

RAN-00-32
December 19, 2000

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Dissolution of Options Appointment Committee
(File No. SR-PCX-00-08)

On December 5, 2000 the Securities and Exchange Commission approved the PCX's proposal to eliminate the Options Appointment Committee and transfer all of its authority and duties to the Options Allocation Committee.

Following is the text of the Rule change. Questions regarding this bulletin may be directed to Cindy Sink at (415) 393-7926.

Text of the Rule Change:¹

Appointment of Market Makers

RULE 6.35. On a form or forms prescribed by the Exchange, a registered Market Maker shall apply for a Primary Appointment, having the obligations hereunder, and of Rule 6.37(b), in one or more classes of option contracts.

The Options [Appointment] Allocation Committee shall ordinarily appoint a minimum of one or up to a maximum of six posts on the Options Trading Floor to each registered Market Maker as his Primary Appointment. In making such Primary Appointments, the Committee shall give attention to (a) the preference of the applicant; (b) the maintenance and enhancement of competition among Market Makers in each class of option contracts; (c) assuring that the financial resources available to the applicant enable him to satisfy the obligations set forth in Rule 6.37 with respect to each class of option contracts to which he is appointed; and (d) the applicant's prior performance as a Market Maker.

A Market Maker may select a minimum one post or up to a maximum of six contiguous posts to comprise his Primary Appointment Zone. The Committee may appoint more than six posts or non-contiguous posts in the existence of special circumstances.

¹ New text is underscored; deleted text is bracketed.

Newly registered Market Makers shall have a grace period (60 days from the commencement of trading, during which time he shall not have a Primary Appointment Zone). At the completion of the grace period, the Committee shall provide the Market Maker with a list of Primary Appointment[s] Zones from which to choose. The new Market Maker shall trade in that Primary Appointment Zone for a period of 90 calendar days. At the completion of the 90 day[s] period, the Market Maker may apply for the Primary Appointment Zone of his choice.

Requests for new or changes in Primary Appointment Zones shall be reviewed by the Committee. The Committee may suspend, terminate or change any Primary Appointment of a Market Maker under this Rule, and may appoint a Market Maker to additional classes of option contracts whenever, in the Committee's judgment, the interests of a fair and orderly market are best served by such action.

No Primary Appointment of a Market Maker shall be made without the Market Maker's consent to such appointment, however, refusal to accept a Primary Appointment may be deemed a sufficient cause for termination or suspension of a Market Maker's registration.

A member or prospective member adversely affected by a determination of the Committee under this Rule may obtain a review by the Board of Governors of such determination.

Commentary:

.01 - .05 - No Change.

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Obligations of Market Makers

RULE 6.37(a) - (d) No Change.

Commentary:

.01 - .07 – No Change.

.08 Leaves of Absence: In order to assure compliance with all applicable rules, regulations and guidelines, the Options [Appointment] Allocation Committee has provided the following procedures for granting leaves of absence to Market Makers:

(1) – (3) - No Change.

(4) If a Market Maker on an extended leave of absence is appointed, as his Primary Appointment, to a closed post and a liquidity problem arises at that post, the Options [Appointment] Allocation Committee, in reviewing the situation, may rescind the Market Maker's Primary Appointment in order to enhance trading liquidity in the post. A Market Maker so affected might then be reappointed to an open post, and may reapply for appointment to the closed post upon his return.

.09 - .10 - No Change.

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Lead Market Makers

RULE 6.82(a). **General Provisions:**

(1) *Lead Market Maker Defined.* A Lead Market Maker (“LMM”) is an individual or entity that has been deemed qualified by the Options [Appointment] Allocation Committee for the purpose of making transactions on the Options Floor of the Exchange in accordance with the provisions of Rule 6.82. Each LMM or nominee thereof must be registered with the Exchange as a Market Maker. Any member or member organization registered as a Market Maker with the Exchange is eligible to be qualified as an LMM.

(2) *Eligible Issues.* An LMM may be allocated any one or more of the option issues opened for trading at the Exchange subject to the concentration limits set forth in Subsection (e).

(3) *Market Maker Cooperatives.* The Options [Appointment] Allocation Committee may designate a cooperative of Market Makers to act as an LMM provided that such Market Makers collectively maintain a cash or liquid asset position in the amount required under Subsection (c)(11) of this Rule. Violations of the Exchange Constitution and Rules committed by a Market Maker cooperative that is not registered as a broker-dealer may render each Market Maker thereof personally liable for disciplinary sanctions for such violations.

(b) Qualification of Lead Market Makers:

(1) *Qualification of LMMs.* The qualification of LMMs shall be conducted by the Options [Appointment] Allocation Committee. The LMM Qualification Process is as follows:

(A) Applications for qualification as an LMM shall be general and shall not specify a particular option issue or issues. Applicants for qualification as an LMM may present any matter they wish the Options [Appointment] Allocation Committee to consider in conjunction with its decision. The Options [Appointment] Allocation Committee may require that presentation to be solely or partially in writing, and may require the submission of additional information from an applicant, member, or any person associated with a member.

(B) The Options [Appointment] Allocation Committee may also specify one or more conditions on the applicant in respect to any representations made in the application process, including but not limited to representations regarding capital operations, personnel or technical resources.

(2) *Disqualification of LMMs.* The Options [Appointment] Allocation Committee may disqualify any LMM due to a material financial, operational or personnel change warranting immediate action.

(3) – (4) - No Change.

(c) – (e) - No Change.

(f) Reallocation:

(1) – (2) - No Change.

(3) *LMM Compensation.* If the Options Allocation Committee decides to reallocate an issue under Subsection (f)(1) of this Section, the Options [Appointment]-Allocation Committee may award compensation to the LMM based upon the time of LMM service, capital commitment, trading volume in the subject option issue and performance during the allocation period.

(g) Review of Committee Decisions:

(1) Any decision of the [Options Appointment Committee or the] Options Allocation Committee with respect to the qualification or disqualification of an LMM pursuant to Subsection (b) or with respect to the allocation or reallocation of an issue may be appealed pursuant to Rule 11. If a decision has been appealed, then an interim LMM or trading crowd may be appointed until such appeal has been resolved.

(h) LMM Performance of Order Book Official and Market Maker Functions.

(1) LMM Performance of Order Book Official Functions.

(a) – (d) - No Change.

(e) If the Options Allocation Committee decides to reallocate an issue to the Market Maker system pursuant to Section (f)(2) of this Rule, the terminated LMM may receive a share of the net Book revenues, not to exceed one-half, for any period specified by the Options [Appointment] Allocation Committee up to a maximum of five years. Such award shall take into account the length of time of LMM service, the LMM's capital commitment, efforts expended as LMM and any other relevant factors.

(2) LMM Performance of Market Maker Function.

(a) LMMs must perform all obligations provided Rules [in] 6.35 through 6.40 and 6.82(c). In addition, in executing transactions for their own accounts as Market Makers, LMMs shall have a right to participate pro rata with the trading crowd in trades that take place at the LMM's principal bid or offer.

Commentary:

.01 - .04 - No Change.

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OPTIONS COMMITTEES

[Options Appointment Committee]

[Rule 11.10(a). It shall be the duty of this Committee to recommend to the Board of Governors the appointment, assignment, retention, reassignment, transfer, and taking leave of the privileges to deal in and trade options to, by, and among members on the Options Trading Floor. It shall be responsible for appointing Market Makers and appointing and approving Lead Market Makers ("LMMs") as provided for in Rules 6.35 and 6.82. The Committee may relieve LMMs of their appointments, may designate interim LMMs, and may make determinations pertaining to LMM-related issues not within the jurisdiction of any other standing committee. Market Makers and Lead Market Makers shall not be on the Options Appointment Committee.]

[*Commentary:*]

[.01 The Options Appointment Committee shall be comprised of (i) five Floor Brokers; and (ii) one member of the Exchange or a general partner or officer of a member organization of the Exchange or any other qualified person.]

Options Marketing Committee

RULE 11.10[(b)](a). It shall be the duty of the Options Marketing Committee to act in an advisory capacity to the officers of the Exchange in marketing the services of the Exchange, and suggesting enhancements for trading of derivative products.

Options Allocation Committee

RULE 11.10[(c)](b)(1). The Options Allocation Committee shall consist of Market Makers, Lead Market Makers, Floor Brokers and/or persons associated with floor members, office members or office allied members. It shall be the duty of the Options Allocation Committee to allocate and reallocate options issues. The Committee shall also be responsible for evaluating and monitoring the performances of Market Makers, trading crowds and Lead Market Makers.

(2). It shall also be the duty of the Options Allocation Committee to recommend to the Board of Governors the appointment, assignment, retention, reassignment, transfer, and taking leave of the privileges to deal in and trade options to, by, and among members on the Options Trading Floor. It shall be responsible for appointing Market Makers and appointing and approving Lead Market Makers ("LMMs") as provided for in Rules 6.35 and 6.82. The Committee may relieve LMMs of their appointments, may designate[d] interim LMMs, and may make determinations pertaining to LMM-related issues not within the jurisdiction of any other standing committee.

Commentary:

.01 Attempts shall be made in order for the Options Allocation Committee to have a composition that includes: Floor Brokers from either the Options Floor Trading Committee or the Options Listing Committee; Market Makers or Lead Market Makers from either the Options Floor Trading Committee or the Options Listing Committee; at-large Floor Brokers; and at-large Market Makers or Lead Market Makers.

Options Listing Committee

RULE 11.10(c)[(d)]. No Change.