this time, any information received from the Depository Trust & Clearing Corporation (“DTCC”) in relation to a corporate action (i.e. dividend payment, stock split, mergers and acquisitions, etc.) for a specific security would be entered into the Corporate Action Processing System (“CAP”). Additionally, a “Corporate Action Notice System” would produce web-based corporate action information relating to these events to notify ArcaEx Users.⁸ When this occurs, the price and/or number of shares for Open Orders would be modified to reflect the change to the original order as described in PCXE Rule 7.39. For example, open buy orders and open sell stop orders for a security would be similarly adjusted by the CAP System in accordance with the proposed rule, depending on the type of corporate action affecting the security. The system would not alter open sell orders in the event of any corporate action, and all open orders for a security would be cancelled and returned to the entering party in the event of a reverse split for that security. ArcaEx would offer the option to allow ETP Holders to designate whether their Open Order should be modified by ArcaEx in the event of a corporate action and would permit ETP Holders to instruct that the order be cancelled in such an event.

⁷ See National Association of Securities Dealers, Inc. Rule 4715; see also New York Stock Exchange, Inc. Rule 118.

⁸ See PCXE Rule 1.1(x).

Open Orders for ETP Holders that do not wish the affected order to be cancelled automatically by the Exchange in the event of a Corporate Action would be adjusted accordingly as described above by CAP and the adjusted Open Order would be re-posted into the ArcaEx book. Such orders shall be ranked in accordance with PCXE Rule 7.36, and would be executed in such a price/time priority in accordance with PCXE Rule 7.37 based upon the original order entry time.

Open Orders that are affected by corporate actions of which the Exchange was not aware of prior to ranking all adjusted Open Orders in the ArcaEx book for execution would be automatically cancelled by ArcaEx.⁹

ArcaEx, in its efforts to continually offer a competitive market structure and provide more execution opportunities and ease of order flow management for ETP Holders, proposes to add these order modifiers.

2. Statutory Basis

PCX believes that the proposed rule change is consistent with Section 6(b)¹⁰ of the Act, in general, and furthers the objectives of Section 6(b)(5),¹¹ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to enhance competition, and to protect investors and the public interest.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

⁹ Open Orders would be cancelled by the Exchange only for buy-side and sell stop orders affected by Corporate Actions. In the event of a reverse split, all Open Orders affected would be cancelled by the Exchange.

¹⁰ 15 U.S.C. 78f(b).

¹¹ 15 U.S.C. 78f(b)(5).

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants or Others

Written comments on the proposed rule change were neither solicited nor received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

PCX has filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act¹² and subparagraph (f)(6) of Rule 19b-4 thereunder.¹³ Because the foregoing proposed rule change: (1) does not significantly affect the protection of investors or the public interest; (2) does not impose any significant burden on competition; and (3) does not become operative for 30 days from the date of filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest, the proposed rule change has become effective pursuant to Section 19(b)(3)(A) of the Act and Rule 19b-4(f)(6) thereunder. As required under Rule 19b-4(f)(6)(iii), PCX provided the Commission with written notice of its intent to file the proposed rule change at least five business days prior to filing the proposal with the Commission or such shorter period as designated by the Commission. PCX has requested that the Commission waive 30-day delayed operational date provisions contained in the above rule, based upon a representation that accelerating the operative date would allow investors to immediately benefit from execution opportunities on ArcaEx. For this reason, the Commission designates the proposal to be effective and operative upon filing with the Commission.

At any time within 60 days of the filing of such proposed rule change, the Commission may summarily abrogate such rule change if it appears to the Commission that such action is

¹² 15 U.S.C. 78s(b)(3)(A).

¹³ 17 CFR 240.19b-4(f)(6).

necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act.¹⁴

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change, as amended, is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-PCX-2006-07 on the subject line.

Paper comments

- Send paper comments in triplicate to Nancy M. Morris, Secretary, Securities and Exchange Commission, 100 F Street NE, Washington, DC, 20549-1090.

All submissions should refer to File Number SR-PCX-2006-07. This 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, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>). 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

¹⁴ The effective date of the original proposed rule change is February 1, 2006 and the effective date of Amendment No. 1 is February 28, 2006. For purposes of calculating the 60-day period within which the Commission may summarily abrogate the proposed rule change, as amended, under section 19(b)(3)(C) of the Act, the Commission considers the period to commence on February 28, 2006, the date on which PCX submitted Amendment No. 1. See 15 U.S.C. 78s(b)(3)(C)

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 also will be available for inspection and copying at the principal office of PCX. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-PCX-2006-07 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.¹⁵

Nancy M. Morris
Secretary

¹⁵ 17 CFR 200.30-3(a)(12).