



RULE
ADOPTION
NOTICE

RAN-01-26
June 4, 2001

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Financial Arrangements of Options Floor Members
(File No. SR-PCX-00-21)

On May 25, 2001, the Securities and Exchange Commission approved the PCX's proposal to eliminate PCX Rule 6.40 that prohibited options floor members with financial arrangements from trading in the same trading crowd unless they received an exemption from the Options Floor Trading Committee. Rule 6.40 is replaced with Rule 6.84(h), which governs joint accounts. A joint account participant's trading activities in options trading crowds are subject to the following restrictions:

- A joint account may be simultaneously represented in a trading crowd only by participants trading in-person. Orders for a joint account may not be entered in a crowd where a participant of the joint account is trading in-person for the joint account. However, if no participant is trading in person for the joint account, orders may be entered via a Floor Broker so long as the same option series is not represented by more than one Floor Broker.
- Market Makers who alternate trading between their individual and joint accounts must ensure that while trading the joint account, another participant does not enter orders through a Floor Broker for the joint account in the same trading crowd.
- Joint Account participants are responsible for determining whether any Floor Brokers are representing orders in the same trading crowd on behalf of the same joint account.
- Floor Brokers may not represent a joint account of which they are a participant.
- Market Makers who are trading in-person in a trading crowd may not enter orders in that crowd with a Floor Broker for their joint or individual accounts.
- The following trades are prohibited:
 - Trades between a joint account participant's individual account and a joint account in which that person is a participant.

[(1) A Market Maker who has a “financial arrangement” with another Member or Member Organization (as specified herein) and the Member or Member Organization having a “financial arrangement” with that Market Maker, may not bid, offer and/or trade in the same trading crowd at the same time in the absence of an exemption from the Options Floor Trading Committee, as provided in subsection (b)(4), below.

(2) Any order of a Market Maker with an existing financial arrangement, that is represented or executed by a Floor Broker, shall be so represented or executed in accordance with the procedures set forth in Rule 6.85. Additionally, a Market Maker may not bid, offer and/or trade in a trading crowd in which a Floor Broker holds an order on behalf of a Market Maker with whom he has an existing financial arrangement. Orders of a Market Maker having an existing financial arrangement may not be concurrently represented, by one or more Floor Brokers, in a particular trading crowd.

(3) Two or more Lead Market Makers (LMMs) who are trading on behalf of the same Member organization may not bid, offer and/or trade in the same option series at the same time. However, two or more LMMs who do not have financial arrangements with each other, as defined in subsection (a) of this Rule, or who have been granted an exemption pursuant to subsection (b)(4), below, may bid, offer and/or trade in the same option series at the same time.

(4) *Exemptions.* Members with financial arrangements may be exempted from the trading restrictions set forth in this subsection, as follows:]

[(A) *Long-Term Exemptions.* The Options Floor Trading Committee may grant long-term exemptions to Members on a case-by-case basis if it determines that a fair and orderly market would not be impaired by allowing such Members with financial arrangements to trade in the same trading crowd at the same time. In making such determinations, the Committee shall consider the following factors: (1) the nature of the financial arrangement; (2) the degree of independence to be maintained by the applicants in making trading decisions; (3) the impact on competition in the trading crowd if an exemption were granted; (4) the applicants' prior patterns of trading if they have previously traded in the same trading crowd at the same time; (5) and any other information relevant to whether the applicants would tend collectively to dominate the market in a particular trading crowd or a particular option series. The Committee may revoke any long-term exemption granted pursuant to this subsection if it determines that a fair and orderly market would otherwise be impaired by a continuation of the exemption. The Committee will review, on at least an annual basis, all long-term exemptions that are in effect at the time.]

[(B) *Short-term Exemptions.* Two Floor Officials may grant short-term exemptions to Members on a case-by-case basis if such Floor Officials determine that a fair and orderly market would not be impaired and that the need for liquidity in the trading crowd warrants such action. Unless otherwise specified, any exemption granted pursuant to this Rule shall extend for no longer than the trading day on which it is provided. The Committee shall review, on a regular basis, each exemption granted pursuant to this subsection (b).]

[(c) *Reporting to the Exchange.* Market Makers, Floor Brokers and Member Organizations are required to report the terms of their financial arrangements to the Exchange pursuant to Rule 4.18 (“Disclosure of Financial Arrangements of Members”)]

[Commentary:]

.01 The purpose of Rule 6.40 is to prevent Market Makers who have financial arrangements with each other from unfairly dominating the market in any option issues or series, as prohibited by Rule 6.37(c)(2). The Options Floor Trading Committee has determined that any Market Makers who are not technically covered by the terms of Rule 6.40, but who unfairly dominate the market in any option issue or series, shall be considered to be in violation of their obligation to contribute to the maintenance of fair and orderly markets and to act in accordance with just and equitable principles of trade.]

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Joint Accounts

Rule 6.84(a) - (e) - No change.

[(f) Participants in a joint account must comply with the trading restrictions provided in Rule 6.40]

[(g)-(h)] – (f)-(g) - No change.

(h) The following trading restrictions apply to Members who are registered with the Exchange to trade on behalf of the same joint account:

(1) A joint account may be simultaneously represented in a trading crowd only by participants who are trading in-person. Orders for a joint account may not be entered in a trading crowd in which a participant of the joint account is trading in-person for the joint account. If no participant is trading in-person in the trading crowd for the joint account, then a Floor Broker may represent orders in the trading crowd on behalf of the joint account as long as the same option series is not concurrently represented for the same joint account by more than one Floor Broker.

(2) Market Makers may alternate trading in-person between their individual and joint accounts while in the trading crowd. Market Makers who alternate trading between accounts must ensure that while trading the joint account another participant does not enter orders through a floor broker for the joint account in the same trading crowd.

(3) Before beginning trading on behalf of a joint account, participants in the joint account are responsible for determining whether any Floor Brokers are representing orders in the same trading crowd on behalf of the same joint account.

(4) Floor Brokers may not represent a joint account of which they are a participant.

(5) Market Makers who are trading in-person in a trading crowd may not enter orders with a Floor Broker either for joint accounts in which they are participants or for their individual accounts.

(6) The following trades are prohibited:

(A) Trades between a joint account participant's individual account and a joint account in which that person is a participant.

(B) Trades between two joint accounts having common participants.

(C) Trades in which the buyer and seller are representing the same joint account and are on opposite sides of the transaction.