

**MEMO# 17837**

August 3, 2004

## **PACIFIC EXCHANGE PROPOSES RULE CHANGE RELATING TO NEW ORDER TYPE ON THE ARCHIPELAGO EXCHANGE**

[17837] August 3, 2004 TO: EQUITY MARKETS ADVISORY COMMITTEE No. 35-04 RE: PACIFIC EXCHANGE PROPOSES RULE CHANGE RELATING TO NEW ORDER TYPE ON THE ARCHIPELAGO EXCHANGE The Securities and Exchange Commission has published for comment a proposed rule change filed by the Pacific Exchange that would amend its rules governing the Archipelago Exchange to add a new order type entitled the “Don’t Arb Me” modifier.<sup>1</sup> In particular, the Release states that, in an effort to enhance participation on the ArcaEx facility, the PCX is proposing to include an additional processing capability for orders in exchange-listed securities in situations when an order is traded-through by another market’s block trade on the Intermarket Trading System.<sup>2</sup> The Release explains that pursuant to the ITS Plan and a related PCX Equities, Inc. rule, a market that trades through another market with a block trade is generally obligated to send a commitment to the market center it traded through at the block price. The Release notes that this requirement permits away markets to send commitments to execute against ArcaEx superior quotes/prices after the away market trades through ArcaEx at inferior block prices. According to the PCX, this enables away markets to execute at ArcaEx’s superior price in order to arbitrage against the inferior block price. The PCX believes that the “Don’t Arb Me” modifier would protect better-priced ArcaEx orders from being taken advantage of in these circumstances as it would, in the instance of a block trade-through, immediately re-price the ArcaEx order at the block trade. Jane G. Heinrichs Assistant Counsel 1 Securities Exchange Act Release No. 50054 (July 21, 2004), 69 FR 45104 (July 28, 2004) (“Release”). The Release can be found on the SEC’s website at <http://www.sec.gov/rules/sro/pcx/34-50054.pdf>. Comments on the proposal are due to the SEC no later than August 18, 2004. 2 Block trades are generally exempted from the ITS trade-through rule.