PACIFIC EXCHANGE
STOCK & OPTIONS

# REGULATORY INFORMATION BULLETIN

**RB-04-05**
**August 4, 2004**

**TO:** **ALL OTP HOLDERS, OTP FIRMS AND ALLIED PERSONS**
**ALL ETP HOLDERS AND ETP SPONSORED PARTICIPANTS**

**FROM:** **ENFORCEMENT DEPARTMENT**

**SUBJECT:** **DISCIPLINARY SANCTIONS IMPOSED AND ARBITRATION AWARDS RENDERED**

This Regulatory Information Bulletin advises OTP Holders, OTP Firms and Allied Persons, ETP Holders and ETP Sponsored Participants of certain final disciplinary actions that resulted in the imposition of sanctions for violations of the federal securities laws and the Constitution and Rules of the Exchange. This Bulletin also reports on the results of arbitration proceedings that were resolved at the Exchange.

## A. Disciplinary Sanctions Imposed From April 1, 2004 Through June 30, 2004

***OPTIONS*:**

***The Exchange Regulatory Staff resolved the following matters pursuant to the Minor Rule Plan*:**

OS0209181 A Member was fined $2,500 for failing to exercise due diligence by failing to continuously represent a marketable order and failing to execute the order at the available limit price (2nd violation). (PCX Rule 6.46(a) and Commentary .05.)

OS0209181 A Member was fined $1,000 for failing to exercise due diligence by failing to continuously represent a marketable order and failing to execute the order at the available limit price. (PCX Rule 6.46(a) and Commentary .05.)

OS0308031 A Member was fined $250 for reporting options transactions late. (PCX Rule 6.69(a).)

OS0312096 A Member was fined $500 for reporting options transactions late (2nd violation). (PCX Rule 6.69(a).)

OS0304152 A Member was fined $250 for reporting options transactions late. (PCX Rule 6.69(a).)

OS0308041 A Member was fined $500 for failing to meet the 60% in-person trading requirement for the 2nd quarter of 2003. (PCX Rule 6.37(d).)

OS0308274 A Member was fined $500 for acting in a disorderly manner on the trading floor. (PCX Rule 6.2(c)(2).)

OS0209182 A Member was fined $1,000 for failing to fulfill his Lead Market Maker obligation to honor guaranteed markets established by the firm quote rule. (PCX Rules 6.82(c)(1) and (2) and 6.86(c)(1).)

OS0312301 A Member was fined $500 for acting in a disorderly manner on the trading floor. (PCX Rule 6.2(c)(2).)

OS0212301 & OS0306112 A Member was fined $1,500 for failing to give priority to orders residing in the customer limit order book in two separate months (1st and 2nd violations). (PCX Rule 6.75.)

OS0304073 A Member was fined $500 for failing to give priority to orders residing in the customer limit order book on two separate occasions. (PCX Rule 6.75.)

OS0401213 A Member Firm was fined $1,000 because its employee disseminated quotes exceeding the

maximum allowable bid/ask differentials for an options series. (PCX Rule 6.37(a) and (b).)

OS0209192 A Member Firm was fined $1,000 because its employee failed to use due diligence in executing a marketable customer order at the best price available. (PCX Rule 6.46(a).)

OS0209185 A Member was fined $2,500 for failing to exercise due diligence by failing to continuously represent a marketable order and failing to execute the order at the available limit price (2nd violation). (PCX Rule 6.46(a), Commentary .03 and Commentary .05.)

OS0209185 A Member was fined $1,000 for failing to meet his LMM obligation to honor his guaranteed markets. (PCX Rules 6.82(c)(2) and 6.86(c)(1).)

OS0304255 A Member was fined $1,000 for failing to meet his LMM obligation to honor his guaranteed markets. (PCX Rules 6.82(c)(2) and 6.86(c)(1).)

OS0306182 A Member was fined $500 for making unprofessional statements to, and acting indecorously towards, another Exchange Member in the crowd during the consummation of a transaction. (PCX Rule 6.2(c)(2)(A)(iv).)

***The Board of Appeals Committee Panel resolved the following matter through the rendering of a Decision of the Board of Appeals Committee Panel:***

OS0201074 SHAUN BISHOP received a censure and a fine of $5,000 for failing to open options issues in a timely manner. (PCX Rules 6.37, 6.82(c)(4) and 6.82(c)(11).)

***The Ethics and Business Conduct Committee Hearing Panel resolved the following matter through the rendering of a Decision of the Panel:***

OS0310283 HERIBERTO GUERRERO received a fine of $500 and was required to pay a forum fee of $500 for engaging in abusive conduct on the trading floor. (PCX Rule 6.2.)

***The Ethics and Business Conduct Committee resolved the following matters through the rendering of Decisions accepting Offers of Settlement and Consent:***

OS0206051 CITIGROUP GLOBAL MARKETS INC. (as successor to SALOMON SMITH BARNEY INC.) consented to censure, a fine of $15,000, and an educational undertaking for Citigroup's options trading staff on the subject of Best Execution Trading Practices for disadvantaging a customer in order to effect a facilitation cross transaction. (Article XI, Section 2(b) of PCX Constitution.)

OS0207111 SCOTT ELISHA consented to censure and a fine of $15,000 for failing to meet PCX standards of floor decorum by acting in an unprofessional manner and using indecorous and confrontational language. (PCX Rule 6.2(c)(2) and Article XI, Section 2(b) of PCX Constitution.)

OS0207111 WOLVERINE TRADING, LLC consented to censure and agreed to present an educational undertaking for its PCX trading and floor staff on the subject of appropriate floor decorum for the failure of its employee to meet PCX standards of floor decorum by acting in an unprofessional manner and using indecorous and confrontational language. (PCX Rule 6.2(c)(2).)

OS0208147 & OS0208302 INVESTEC (US) INCORPORATED consented to censure and a fine of $6,250 for failing to maintain adequate procedures and controls to effectively monitor and supervise the entry of electronic orders by its customers to prevent violations of the 15-second unbundling rule pursuant to PCX Rule 6.87(d). (PCX Rule 6.87(c)(4).)

***EQUITIES:***

***The Business Conduct Committee resolved the following matters through the rendering of Decisions accepting Offers of Settlement and Consent:***

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| 33455 & 33489 | AUGUSTUS TRADING, LLC consented to censure and a fine of $600 for failing to maintain continuous, two-sided Q orders in those securities in which it was registered to trade as a Market Maker. (PCXE Rule 7.23.) |
| 33454, 33490, 33497, 33521 & 33563 | BLACKBEARD SECURITIES, LLC consented to censure and a fine of $3,750 for failing to maintain continuous, two-sided Q orders in those securities in which it was registered to trade as a Market Maker. (PCXE Rule 7.23.) |
| 33456, 33491, 33509 & 33522 | OTA LLC consented to censure and a fine of $3,400 for failing to maintain continuous, two-sided Q orders in those securities in which it was registered to trade as a Market Maker. (PCXE Rule 7.23.) |
| 33453 | CALEDONIA SPECIALISTS consented to censure and a fine of $1,500 for failing to maintain continuous, two-sided Q orders in those securities in which it was registered to trade as a Market Maker. (PCXE Rule 7.23.) |

**B. <u>Arbitration Awards During the Period April 1, 2004 through June 30, 2004</u>**

Pursuant to PCX Rule 12.30(f), arbitration awards shall be made publicly available provided that the name of the customer party will not be disclosed if he/she so requests in writing. Upon written request, copies of the awards will be available from the Department of Arbitration of the Pacific Exchange. The following awards were made during the above-referenced period:

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| **Case Name:** | Perez v. Goldman Sachs |
| **Case No:** | 02-S062 |
| **Date Received:** | 12/13/02 |
| **Summary of Issues:** | Breach of Contract, Breach of Fiduciary Duty, Suitability |
| **Amount of Dispute:** | $10,000,000 |
| **Amount Rewarded:** | $0 |
| **Decision Date:** | 05/17/04 |

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| **Case Name:** | Venkatramani v. Solomon Smith Barney (SSB) |
| **Case No:** | 02-S003 |
| **Date Received:** | 02/06/02 |
| **Summary of Issues:** | Cross-Claims between Respondents SSB and Ragahavan Sathianathan (R.S.) |
| **Amount of Dispute:** | $10,000,000 (R.S. vs SSB) and $4,000,000 (SSB vs. R.S.) |
| **Amount Rewarded:** | $0 (R.S. vs. SSB) and $10,000 (SSB vs. R.S.) |
| **Decision Date:** | 06/29/04 |

Questions regarding disciplinary sanctions and arbitration awards may be directed to Kathryn Beck, General Counsel, Chief Regulatory Officer, and Corporate Secretary, at (415) 393-7936.