

RAN-00-20
July 21, 2000

TO: ALL PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Options Order Book and Order Book Officials
SR-PCX-99-40

On July 18, 2000 the Securities and Exchange Commission approved a PCX proposal to modify its rules pertaining to the Exchange's Order Book Officials ("OBO") on the Options Trading Floor by clarifying existing provisions, eliminating superfluous provisions, incorporating current policies and procedures, deleting certain Option Floor Procedure Advices ("OFPAs") and incorporating relevant language from the OFPAs into the text of Rule 6.

Questions about this bulletin should be directed to Hassan Abedi, Staff Attorney, Regulatory Policy at (415) 393-5958.

EXHIBIT A

Text of the Rule Change:¹

RULE 6

OPTIONS TRADING

Rules Principally Applicable to Trading of Options Contracts

ORDER BOOK OFFICIALS

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¶5003 Order Book Official Defined

Rule 6.51(a) - No change.

(b) A list of the Market Makers holding primary appointments in a particular issue will be maintained by the OBO at each trading post where such issue is traded.

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¶5009 Obligations for Orders

Rule 6.52(a). *Acceptance.* Order Book Officials will, for all options contracts of the class or classes assigned to them, accept and maintain a written record of orders that are placed in their custody. Such orders shall include limit orders (as defined in Rule 6.62) and such other orders as may be designated by the Options Floor Trading Committee. An Order Book Official will not accept orders of any other type or from any source other than a member. Only non-broker/dealer customer orders may be placed with an Order Book Official pursuant to this Rule. For purposes of this Rule, the term “broker/dealer” includes foreign broker/dealers.

(b) *Execution.* [An]Order Book Officials must [shall] use due diligence to execute the orders placed in their [his] custody at the best prices available. [to him under the Rules of the Exchange.]

(c) Timeliness of Entering Orders in the Book. Floor Brokers have a positive obligation to ensure that the urgency of the need to deal with the Book at a given moment is consistent with the maintenance of an orderly Book market. In some situations it may be unnecessarily disruptive to the maintenance by the OBO of an orderly market if an attempt is made to enter into, cancel from, or change an order in the Book that is

¹ New text is underscored.

reasonably away from the market and had no immediate urgency. OBOs must report to Floor Officials any instances that appear to violate this obligation.

Commentary:

.01 In addition to limit orders that the Order Book Official [which he] is obligated to accept, an Order Book Official may only accept such other types of orders that [as] have been designated by the Options Floor Trading Committee. [As of the effective date of these Rules, the Committee has not designated any additional types of orders that may be accepted by Order Book Officials.]

.02 - .05 - No change.

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¶5015 Obligation for Fair, Orderly and Competitive Market

Rule 6.53. At the request of a Floor Broker who holds an order for a particular option contract, or before any crossing transaction is effected in accordance with Rule 6.47, or whenever in the Order Book Official's opinion the interests of a fair and orderly and competitive market are best served by such action, an Order Book Official must [shall] call upon those Market Makers appointed to act as such in that class of option contracts to make bids and/or offers that contribute to meeting the standards set forth in Rule 6.37. To the extent practicable, and in a form prescribed by the Exchange, the Order Book Official will [shall] keep a record of the responses of Market Makers that provide or improve upon a market commensurate with these standards. If satisfactory responses are not forthcoming promptly, the Order Book Official will [shall] make a record of this fact. Copies of all records kept in accordance with the Rule [Section] will [shall] be forwarded to the Options Surveillance Department [of Member Firms].

Commentary:

.01 Issuing a Call for Market Makers. The issuing of a call for Market Makers to come to a specified post will be the responsibility of the OBO. Only the OBO may cause this call to be made. A call for Market Makers will be made only after it has been determined that those Market Makers present at the post are not carrying out the functions of Market Makers as stipulated in Rule 6.37, and not on the basis only that Market Makers are not present in numbers.

If as few as two Market Makers are present and the OBO determines that an orderly market is being maintained with respect to quote and size, then a call will not be issued merely to bring more Market Makers to the post. However, the provision is not in any way to be taken as a limitation on the responsibilities of the OBO to issue such calls for Market Makers as may be necessary to implement fully the requirements of PCX Rule 6.37.

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¶5033 Transactions Outside Order Book Official's Last Quoted Range

Rule 6.56 If a transaction or the cancellation of an order causes the Order Book Official's last displayed bid or last displayed offer to be removed from the market, no member may participate in any transaction at a price below such last bid or above such last offer until the Order Book Official has displayed a new bid or a new offer. The term "displayed" as used above includes either having verbally made known a new bid or offer or having entered the new bid or offer on the quotation screen.

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**OPTIONS FLOOR PROCEDURE ADVICES
CONDUCT OF FLOOR BROKERS**

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[A-4

¶7707 Subject: Timeliness of Entering Orders in the Book

Rule 21(b) imposes upon members the obligation to avoid behaving in such manner as "to impair the maintenance of a fair and orderly market. . . ." Accordingly, Floor Brokers have a positive obligation to ensure that the urgency of the need to deal with the Book at a given moment is consistent with the maintenance of an orderly Book market. In some situations it may be unnecessarily disruptive to the maintenance by the OBO of an orderly market if an attempt is made to enter into, cancel from, or change an order in the Book which is reasonably away from the market and had no immediate urgency.

OBOs will be required to report to the Options Floor Trading Committee any instances which appear to violate this obligation.]

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[B-7

¶7735 Subject: Issuing a Call for Market Makers

The issuing of a call for Market Makers to come to a specified post shall be the responsibility of the OBO. Only the OBO shall cause this call to be made. A call for Market Makers will be made only after it has been determined that those Market Makers present at the post are not carrying out the functions of Market Makers as stipulated in Rule 6.37, and not on the basis only that Market Makers are not present in numbers.

If as few as two Market Makers are present and the OBO determines that an orderly market is being maintained with respect to quote and size, then a call will not be issued merely to bring more Market Makers to the post.

However, the provision is not in any way to be taken as a limitation on the responsibilities of the OBO to issue such calls for Market Makers as may be necessary to implement fully the requirements of PCX Rule 6.37.]

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[E-2

¶7785 Subject: Posting of Market Maker Assignments

Pursuant to Rule 6.35, the Options Floor Manager, in cooperation with the Options Appointment Committee, shall be responsible for the prompt posting and updating at OBO posts of a list of the Market Makers holding primary appointments in the underlying securities assigned to each post.]

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[G-4

¶7821 Subject: Transactions Following a Change in the Status of Orders in the Book

Rule 6.56 states:

"If a transaction or the cancellation of an order causes the Order Book Official's last displayed bid or last displayed offer to be removed from the market, no member may participate in any transaction at a price below such last bid or above such last offer until the Order Book Official has displayed a new bid or new offer."

The term "displayed" as used above includes either having verbally made known a new bid or offer or having entered the new bid or offer on the quotation screen.]