



RULE
ADOPTION
NOTICE

RAN-01-27
June 14, 2001

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

**SUBJECT: Housekeeping Changes to Options Trading Rules
(File No. SR-PCX-99-48)**

On May 23, 2001, the Securities and Exchange Commission approved a PCX proposal to make various housekeeping changes to the Options Trading Rules. The Rule changes include renumbering Options Floor Procedure Advice B-13 as Rule 6.100 and removing references to Options Floor Procedure Advices in the Minor Rule Plan. Following is the text of the rules changed.

Questions regarding this Bulletin should be directed to Cindy Sink at (415) 393-7926.

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Text of the Rule Change¹

ALLOCATION OF OPTION ISSUES

Evaluation of Options Trading Crowd Performance

Rule 6.100 (a) [¶7747 OFPA B-13 Subject: Evaluation of Options Trading Crowd Performance] The Options Allocation Committee ("Committee") shall periodically evaluate the options trading crowds and Lead Market Makers ("LMMs") to determine whether each has fulfilled performance standards relating to, among other things: 1) quality of markets, 2) competition among market makers, 3) observance of ethical standards, and 4) administrative factors. The Committee may consider any relevant information, including but not limited to the results of a trading crowd and LMM evaluation questionnaire ("Questionnaire"), trading data (including contract volume as related to characteristics of the underlying stock), reports filed with the Exchange, the regulatory history of the LMM or members in the crowd, and such other factors and data as may be pertinent. A finding by the Committee that a crowd or LMM has failed to meet minimum performance standards may

¹ New text is underlined; deleted text is in brackets.

result in one or more of the following actions: 1) moratorium on the allocation of new option issues, and 2) reallocation of existing options.

(b) The Committee shall presume that a trading crowd has failed to meet minimum performance standards if it is rated in the bottom 10% of all trading crowds in the aggregate results of overall evaluation scores from a periodic Questionnaire. The Committee shall also presume that an LMM has failed to meet minimum performance standards if it is rated in the bottom 10% of all LMMs in the aggregate results of overall evaluation scores from a periodic Questionnaire.

The Committee may also presume a failure to meet minimum standards by considering in conjunction with the Questionnaire, reports filed with the Exchange, the regulatory history of the members in the crowd and such other pertinent factors and data.

(c) The Questionnaire will be distributed on a six-month periodic basis. The Questionnaire will be approved by the Committee as to the questions and weighting of answers. The persons surveyed will also be approved by the Committee. The persons surveyed shall answer the questions by the date specified to the best of their ability and knowledge.

(d) The Committee or a designated panel of the Committee may elect to have an informal meeting with an LMM or a trading crowd or its representative chosen by the trading crowd to discuss the presumptive failure to meet minimum performance standards and to explore possible remedies. The Committee will provide notice of the meeting to all members of the crowd or to the LMM, as applicable. No verbatim record of proceedings shall be kept. Formal rules of evidence shall not apply. Prior to the close of the meeting, the Committee will inform the LMM or the crowd of possible consequences if the unsatisfactory performance continues. However, the Committee may not take the remedial actions set forth in subpart (a) of this Advice except in accordance with subpart (e) or (h) of this Advice.

(e) The Committee may elect to hold a hearing with an LMM or a trading crowd that has presumptively failed to meet minimum performance standards. In such an event, the LMM or crowd will be so notified in writing ("Notice of Hearing") with a statement of the reasons for and the potential consequences of the presumption, and afforded an opportunity to make a presentation of relevant information in rebuttal. The LMM, crowd, or crowd's designated representative, may question members of the Committee and Exchange staff with respect to the performance evaluation. A verbatim record of the proceedings shall be kept. Members may be represented by counsel, however, formal rules of evidence shall not apply.

(f) The LMM or trading crowd and the Committee shall have the right to have present at the hearing one or more technical consultants for the purpose of answering questions about trading techniques and procedures, and the proper performance of the various responsibilities of the members in a crowd. Such technical consultants shall not otherwise participate in the Committee's evaluation of the LMM or trading crowd.

(g) A presumption of failure to meet minimum performance standards by an LMM or trading crowd under subpart (b) of this Advice may form the basis for Committee action against the LMM or any and all members of the trading crowd. Any member or members affected by a decision of the Committee shall be informed in writing of the decision, which decision shall include the findings, conclusions, any remedial action to be taken under this Advice and the basis for such actions (hereinafter "written notification"). The decision shall also include a statement concerning the LMM's or trading crowd's right to appeal the Committee's decision to the Board of Governors.

(h) If, after receiving the notice of meeting provided for in subpart (d) of this Advice, or the notice of hearing provided in subparagraph (e) of this Advice, the LMM, trading crowd, or the trading crowd's representative, refuses or otherwise fails without reasonable justification or excuse to meet with the Committee, the Committee may take such remedial action specified in subpart (a) of the Advice as it believes appropriate.

(i) If the Committee takes one or more of the actions specified in subpart (a) of this Advice, such action may be reviewed by the Board of Governors, pursuant to Rule 11.7 of the Rules of the Board of Governors, upon submission of a timely application for review. Such application must be submitted to the Exchange within twenty days of receipt of written notification. Unless the Board decides otherwise, the review shall be limited to matters raised at the Options Allocation Committee meeting or contained in the written notification. The Board review panel or the Chairman of the Board has the authority to grant or deny a stay of the Committee's action. Any decision of the Committee under this Advice may also be called for review by the Board on its own initiative.

Commentary:

.01 A market maker shall be considered to be a member of a trading crowd if that market maker holds an appointment in the options issue at the trading station where such crowd is located or if that market maker regularly effects transactions in person for his or her market maker account at that station.

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Designation of the Index Broad-Based Index Options

Rule 7.3(a) (1) - (5) - No change.

(6) If an index fails to meet the maintenance listing standards described in paragraphs (4) and (5), [(d) and (e),] above, the Exchange [shall] will either:

(A) - (B) - No change.

(7) - (10) - No change.

Commentary:

.01 - .02 - No change.

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Minor Rule Plan

Rule 10.13(a) - (f) - No change.

(g) Floor Citations. A Floor Official and/or an Options Order Book Official may issue a Floor Citation to any member, member organization or person associated with a member or member organization, when it appears to such Officials(s) that a Minor Rule Plan violation specified in subsections (h) or (i) of this Rule has occurred. In issuing a Floor Citation, the Floor Official and/or the Options Order Book Official must:

- (1) Apprise the person cited of the alleged violation;
- (2) Ask the person cited to indicate by signature on the citation acknowledgment of receipt of the citation; provided that the requested signature is for receipt purposes only and a failure or unwillingness to sign is not to be considered as invalidating the issuance of the citation;
- (3) Give the top copy of the citation to the person alleged to have committed the violation; and
- (4) Give the remaining copies of the citation to the Order Book Official or an appropriate staff person, who will then forward such copies to the Regulation Department for processing.

[Except as provided in Rule 10.14 (Summary Sanction Procedure), the circumstances underlying the issuance of each floor citation shall be reviewed by a designated committee for a determination of whether the evidence is sufficient to find a violation of Exchange rules.]

(h) Minor Rule Plan: Options Floor Decorum and Minor Trading Rule Violations

- (1) - (3) - No change.
- (4) Market Maker or Floor Broker violated procedures concerning the Market Maker's use of a Floor Broker to effect transactions. (Rule§ 6.48(a)[,] 6.85) [OFPA A-9 and OFPA B-6]
- (5) Market Maker failed to respond to a call for Market Makers by an Order Book Official. (Rule 6.53 [and OFPA B-7])
- (6) - No change.
- (7) Member failed to give up the name of the clearing member by public outcry when requesting a quote and size of the market or after effecting a trade. (Rule 6.66 [and OFPA D-9])
- (8) - (11) - No change.

(12) Improper communication on the floor by use of hand signals or other means. (Rules 6.2, Commentary .02, 6.73, and 6.67 [OFPA F-5])

(13) [Failure to obtain Exchange approval for Member or Member Firm electronic devices or systems used for trading purposes on the Exchange Floor.] Member or Member Organization established or maintained a telephonic or electronic communication between the Floor and another location, or between locations on the Floor, without the prior approval of the Exchange (Rule 4.23).

(14) Improper vocalization of a trade. (Rules 6.69[,]and 6.73 [and OFPA G-10])

(15) - No change.

(16) Disruptive action while on the trading floor. (Rule 6.2 and 6.64 [OFPA A-1])

(17) - (19) - No change.

(20) Failure to time stamp an order ticket. (Rule 6.69 [and OFPA G-12.]

(21) - (29) - No change.

[(30)] [Violation of Options Floor trading restrictions on Members with financial arrangements. (Rule 6.40(b))]

[(31)] (30) Failure to answer a Trading Crowd/LMM Questionnaire as required. (Rule 6.100(c) [OFPA B-13(c)])

[(32)] (31) Violation of rules on visitors to the Options Floor. (Rule 6.2(e) [(a) and OFPA F-2])

[(33)] (32) Misuse of Member badge or Member Firm identification. (Rule 6.2(d) [OFPA F-1])

[(34)-(37)] (33 – 36) - No change.

(37) Market Maker failed to select a Primary Appointment Zone prior to the expiration of the Market Maker's 60-day grace period, or thereafter, during any one-month period. (Rule 6.35)

(38) – No change.

(k) **Minor Rule Plan: Recommended Fine Schedule**

(i) Options Floor Decorum and Minor Trading Rule Violations	<u>1st Violation</u>	<u>2nd Violation</u>	<u>3rd Violation</u>
1. - 3. - No change.			
4. Market Maker or Floor Broker violated procedures concerning the Market Maker's use of a Floor Broker to effect transactions. (Rules <u>6.48(a)</u> [,] <u>and 6.85</u> [and OFPA A-9 and OFPA (B-6)])	\$1,000.00	\$2,500.00	\$3,500.00
5. Market Maker failed to respond to a call for Market Makers by an Order Book Official. (Rule 6.53 [and OFPA B-7])	\$2,000.00	\$2,500.00	\$3,500.00
6. - No change.			
7. Member failed to give up the name of the clearing member by public outcry when requesting a quote and size of the market or after effecting a trade. (Rule 6.66 [and OFPA D-9])	\$ 500.00	\$1,000.00	\$2,500.00
8. - 11. - No change.			
12. Improper communication on the floor by use of hand signals or other means. (Rules 6.2, Commentary .02, 6.73, and <u>6.67</u> [OFPA F-5])	\$1,000.00	\$2,500.00	\$3,500.00
13. [Failure to obtain Exchange approval for Member or Member Firm electronic devices or systems used for trading purposes on the Exchange Floor.] <u>Member or Member Organization established or maintained a telephonic or electronic communication between the Floor and another location, or between locations on the Floor, without the prior approval of the Exchange (Rule 4.23)</u>	\$ 500.00	\$1,000.00	\$2,500.00
14. Improper vocalization of a trade. (Rules 6.69[,] <u>and 6.73</u> [and OFPA G-10])	\$1,000.00	\$2,500.00	\$3,500.00

15. - No change.			
16. Disruptive action while on the trading floor. (Rule 6.2 and <u>6.64</u> [OFPA A-1])	\$ 500.00	\$2,000.00	\$3,500.00
17. - 19.- No change.			
20. Failure to time stamp an order ticket. (Rule 6.69 [and OFPA G-12])	\$500.00	\$1,000.00	\$2,500.00
21. - 29. - No change.			
[30.] - [Violation of Options Floor trading restrictions on Members with financial arrangements. Rule 6.40(b)]	[—]	[—]	[—]
[31.] <u>30.</u> Failure to answer a Trading Crowd/ LMM Questionnaire as required [(OFPA B-13(c))] (<u>Rule 6.100(c)</u>)	\$500.00	\$1,000.00	\$2,500.00
[32.] <u>31.</u> Violation of rules on visitors to the Floor. (Rule 6.2 <u>(e)</u> [(a) and OFPA-F2])	\$1,000.00	\$2,500.00	\$3,500.00
[33.] <u>32.</u> Misuse of Member badge or Member Firm identification. (<u>Rule 6.2(d)</u>) [(OFPA F-1)]	\$1,000.00	\$2,500.00	\$3,500.00
[34. - 37.] <u>33. - 36.</u> - No change.			
[38.] <u>37.</u> <u>Market Maker failed to select a Primary Appointment Zone prior to the expiration of the Market Maker's grace period, or thereafter, during any one-month period. (Rule 6.35)</u>	<u>\$500.00</u>	<u>\$1,000.00</u>	<u>\$1,500.00</u>
38. - No change.			

