

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-51885; File No. SR-PCX-2005-71]

Self-Regulatory Organizations; Pacific Exchange, Inc.; Notice of Filing of a Proposed Rule Change and Amendment No. 1 Relating to Complex Orders on the PCX Plus System

June 20, 2005.

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 June 7, 2005, the Pacific 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. On June 14, 2005, the PCX submitted Amendment No. 1 to the proposed rule change.³ 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

The PCX proposes to adopt PCX Rule 6.91, “Complex Orders on the PCX Plus System,” in order to create a mechanism to electronically enter and execute complex orders on the PCX Plus system. The text of the proposed rule change is set forth below. Proposed new language is in *italics*; proposed deletions are in [brackets].

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Complex Orders on the PCX Plus System

RULE 6.91 [Reserved] (a) *Definition*: A complex order is any order for the same account as defined below:

(1) *Spread Order*: A spread order is as defined in Rule 6.62(d)

(2) *Straddle Order*: A straddle order is as defined in Rule 6.62(g).

(3) *Strangle Order*: A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two XYZ June 35 calls and to buy two XYZ June 40 puts).

(4) *Combination Order*: A combination order is as defined in Rule 6.62(h).

(5) *Ratio Order*: A ratio order is as defined in Rule 6.62(k)

(6) *Butterfly Spread Order*: A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is equal, which orders are structured as either (i) a “long butterfly spread” in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (ii) a “short” butterfly spread” in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.

(7) *Box/Roll Spread Order*: Box spread means an aggregation of positions in a long call option and short put option with the same exercise price (“buy side”) coupled with a long put option and short call option with the same exercise price (“sell side”) all of which have the same aggregate current underlying value, and are structured as either: A) a “long box spread” in which the sell side exercise price exceeds the buy side exercise price or B) a “short box spread” in which the buy side exercise price exceeds the sell side exercise price.

(8) *Collar Orders and Risk Reversals*: A collar order (risk reversal) is an order involving the sale (purchase) of a call (put) option coupled with the purchase (sale) of a put (call) option in equivalent units of the same underlying security having a lower (higher) exercise price than, and same expiration date as, the sold (purchased) call (put) option.

(9) *Conversions and Reversals*: A conversion (reversal) order is an order involving the purchase (sale) of a put option and the sale (purchase) of a call option in equivalent units with the same strike price and expiration in the same underlying security, and the purchase (sale) of the related instrument.

(b) *Types of Complex Orders*: Complex orders may be entered as fill-or-kill, immediate or cancel, day orders and good-til-cancelled. Complex orders may be entered as “all or none orders”.

(c) *Complex Trading Engine*
(1) *Routing of Complex Orders*: Complex orders on PCX Plus will route either to the Electronic Order Capture system (“EOC”) or the Complex Trading Engine (“CTE”). Order types eligible for routing to the CTE will be determined by the Exchange. All pronouncements

regarding routing procedures will be announced to OTP Holders and OTP Firms via Regulatory Bulletin. Both public customers and registered broker-dealer orders are eligible to be routed to the CTE.

(2) *Priority of Complex Orders in the CTE*: Orders from public customers have priority over orders from non-public customers. Multiple public customer complex orders at the same price are accorded priority based on time.

(3) *Execution of Complex Orders in the CTE*: Complex orders resting in the CTE may be executed without consideration to prices of the same complex order that might be available on other exchanges. Complex orders resting in the CTE may trade in the following way:

(i) *Orders in the Consolidated Book*: A complex order in the CTE will automatically execute against individual orders or quotes residing in the Consolidated Book provided the complex order can be executed in full (or in a permissible ratio) by the orders in the Consolidated Book.

(ii) *Orders in CTE*: Complex orders in the CTE that are marketable against each other will automatically execute.

(iii) *OTP Holders or OTP Firms* will have the ability to view orders in the CTE via an electronic interface and may submit orders to trade against orders in the CTE. The allocation of complex trades among OTP Holders and OTP Firms shall be done pursuant to PCX Rule 6.76.

(4) Only those complex orders with no more than four legs are eligible for placement into the CTE. Only those orders having a ratio of one-to-three or lower are eligible for placement in the CTE.

Commentary:

.01 Conversions and reversals are not eligible for routing to the Complex Trading Engine. Changes to this policy will be submitted to the Securities and Exchange Commission via a rule filing pursuant to section 19(b)(3)(A) of the Exchange Act.

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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 PCX 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 prepared summaries, set forth in

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ In Amendment No. 1, the PCX revised Exhibit 5 to the proposal to add underscoring that was inadvertently deleted from the text of proposed PCX Rule 6.91(b).

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

Complex orders involve multiple option transactions that are executed simultaneously as part of the same strategy. The PCX currently routes incoming complex orders to the Electronic Order Capture System ("EOC"), which is a function of the Floor Broker Hand Held System. Orders on the trading floor are announced by a Floor Broker to the trading crowd and the order trades in open outcry. As an enhancement to the PCX Plus system, the Exchange intends to develop a Complex Trading Engine ("CTE"), which will facilitate more automated handling of complex orders. Additionally, the Exchange proposes to adopt a separate complex order rule applicable solely to the PCX Plus system.

1. *Definitional.* Proposed paragraph (a) of PCX Rule 6.91 is a definitional section. The first four order types in that section (spread order, straddle order, strangle order, and combination order) are defined in other PCX rules (most notably PCX Rule 6.62, "Certain Types of Orders Defined") but for ease of reference, the Exchange includes them in this new rule. The next four order type definitions (ratio order, butterfly spread order, box/roll spread order, and collar orders and risk reversals) are new but are substantially identical to those contained in both the International Securities Exchange and the Chicago Board of Options Exchange rules. The last order type definitions are for conversions and reversals, which are a type of stock-option order, as explained in PCX Rule 6.8, "Position Limits." Conversions and reversals will not be eligible for trading in the CTE but they are an existing type of complex order under the rules of the PCX. These definitions are included here merely for ease of reference. Changes to this policy will be made via rule filing to the Commission pursuant to Section 19(b)(3)(A) of the Act.

2. *Complex Trading Engine.* A. *Routing Complex Orders:* Proposed paragraph (c) governs the CTE. Proposed paragraph (1) governs routing and provides that the Exchange will determine which order types that are entered into the PCX Plus system are eligible to route to the CTE. Paragraph (1) also deals with routing of customer and broker-dealer orders. Anytime the

Exchange changes or amends complex order routing procedures, it will announce such changes via Regulatory Bulletin. This will provide that all OTP Holders and OTP Firms will have access to all current information regarding the routing of complex orders. OTP Holders and OTP Firms will still have the ability to enter orders, via telephone, directly to an OTP Broker for manual representation utilizing the EOC system. As with the trading of complex orders today, Market Makers or other OTP Brokers will have the ability to trade the order at the limit price or offer price improvement for that order. Alternatively, trading crowd members may choose not to trade the order, in which case it will reside on EOC, or at the discretion of the Floor Broker, be entered into the CTE. Any complex orders represented by an OTP Broker will be subject to all provisions regarding due diligence and order handling of PCX Rule 6.46(a). Proposed paragraph (c)(3) governs execution of orders in the CTE and is described below.

As stated in the introductory paragraph of this rule filing, complex orders currently route to, and continue to reside on, EOC until they are traded in open outcry. Accordingly, manual intervention is necessary before complex orders will execute. The proposal enhances the treatment of complex orders by making them eligible for placement into an electronic format (*i.e.*, into the CTE). Once these orders rest in the CTE, they may trade electronically (as described below), which means that they may trade more quickly than they otherwise may have in an open outcry environment. Moreover, complex orders residing on EOC are not displayed. When orders are routed into the CTE, OTP Holders and OTP Firms will use an electronic interface to the PCX to view complex orders resting in the CTE, which will enhance transparency. For these reasons, the Exchange believes that routing orders to the CTE will enhance the treatment these orders currently receive and allow the Exchange to compete more effectively for this type of order flow. Proposed paragraph (c)(4) provides that only those complex orders with no more than four legs are eligible for placement into the CTE.

B. *Trading Complex Orders:* When an order is routed directly into the CTE, the order may trade in one of three ways. First, if individual orders or quotes in the Exchange's consolidated book "line-up" against the legs of the complex order, an automatic execution occurs, provided the complex order can be executed in full (or in a permissible

ratio) by the orders in the consolidated book. Second, if a subsequent incoming complex order is marketable against a resting complex order in the CTE, it will automatically execute against the resting complex order in the CTE. Third, OTP Holders and OTP Firms will have the ability to view orders in the CTE and submit orders to trade against those orders. Under this option, the complex order in the CTE would be allocated to market participants pursuant to PCX Rule 6.76(b). It is also noted here that PCX Rule 6.76(c) that deals with crossing orders on PCX Plus will also apply to orders in the CTE. Proposed paragraph (c)(3) provides that complex orders resting in the CTE may be executed without consideration to prices of the same complex orders that might be available on other exchanges.

C. *Priority and Complex Orders:* This rule filing does not negatively affect the existing priority rules. In this regard, proposed paragraph (c)(2) explicitly provides that orders from public customers have priority over orders from non-public customers. For example, presently if members of the trading crowd wish to trade a complex order resting on EOC that is marketable against individual public customer orders in the consolidated book, public customers would have priority. These same practices will apply in the CTE. Multiple public customer complex orders at the same price are accorded priority based on time.

The current complex order priority exceptions contained in PCX Rule 6.75, Commentary .04, will continue to be applicable. The complex order priority exception generally states that a member holding a qualifying complex order may trade ahead of a customer order in the consolidated book on one leg of the order provided the other leg of the order betters the corresponding bid (offer) in the consolidated order book. For example, assume a complex order rests in the CTE (priced at a net debit or credit). If this resting complex order were marketable against both legs in the consolidated book, the resting complex order would have already traded automatically. This makes it impossible for a marketable incoming complex order to trade ahead of resting orders in the consolidated book that are marketable against all legs of the resting complex order. Accordingly, when a marketable incoming complex order trades against a resting complex order, it is only because the resting complex order is at a better price than the orders in the consolidated book.

Adoption of a complex order rule provides a framework for the trading of complex orders on the PCX Plus system.

This, in turn, should provide investors with greater certainty in the routing of their complex orders. The Exchange believes that the development of a complex order trading engine will provide deeper and more liquid markets for complex orders and will provide order entry firms with a trading platform the Exchange believes is more conducive to satisfying their best execution and due diligence obligations with respect to these types of orders.

2. Statutory Basis

For the above reasons, the Exchange believes that the proposed rule change would enhance competition. The Exchange believes that the proposed rule change is consistent with Section 6(b)⁴ of the Act, in general, and furthers the objectives of Section 6(b)(5),⁵ in particular, in that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, 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.

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 PCX consents, the Commission will:

(A) By order approve such 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, 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-2005-71 on the subject line.

Paper Comments

- Send paper comments in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, Station Place, 100 F Street, NE, Washington, DC 20549-9303.

All submissions should refer to File Number SR-PCX-2005-71. 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 Room. Copies of the 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-2005-71 and should be submitted on or before July 18, 2005.

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

Jill M. Peterson,

Assistant Secretary.

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BILLING CODE 8010-01-P

SMALL BUSINESS ADMINISTRATION

Data Collection Available for Public Comments and Recommendations

ACTION: Notice and request for comments.

SUMMARY: In accordance with the Paperwork Reduction Act of 1995, this notice announces the Small Business Administration's intentions to request approval on a new and/or currently approved information collection.

DATES: Submit comments on or before August 26, 2005.

ADDRESSES: Send all comments regarding whether this information collection is necessary for the proper performance of the function of the agency, whether the burden estimates are accurate, and if there are ways to minimize the estimated burden and enhance the quality of the collection, to Sandra Johnston, Program Analyst, Office of Financial Assistance, Small Business Administration, 409 3rd Street SW., Suite 8300, Washington, DC 20416.

FOR FURTHER INFORMATION CONTACT: Sandra Johnston, Program Analyst, 202-205-7528 sandra.johnston@sba.gov Curtis B. Rich, Management Analyst, 202-205-7030 curtis.rich@sba.sba.

SUPPLEMENTARY INFORMATION:

Title: "Lender Transcript of Account".

Description of Respondents: Lenders requesting SBA to provide the Agency with breakdown of payments.

Form No: 1149.

Annual Responses: 5,000.

Annual Burden: 5,000.

Jacqueline White,

Chief, Administrative Information Branch.

[FR Doc. 05-12670 Filed 6-24-05; 8:45 am]

BILLING CODE 8025-01-P

SMALL BUSINESS ADMINISTRATION

Revocation of License of Small Business Investment Company

Pursuant to the authority granted to the United States Small Business Administration by the Final Order of the United States District Court for the Southern District of New York, dated April 5, 2005, in Case No. 01-10780 (DAB), the United States Small Business Administration hereby revokes the license of Prospect Street NYC Discovery Fund, L.P., a Delaware Limited Partnership, to function as a small business investment company under the Small Business Investment Company License No. 02/72-0561 issued to Prospect Street NYC Discovery Fund, L.P. on May 23, 1995 and said

⁴ 15 U.S.C. 78f(b).

⁵ 15 U.S.C. 78f(b)(5).

⁶ 17 CFR 200.30-3(a)(12).