



September 16, 2005

Ms. Elizabeth King
Associate Director
Division of Market Regulation
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0306

Re: Pacific Exchange, Inc. File No. SR-PCX-2005-90

Dear Ms. King:

The Pacific Exchange, Inc. (the "Exchange") proposes this letter amendment ("Amendment No. 2") to the above-referenced rule filing, as amended by the letter amendment dated as of August 9, 2005 (the "Original Rule Filing"), regarding (i) the proposed amendment to the certificate of incorporation of PCX Holdings, Inc., (ii) the proposed new PCX Rules 1.1(cc) through (gg), Rule 3.4 and Rule 13.2(a)(2)(E), and (iii) the proposed amendment to the bylaws of Archipelago. In this Amendment No. 2, the Exchange proposes the following changes to the Original Rule Filing:

A. *Changes to the text of the Original Rule Filing:*

- (i) Replace the fourth and fifth sentences of Item 2.A. with the following:

"The stockholders of PCXH approved the Amended Merger Agreement (as defined below) on September 13, 2005, thereby completing the last necessary corporate action."
- (ii) Replace the phrase "(as defined in Section 3(a)(2) of the Act)" in the Clause (1) of the first sentence of the third paragraph of Item 3.1.a.(i) with the phrase "(as defined in Section 3(a)(2) of the Securities Exchange Act of 1934, as amended (the "Act"))".
- (iii) Replace the phrase "a facility of PCXE" with the phrase "a facility of PCX" in the seventh paragraph in Item 3.1.a.(ii)
- (iv) Add the following at the end of Paragraph (3) of Item 3.1.a.(ii)(x):

“The term “real-time market surveillance” shall mean marketplace regulation and marketplace surveillance (including, for example, surveillance and enforcement related to PCXE trading rules (including Rule 7 of PCXE), PCX and PCXE rules relating to trading on ArcaEx, and SEC rules relating to trading (including manipulation, insider trading and anti-fraud rules)). PCX undertakes to amend the NASD PCX Agreement within 90 days of the Commission’s approval of the Proposed Rule Changes.¹”

- (v) Add the following as a new sentence at the end of in Item 3.1.e.(i)(x):

“This temporary exception will be subject to the condition that Archipelago will continue to maintain and comply with its current information barrier between Wave on the one hand and PCX, PCXE and the other subsidiaries of Archipelago that are facilities of PCX or PCXE on the other hand. Wave is an introducing broker for institutional clients for access to ArcaEx and other Market Centers. Without the Commission’s approval for this temporary exception, Archipelago’s ownership of PCXH would cause Wave to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because Wave, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago.”

- (vi) Add the phrase “(“TNT”) after the phrase “Terra Nova Trading, L.L.C.” in Item 3.1.e.(i)(y).

- (vii) Add the phrase “(“TAL”) after the phrase “TAL Financial Services, LLC” in Item 3.1.e.(i)(y).

- (viii) Add the following as a new sentence at the end of in Item 3.1.e.(i)(y):

“TNT is a wholly owned subsidiary of TAL. Without the Commission’s approval for this temporary exception, Archipelago’s ownership of PCXH, would cause TNT to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be

¹ As it currently stands, the NASD PCX Agreement covers other broker-dealer subsidiaries of Archipelago, including Wave Securities, L.L.C. and Archipelago Trading Services, Inc.

amended as described in this filing) as of the date of the closing of the Merger because TNT, a broker-dealer and an ETP Holder of PCXE, is a related person of Archipelago by virtue of Mr. Putnam's ownership of in excess of 5% of TNT and continued service as a director of TAL."

(ix) Add the following new Items 3.1.e.(ii) and (iii) after Item 3.1.e.(i):

"(ii) Archipelago currently owns Archipelago Trading Services, Inc. ("ATS"), a wholly owned subsidiary which is a broker-dealer and an ETP Holder of PCXE. The business of ATS consists of: (1) acting as an introducing broker for non-ETP Holder broker or dealer clients for securities traded on ArcaEx (the "ATS Inbound Router Function"); and (2) operating an "alternative trading system" (as defined in Regulation ATS promulgated by the Commission under the Act) for trading of over-the-counter bulletin board securities that are not traded on any securities exchange (the "ATS OTC Function"). In addition to its other functions described above in this filing, Archipelago Securities also provides clearing functions for trades executed by the ATS Inbound Router Function (the "Inbound Router Clearing Function"). In connection with this, the Exchange requests as follows:

(x) The Exchange is requesting the Commission's approval for the following temporary exception for each of ATS and Archipelago Securities, each of whom would be subject to and exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger, so that such persons be permitted to exceed such limitations imposed by Article Nine to the following extent and for the following time period. Archipelago may, until the earlier of (A) the closing date of the merger of Archipelago and the New York Stock Exchange, Inc. and (B) March 31, 2006, continue to own all of its ownership interest in and operate the ATS Inbound Router Function and the Inbound Router Clearing Function following the closing of its acquisition of PCXH notwithstanding the terms of the certificate of incorporation of PCXH, as proposed to be amended as described in this filing. This temporary exception will be subject to the following conditions: (1) the revenues derived by Archipelago from the ATS Inbound Router Function will not exceed 7% of the consolidated revenues of Archipelago (determined on a quarterly basis), (2) the ATS Inbound Router

Function will not accept any new clients following the closing of the Merger; and (3) Archipelago will continue to maintain and comply with its current information barrier between the ATS Inbound Router Function on the one hand and PCX, PCXE and the other subsidiaries of Archipelago that are facilities of PCX or PCXE on the other hand. Without the Commission's approval for this temporary exception, Archipelago's ownership of PCXH would cause ATS to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because ATS, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago. Likewise, without the Commission's approval for this temporary exception, Archipelago's ownership of PCXH would cause Archipelago Securities to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because Archipelago Securities, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago and the request for approval of Archipelago Securities set forth elsewhere in this filing is limited in scope and does not include its Inbound Router Clearing Function.

(y) The Exchange is requesting the Commission's approval, on a pilot basis for a period of sixty days following the closing of the acquisition of PCXH, for Archipelago to continue to own all of its ownership interest in and operate the ATS OTC Function following the closing of its acquisition of PCXH notwithstanding the terms of the certificate of incorporation of PCXH, as proposed to be amended as described in this filing. Without the Commission's approval, Archipelago's ownership of PCXH would cause ATS to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because ATS, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago.

(iii) Archipelago Securities also engages in the business of providing broker-dealer clients with direct connectivity, through

DOT access, to the NYSE (the “DOT Function”). The Exchange is requesting the Commission’s approval, on a pilot basis to expire on the earlier of (x) sixty days following the closing date of the acquisition of PCXH and (y) the closing date of the merger of Archipelago and the New York Stock Exchange, Inc. (provided that in no event will this approval be extended beyond the closing date of the merger of Archipelago and the New York Stock Exchange, Inc.), for Archipelago to continue to own all of its ownership interest in and operate the DOT Function following the closing of its acquisition of PCXH notwithstanding the terms of the certificate of incorporation of PCXH, as proposed to be amended as described in this filing. Without the Commission’s approval, Archipelago’s ownership of PCXH would cause Archipelago Securities to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because Archipelago Securities, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago and the request for approval of Archipelago Securities set forth elsewhere in this filing is limited in scope and does not include its DOT Function.”

- (x) Rename “Item 3.1.e.(ii)” as “Item 3.1.e.(iv)”.
- (xi) Add the phrase “(“White Cap”)” after the phrase “White Cap Trading LLC” in Item 3.1.e.(ii).
- (xii) Add the following as a new sentence at the end of in Item 3.1.e.(ii):

“Absent these actions, Archipelago’s ownership of PCXH would cause White Cap to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because White Cap, a broker-dealer and an ETP Holder of PCXE, is a related person of Archipelago by virtue of continued service by Messrs. O’Hara and Adcock as directors of White Cap.”
- (xiii) Replace the fourth and fifth sentences of Item 6 with the following:

“The stockholders of PCXH approved the Amended Merger Agreement on September 13, 2005, thereby completing the last necessary corporate action”.

B. Changes to Exhibit 1 to the Original Rule Filing:

- (i) Add the following at the end of Paragraph (3) of Item II.A.1.a.(ii)(x):

“The term “real-time market surveillance” shall mean marketplace regulation and marketplace surveillance (including, for example, surveillance and enforcement related to PCXE trading rules (including Rule 7 of PCXE), PCX and PCXE rules relating to trading on ArcaEx, and SEC rules relating to trading (including manipulation, insider trading and anti-fraud rules)). PCX undertakes to amend the NASD PCX Agreement within 90 days of the Commission’s approval of the Proposed Rule Changes.²”

- (ii) Replace the phrase “a facility of PCXE” with the phrase “a facility of PCX” in the seventh paragraph in Item II.A.1.a.(ii).

- (iii) Add the following as a new sentence at the end of in Item II.A.1.e.(i)(x):

“This temporary exception will be subject to the condition that Archipelago will continue to maintain and comply with its current information barrier between Wave on the one hand and PCX, PCXE and the other subsidiaries of Archipelago that are facilities of PCX or PCXE on the other hand. Wave is an introducing broker for institutional clients for access to ArcaEx and other Market Centers. Without the Commission’s approval for this temporary exception, Archipelago’s ownership of PCXH would cause Wave to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because Wave, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago.”

- (iv) Add the phrase “(“TNT”) after the phrase “Terra Nova Trading, L.L.C.” in Item II.A.1.e.(i)(y).

² As it currently stands, the NASD PCX Agreement covers other broker-dealer subsidiaries of Archipelago, including Wave Securities, L.L.C. and Archipelago Trading Services, Inc.

(v) Add the phrase “(“TAL”) after the phrase “TAL Financial Services, LLC” in Item II.A.1.e.(i)(y).

(vi) Add the following as a new sentence at the end of in Item II.A.1.e.(i)(y):

“TNT is a wholly owned subsidiary of TAL. Without the Commission’s approval for this temporary exception, Archipelago’s ownership of PCXH, would cause TNT to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because TNT, a broker-dealer and an ETP Holder of PCXE, is a related person of Archipelago by virtue of Mr. Putnam’s ownership of in excess of 5% of TNT and continued service as a director of TAL.”

(vii) Add the following new Items 3.1.e.(ii) and (iii) after Item 3.1.e.(i):

“(ii) Archipelago currently owns Archipelago Trading Services, Inc. (“ATS”), a wholly owned subsidiary which is a broker-dealer and an ETP Holder of PCXE. The business of ATS consists of: (1) acting as an introducing broker for non-ETP Holder broker or dealer clients for securities traded on ArcaEx (the “ATS Inbound Router Function”); and (2) operating an “alternative trading system” (as defined in Regulation ATS promulgated by the Commission under the Act) for trading of over-the-counter bulletin board securities that are not traded on any securities exchange (the “ATS OTC Function”). In addition to its other functions described above in this filing, Archipelago Securities also provides clearing functions for trades executed by the ATS Inbound Router Function (the “Inbound Router Clearing Function”). In connection with this, the Exchange requests as follows:

(x) The Exchange is requesting the Commission’s approval for the following temporary exception for each of ATS and Archipelago Securities, each of whom would be subject to and exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger, so that such persons be permitted to exceed such limitations imposed by Article Nine to the following extent and for the following time period. Archipelago may, until the earlier of (A) the closing date of the merger of Archipelago and the New York Stock Exchange, Inc. and (B)

March 31, 2006, continue to own all of its ownership interest in and operate the ATS Inbound Router Function and the Inbound Router Clearing Function following the closing of its acquisition of PCXH notwithstanding the terms of the certificate of incorporation of PCXH, as proposed to be amended as described in this filing. This temporary exception will be subject to the following conditions: (1) the revenues derived by Archipelago from the ATS Inbound Router Function will not exceed 7% of the consolidated revenues of Archipelago (determined on a quarterly basis); (2) the ATS Inbound Router Function will not accept any new clients following the closing of the Merger; and (3) Archipelago will continue to maintain and comply with its current information barrier between the ATS Inbound Router Function on the one hand and PCX, PCXE and the other subsidiaries of Archipelago that are facilities of PCX or PCXE on the other hand. Without the Commission's approval for this temporary exception, Archipelago's ownership of PCXH would cause ATS to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because ATS, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago. Likewise, without the Commission's approval for this temporary exception, Archipelago's ownership of PCXH would cause Archipelago Securities to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because Archipelago Securities, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago and the request for approval of Archipelago Securities set forth elsewhere in this filing is limited in scope and does not include its Inbound Router Clearing Function.

(y) The Exchange is requesting the Commission's approval, on a pilot basis for a period of sixty days following the closing of the acquisition of PCXH, for Archipelago to continue to own all of its ownership interest in and operate the ATS OTC Function following the closing of its acquisition of PCXH notwithstanding the terms of the certificate of incorporation of PCXH, as proposed to be amended as described in this filing. Without the Commission's approval, Archipelago's ownership

of PCXH would cause ATS to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because ATS, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago.

(iii) Archipelago Securities also engages in the business of providing broker-dealer clients with direct connectivity, through DOT access, to the NYSE (the “DOT Function”). The Exchange is requesting the Commission’s approval, on a pilot basis to expire on the earlier of (x) sixty days following the closing date of the acquisition of PCXH and (y) the closing date of the merger of Archipelago and the New York Stock Exchange, Inc. (provided that in no event will this approval be extended beyond the closing date of the merger of Archipelago and the New York Stock Exchange, Inc.), for Archipelago to continue to own all of its ownership interest in and operate the DOT Function following the closing of its acquisition of PCXH notwithstanding the terms of the certificate of incorporation of PCXH, as proposed to be amended as described in this filing. Without the Commission’s approval, Archipelago’s ownership of PCXH would cause Archipelago Securities to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as described in this filing) as of the date of the closing of the Merger because Archipelago Securities, a broker-dealer and an ETP Holder of PCXE, is a wholly owned subsidiary and, consequently, a related person, of Archipelago and the request for approval of Archipelago Securities set forth elsewhere in this filing is limited in scope and does not include its DOT Function.”

- (viii) Rename “Item II.A.1.e.(ii)” as “Item II.A.1.e.(iv)”.
- (ix) Add the phrase “(“White Cap”)” after the phrase “White Cap Trading LLC” in Item II.A.1.e.(ii).
- (x) Add the following as a new sentence at the end of in Item II.A.1.e.(ii):

“Absent these actions, Archipelago’s ownership of PCXH would cause White Cap to exceed the voting and ownership limitations imposed by Article Nine of the certificate of incorporation of PCXH (as proposed to be amended as

described in this filing) as of the date of the closing of the Merger because White Cap, a broker-dealer and an ETP Holder of PCXE, is a related person of Archipelago by virtue of continued service by Messrs. O'Hara and Adcock as directors of White Cap."

- (xi) Replace the fourth and fifth sentences of the last paragraph of Item III with the following:

"The stockholders of PCXH approved the Amended Merger Agreement on September 13, 2005, thereby completing the last necessary corporate action."

C. Changes to Exhibit 5.A to the Original Rule Filing:

- (i) Since its is intended to appear as new text in the Original Rule Filing, underline the phrase "4." so that it reads "4". before the section heading for the new Section 4 of Article Nine.

D. Changes to Exhibit 5.B to the Original Rule Filing:

- (i) Replace the phrase "RULE OF THE PACIFIC EXCHANGE, INC." with the phrase "RULES OF THE PACIFIC EXCHANGE, INC." underneath the title "**PROPOSED PCX RULES**" in Exhibit 5.B.
- (ii) Since its is intended to appear as new text in the Original Rule Filing, underline the section heading "**Rule 3.5 Reserved**" so that it reads "**Rule 3.5 Reserved**" and the word "Reserved." so that it reads "Reserved." underneath the section heading "**Rule 3.5 Reserved**".

The Exchange believes Amendment No. 2 does not affect the protection of investors or the public interest and does not impose any significant burden on competition because the proposed changes address certain related matters contemplated by or ancillary to, or are non-substantive corrections to, the Original Rule Filing as filed with the Securities and Exchange Commission. The public has had ample opportunity to consider and comment on the Original Rule Filing. Therefore, the Exchange believes that accelerating the effectiveness of Amendment No. 2 will not affect the protection of investors or the public interest or impose any significant burden on competition.

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Please contact me at (415) 393-7936, via fax at (415) 393-4150 or via e-mail at kbeck@pacificex.com if you have any comments or questions about this Amendment No.2 to the Original Rule Filing, File No. SR-PCX-2005-90.

Sincerely,

Kathryn L. Beck
General Counsel

cc: Heather Seidel
Jennifer C. Dodd
David Hsu
(Securities and Exchange Commission)

Kevin J.P. O'Hara
Janet Angstadt
(Archipelago Holdings, Inc.)

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C. Stephen Bigler
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