



RULE
ADOPTION
NOTICE

RAN-03-17
June 23, 2003

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Concentration of Issues
(File No. SR-PCX-2002-25)

On April 19, 2002, the Exchange filed with the Securities and Exchange Commission a proposed rule change to eliminate the concentration limit for the number of issues that a Lead Market Maker ("LMM") on the Exchange may be allocated. On April 29, 2003, the Exchange submitted Amendment No. 1 to the proposed rule change. The Commission approved the proposal on June 13, 2003 as amended. The following is the text of the rule change. Questions regarding this bulletin may be directed to Mai Shiver at (415) 393-4266.

* * *

EXHIBIT A

PACIFIC EXCHANGE, INC.

RULES OF THE BOARD OF GOVERNORS

Text of the Rule Change:¹

Rule 6.82 (a) – (d) – No change.

(e) Allocation:

(1) Allocation. The allocation of option issues to LMMs [shall] will be effected by the Options Allocation Committee. The Options Allocation Committee [shall] will select that candidate who appears best able to perform the function of an LMM in the designated option issue. Factors to be considered for selection include, but are not limited to, the following: experience with trading the option issue; adequacy of capital; willingness to promote the Exchange as a marketplace; operational capacity; support personnel; history of adherence to Exchange rules and securities laws; trading crowd evaluations made pursuant to [OFPA B-13] Rule 6.100; and any other criteria specified in this Rule. The Options Allocation Committee will

¹ New text is underscored. Deleted text is in brackets.

also consider the number and quality of issues that have been allocated, reallocated or transferred to a Lead Market Maker.

(2) *Transfer of Issues.* Issues allocated to an LMM may not be transferred to another firm or between nominees without the express approval of the Options Allocation Committee.

[(3) *Concentration of Issues.* In the absence of extraordinary circumstances, as determined by the Options Allocation Committee, no LMM may be allocated more than fifteen percent (15%) of the number of issues traded on the Options Floor.]

[(4)] (3) *Evaluation of LMMs.* The Options Allocation Committee shall monitor and evaluate the performance of LMMs with regard to quality of markets and shall do so at least semiannually. In reviewing and evaluating an LMM's performance, the Committee will consider, among other things, the LMM's evaluation conducted pursuant to [Options Floor Procedure Advice B-13] Rule 6.100, the LMM's compliance with Exchange Rules, including, but not limited to, Rule 6.32 through 6.40 and Article XI, Section 2 of the Exchange Constitution.

EXHIBIT B

PACIFIC EXCHANGE, INC.

Guidelines of the Options Allocation Committee

Text of Change²

The Options Allocation Committee has developed a guideline to assist the Committee in its review of matters that affect the level of LMM concentration on the Exchange. The Committee intends to evaluate matters related to the LMM concentration by considering a number of factors, including the number of issues allocated to an LMM and the contract volume in the products allocated to a LMM.

Under the Committee's guidelines, the Committee intends to take into consideration an LMM's level of concentration if there is an event or proposal that would cause an LMM to meet either of the following criteria:

1. The number of issues allocated to an LMM (and any affiliated LMM) is 25% or more of the total number of issues traded on the PCX;
2. The volume in the issues allocated to an LMM (and any affiliated LMM) is 50% or more of the total volume of the PCX or 25% or more of the total volume in equity option issues of the PCX.

²

New text is underscored.

If there is an event or proposal that would cause an LMM to reach either of the two above criteria (such as, for example, the allocation to an LMM of additional issues or a proposal involving a transfer of interest in an LMM organization), the Committee will carefully evaluate the level of concentration that would result. If the Committee determines that the event or proposal would result in an unacceptable level of concentration, the Committee could exercise its discretion and take action to lower the resulting level of concentration or to deny the applicable proposal. The committee retains the discretion to review an LMM's level of concentration at any time regardless of whether the above criteria are satisfied.