

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34-53376; File No. SR-PCX-2006-12)

February 27, 2006

Self-Regulatory Organizations; Pacific Stock Exchange, Inc.; Notice of Filing of Proposed Rule Change Relating to Clearly Erroneous Executions

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 23, 2006, the Pacific Stock Exchange, Inc. (“PCX” or “Exchange”) filed with the Securities and Exchange Commission (“Commission”) the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the PCX. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

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

The PCX proposes to amend PCX Equities, Inc. (“PCXE”) Rule 7.10(e) pertaining to clearly erroneous executions of securities issued in initial public offerings. The text of the proposed rule change is set forth below.³ Brackets indicate deletions; underlining indicates new text.

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Rules of the PCX Equities, Inc.

1 15 U.S.C. 78s(b)(1).

2 17 CFR 240.19b-4.

3 The Exchange inadvertently indicated that the title of PCXE Rule 7.10 was new text. The Commission corrected this technical error in the text of the proposed rule change.

Rule 7

Rule 7.10

Clearly Erroneous Executions

(a) – (d) No Change.

(e) Trade Nullification and Price Adjustments for UTP Securities that are Subject of Initial Public Offerings (“IPOs”). Pursuant to SEC Rule 12f-2, as amended, the Corporation may extend unlisted trading privileges to a security that is the subject of an initial public offering when at least one transaction in the subject security has been effected on the national securities exchange or association upon which the security is listed and the transaction has been reported pursuant to an effective transaction reporting plan. A clearly erroneous error [will] may be deemed to have occurred in the opening transaction of the subject security if the execution price of the opening transaction on the Corporation is the lesser of \$1.00 or 10% away from the opening price on the listing exchange or association. In such circumstances, the Officer shall declare the opening transaction null and void or adjust the transaction price to the opening price on the listing exchange or association. Clearly erroneous executions of subsequent transactions of the subject security will be reviewed in the same manner as the procedure set forth in (c)(1). Absent extraordinary circumstances, any such action of the Officer pursuant to this subsection (e) shall be taken in a timely fashion, generally within thirty (30) minutes of the detection of the erroneous transaction. Each party involved in the transaction shall be notified as soon as practicable by the Corporation, and the party aggrieved by the action may appeal such action to the PCXE CRO in accordance with the provisions of subsection (c)(2)-(4) above.

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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 purpose of the proposed rule change is to revise the procedures for trade nullifications (“busts”) and price adjustments (“adjusts”) for securities issued in initial public offerings (“IPOs”) from an automatic to a discretionary basis. Given the unique nature of IPOs, public customers have an expectation that the opening of the security will be orderly and that the pricing will be reasonable for the listing company. Opening execution prices transacted on the primary listed exchange (and other market centers) represent the price of the stock in the secondary market, which may not necessarily reflect the IPO pricing disseminated prior to the start of secondary market trading by the underwriters/syndicates. According to the Exchange, there may be varying first prices in a security that is issued in an IPO because market centers may have different prices at the same second.

Due to the possibility of varying prices at the same second in a security issued in an IPO, PCXE staff reviews the openings of IPOs on ArcaEx on a best efforts basis. The

review of IPO opening prices utilizes criteria that also are used to judge erroneous executions during the pre-core, core and post-core sessions. IPO trades are evaluated for uniformity with the primary listed exchange as well as with other market centers' prices. Currently, initial trades on ArcaEx that are executed at prices more than \$1.00 from the primary listed exchange's opening price are automatically busted or adjusted to the primary listed exchange's opening price.

Under the proposed rule, PCXE staff would have the discretion to bust or adjust initial trades that are executed more than \$1.00 from the primary listed exchange's opening price. The Exchange believes that the change from automatic to discretionary adjustments or busts is necessary because often the primary exchange lists the IPO at multiple first prices. Many times, but not always, the first price is not indicative of the actual price of the IPO and thus the PCXE staff must review all of the first prices to determine if the trade at issue has to be adjusted or busted.

2. Statutory Basis

The Exchange believes that the proposed rule change is consistent with Section 6(b) of the Act⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act⁵ in particular, because it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

4 15 U.S.C. 78f(b).

5 15 U.S.C. 78f(b)(5).

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.

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

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding, or (ii) as to which the Exchange consents, the Commission will:

- (A) by order approve the proposed rule change or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

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

Electronic Comments:

- Use the Commission's Internet comment form at <http://www.sec.gov/rules/sro.shtml>; or

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-PCX-2006-12 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-2006-12. 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 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 Section. Copies of such filing also will be available for inspection and copying at the principal office of the 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-2006-12 and should be submitted on or before [insert date 21 days after the date of publication in the Federal Register].

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.⁶

Nancy M. Morris
Secretary

⁶ 17 CFR 200.30-3(a)(12).