



**RULE  
ADOPTION  
NOTICE**

**RAN-06-06  
February 07, 2006**

**TO: All OTP Holders and OTP Firms  
ETP Holders and Sponsored Participants**

**FROM: Department of Regulatory Policy**

**SUBJECT: POETS and OBO Rules Clean-up  
(File No. SR-PCX-2005-102)**

On November 10, 2005 the Pacific Exchange, Inc. ("PCX" or "Exchange") filed PCX-05-012 with the Securities and Exchange Commission, which consisted of a series of proposed rule changes, in order to make certain additions, deletions and corrections to various PCX rules. The Exchange filed Amendment No. 1 to the original filing on November 22, 2005. The rule changes address outdated or obsolete rules predominantly associated with the POETS Trading System and Order Book Officials. The proposed rule change was approved as amended by the Commission on February 3, 2006.

Changes to the rule are showed in the Exhibit 5, attached. Changes to the rule text are also available on the corporate website at <http://www.tradearca.com/regulation/rules.asp> Questions regarding this bulletin may be directed to Glenn H. Gsell at (415) 835-4805.

**EXHIBIT 5**  
**Text of the Proposed Rule Change:**<sup>1</sup>

**Rules of the Pacific Exchange, Inc.**

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**Trading Sessions**

Rule 5.20(a) – No Change.

(b) Trading Rotations. The provisions of Rule 6.64 regarding trading rotations shall apply to index options, except as otherwise provided in Rule 5. A [Two] Trading Official[s] may delay the commencement of the opening rotation in an index option whenever [in their judgment] such action is appropriate in the interests of a fair and orderly market. Among the factors that may be considered in making these determinations are:

(1) – (5) – No Change.

[(6) circumstances such as those which would result in the declaration of a fast market under Rule 6.28.]

(c) Instituting Trading Halts or Suspensions. Trading on the Exchange in any index option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than 20%, in the case of a broad based index, and 10% for all other indices, of the index value is halted or is suspended. Trading in an index option shall also be halted whenever a [two] Trading Official[s or the Exchange] deems such action appropriate in the interests of a fair and orderly market or to protect investors. Among the factors that may be considered by the [Exchange] Trading Official are the following:

(1) – (4) – No Change.

(d) Resumption of Trading Following a Halt or Suspension. Trading in index options of a class or series that has been the subject of a halt or suspension by the Exchange may resume if the Exchange determines that the conditions which led to the halt or suspension are no longer present, or that the interests of a fair and orderly market are best served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions that led to the halt or suspension are no longer present, and the extent to which trading is occurring in stocks underlying the index. Upon reopening, a rotation shall be held in each class of index options unless a [Two] Trading Official[s] concludes that a different method of reopening is appropriate under the circumstances,

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<sup>1</sup>

New text is underscored and deleted text is in brackets.

including, but not limited to, no rotation, an abbreviated rotation or any other variation in the manner of the rotation.

(e) – (g) – No Change.

#### **Section 4. Flexible Exchange Options**

##### **Applicability, Definitions and References**

Rule 5.30(a)-(c) – No Change.

(d) The following rules shall not apply to transactions in FLEX Options: Rule 6.75 [(Priority on Split Price Transactions)] Priority and Order Allocation Procedures For Open Outcry and Rule 6.80 (Accommodation Transactions (Cabinet Trades)).

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#### **Rule 6**

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#### **Business Conduct**

##### **Applicability, Definitions and References**

Rule 6.1(a) – No Change.

Rule 6.1(b)(1)-(33) – No Change.

(34) *Trading Official*. A Trading Official will be an [OTP Holder] Exchange employee or officer, who is designated by the Chief Executive Officer, or its designee or by the Chief Regulatory Officer or its designee [registered with the Exchange for the purpose of exercising full trading privileges on the Exchange]. Any [OTP Holder] Exchange employee or officer designated as a Trading Official will from time to time as provided in these rules have the ability to recommend and enforce rules and regulations relating to trading access, order, decorum, health, safety and welfare on the [Options Trading Floor] Exchange.

(35) – (36) – No Change.

(37) *Consolidated Book*. The term “Consolidated Book” means the Exchange’s electronic book of orders for the accounts of Public Customers and broker-dealers, and Quotes with Size. All orders and Quotes with Size that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 6.76.

There is no limit to the size of orders or quotes that may be entered into the Consolidated Book.

(38) – (40) – No Change.

[(41) *Exchange Official*. A qualified Exchange employee or officer designated by the Chief Regulatory Officer or its designee.]

[(42)] (41) *One Week Option Series*. The term "One Week Option Series" is a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Friday that is a business day and that expires at the close of business on the next Friday that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday. One Week Option Series are P.M. settled, except for One Week Option Series on indexes. One Week Option Series on indexes shall be A.M. settled.

(c) – (e) – No Change.

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### **Admission to and Conduct on the Options Trading Floor**

Rule 6.2(a) – No Change.

(b) *Conduct on the Floor*. Upon the determination of a [two] Trading Official[s or of the Exchange] that an OTP Firm or OTP Holder's conduct on the Options Trading Floor of the Exchange is such as to impair the maintenance of a fair and orderly market, or to impair public confidence in the operations of the Exchange, an OTP Firm or OTP Holder of the Exchange may be fined pursuant to the Bylaws and Rules of the Exchange. This shall also apply to an OTP Holder or OTP Firm's failure to adequately supervise an employee to ensure his compliance with this rule. An OTP Holder or OTP Firm adversely affected by a determination made under this Section may obtain review thereof in accordance with the provisions of Rule 10. Fines imposed by a Trading Official[s or the Exchange] hereunder shall not preclude further disciplinary action by the Exchange pursuant to the Bylaws and Rules of the Exchange.

(c) – (d) – No Change.

(e) *Visitors on the Options Floor*. The following provisions on Visitors to the Options Floor will apply at all times:

(1) – (5) – No Change.

(6) The Options Floor Manager may restrict visiting on the Floor in any manner at any time, when with the concurrence of a Trading Official [or the Exchange], the

Floor Manager deems that the presence of some or all visitors may interfere with orderly Floor procedures.

(7) – No Change.

(f) – (h) – No Change.

*Commentary:*

.01 Only OTP Holders or OTP Firms or Exchange employees who have been approved to perform a Floor function are authorized to enter into transactions on the Options Trading Floor. These OTP Holders and OTP Firms and Exchange employees include Floor Brokers who are registered pursuant to Rule 6.44, Trading [Order Book] Officials as defined in Rule 6.[5]1 and Market Makers registered pursuant to Rules 6.33 and 6.35. While on the Floor, such persons shall at all times display appropriate badges.

.02 - .04 – No Change.

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### **Position Limits**

Rule 6.8(a) – No Change.

*Commentary:*

.01 - .03 – No Change.

.04 The Exchange may establish higher position limits for Market Maker transactions than those applicable with respect to other accounts. Whenever a Market Maker reasonably anticipates that he or she may exceed such position limits in the performance of his or her function of assisting in the maintenance of a fair and orderly market, he or she must consult with and obtain the prior approval of a[n Options] Trading Official [or the Exchange]. An exemption will generally be granted only to a Market Maker who has requested an exemption, who is appointed to the options class in which the exemption is requested, whose positions are near the current position limit, and who is significant in terms of daily volume. The positions must generally be within ten percent (10%) of the limits contained in Rule 6.8, Commentary .05 for equity options and twenty percent (20%) of those limits for broad-based index options.

.05 - .08 – No Change.

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### **Resolution of Uncompared Trades**

Rule 6.21(a). Notice of uncompared trades must be provided no later than the scheduled

commencement of trading unless directed otherwise by a Trading Official [or the Exchange]. The amount of loss as a result of an uncomparing trade will be the opening price for such contract on the business day following the trade date. With respect to instances where the uncomparing trade side is one for the purchase of option contracts and no trade occurred on the opening, the price used in fixing the amount of the loss will be the offer at the time of the opening. In instances where the uncomparing trade side is one for the sale of option contracts and no trade occurred on the opening, the price used in fixing the amount of the loss will be the bid price.

(b) In the event an uncomparing transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange option transaction can be effected to establish the amount of any loss, the [Order Book Official or] OTP Holder or OTP Firm not at fault may claim damages against the other party involved in the transaction based on the terms of such transaction. All such claims shall be made promptly but in no event shall such claim be made after the close of trading on the first business day following the date of the uncomparing transaction in question.

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### **[Fast Markets and] Unusual Market Conditions**

Rule 6.28(a). A Trading Official shall have the power to determine that the level of trading activity or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be "fast." When a market for an option is declared fast, the Exchange will provide notice that its quotations are not firm by appending an appropriate indicator to its quotations. [Whenever in the judgment of two Trading Officials or an Exchange Official, because of an influx of orders or other unusual conditions or circumstances, the interests of maintaining a fair and orderly market so requires, such Trading Officials or the Exchange Official may declare the market in one or more classes of option contracts to be "fast".]

(b) If a market is declared fast, the Trading Official shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Rule 6.64; (ii) or take such other actions as are deemed in the interest of maintaining a fair and orderly market. [The following procedures will become effective in a fast market situation:

(1) The stock sign will be turned to red for the options class experiencing fast market conditions. The Staff Manager may request that a Trading Official remain behind the Book and/or in the crowd to ensure proper crowd control and the maintenance of a fair and orderly market.

(2) For orders excepted from EOC or the Electronic Tablet, pursuant to Rule 6.67(d)(1)(A), the OBO may temporarily move less active issues to another post if the Book is extremely active.

(3) To assure orderly trading and order processing, the Staff Manager may close the Book to all orders except cancels and cancel/replace orders if necessary.

(4) If applicable, the Control Room will send the "Tape Late" message across the vendor networks.

(5) Market Makers will be required to trade a minimum of one contract based on quoted markets, pursuant to Rule 6.37, Commentary .05.

(6) Regular trading procedures will be resumed when two Options Trading Officials or the Exchange determine that the conditions supporting the declaration of a fast market no longer exist.]

(c) The Exchange will monitor the activity or conditions that caused a fast market to be declared, and a Trading Official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a Trading Official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations. [The Options Trading Officials or the Exchange declaring the fast market will have the power to do one or more of the following with respect to the issue or issues involved:

(1) Assign one or more classes or series of options traded at the post to an Order Book Official at other posts;

(2) Authorize Order Book Official clerks to execute transactions;

(3) Authorize one or more Market Makers to act as Floor Brokers;

(4) Direct that one or more trading rotations be employed pursuant to Rule 6.64;

(5) Restrict the entry of new orders into the Book; or

(6) Suspend the Automatic Execution System ("Auto-Ex") pursuant to Rule 6.87(h)(3)(B)

(7) Take such other actions as are deemed necessary in the interest of maintaining a fair and orderly market.

(8) The Exchange may increase the permissible size of orders that may be automatically executed over the Auto-Ex system pursuant to Rule 6.87(h)(3)(C).]

(d) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then the Exchange shall halt trading in the class or classes so affected. [Whenever market conditions warrant such special action, two Trading Officials or the Exchange may restrict the entry of one or more types of orders in one or more classes or series of options for a period not in excess of two consecutive days. The Exchange must approve any such restriction that is to be effective for more than two consecutive days.]

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### **Obligations of Market Makers**

Rule 6.37(a) – No Change.

(b) *Appointment as a Primary Market Maker.* With respect to each class of option contracts to which his appointment under Rule 6.35 imposes the continuous obligations set forth in this paragraph (b), a Market Maker is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market.

(1) Bidding and/or offering so as to create differences of no more than:

(A) – (D) – No Change.

(E) no more than \$1 when the last bid is \$20.10 or more, provided that [the]two Trading Officials [or an Exchange Official] may establish differences other than the above for one or more series or classes of options.

(F) [The Two] A Trading Official[s or the Exchange] may, with respect to options trading with a bid price less than \$2, establish bid-ask differentials that are no more than \$0.50 wide ("double-width") when the primary market for the underlying security: (a) [R] reports a trade outside of its disseminated quote (including any Liquidity Quote); or (b) disseminates an inverted quote. The imposition of double-width relief must automatically terminate when the condition that necessitated the double-width relief (i.e., condition (a) or (b)) is no longer present. Market Makers that have not automated this process may not avail themselves of the relief provided herein (i.e. they may not manually adjust prices.)

(G) Options [, designated by the Exchange, that trade on PCX Plus] may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 quote width shall only apply to

classes trading on PCX Plus and only following the opening rotation in each security (i.e., the widths specified in paragraph (b)(1)(A)-(F) above shall apply during opening rotation). Quotes given in open outcry [in PCX Plus issues] may not be quoted with \$5 widths and instead must comply with the legal width requirements specified in paragraph (b)(1)(A)-(F) above.

(2) Bidding no more than \$1 lower and/or offering no more than \$1 higher than the last preceding transaction price for the particular option contract. However, this standard shall not ordinarily apply if the price per share (or other unit of trading) of the underlying security or Exchange-Traded Fund Share has changed since the last preceding transaction for the particular option contract, in which even a Market Maker may then bid no lower than or offer no more than \$1 plus the aggregate change in the price per share (or other unit of trading) of the underlying security or Exchange-Traded Fund Share since the time of the last preceding transaction for the particular option contract. This provision applies from one day's close to the next day's opening and from one transaction to the next in intra-day transactions. With respect to inter-day transactions, this provision applies if the closing transaction occurred within one hour of the close and the opening transaction occurred within one hour after the opening. With respect to intra-day transactions, this provision applies to transactions occurring within one hour of one another. A [Two] Trading Official[s or an Exchange Official] may waive the provisions of this paragraph in an index option when the primary underlying securities market for that index is not trading. Nothing in this subparagraph (b)(2) shall alter the maximum bid/ask differentials established by subparagraph (b)(1) of Rule 6.37.

(3) In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsection (b)(1), the permissible price differential for any in-the-money option series may be identical to those in the underlying security market. In the case of the at-the-money and out-of-the-money series, [two] a Trading Official[s or the Exchange] may waive the requirements of subsection (b)(1) on a case-by-case basis when the bid/ask differential for the underlying security is greater than .50. In such instances, the bid/ask differentials for the at-the-money series and the out-of-the-money series may be half as wide as the bid/ask differential in the underlying security in the primary market. Whenever in the judgment of a [two] Trading Official[s or the Exchange] and if the interest of maintaining a fair and orderly market so requires, the [those] Trading Official[s or the Exchange] may waive the requirements of subsection (b)(2) on a case-by-case basis. Exemptions from subsections (b)(1) and (b)(2) are subject to Exchange review.

(4) If the interest of maintaining a fair and orderly market so requires, [two] a Trading Official[s or the Exchange] may declare a fast market in a particular issue and allow Market Makers in that issue to make bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37(b)(1). In making such determinations to allow wider markets, such Trading Official[s or the Exchange] should consider the following factors: (A) whether there is an extreme influx of option orders due to pending news, a news announcement or other special events; (B) whether there is an imbalance of option orders in one series or

on one side of the market; (C) whether the underlying security or Exchange-Traded Fund Share is trading outside the bid or offer in such security then being disseminated; (D) whether OTP Holders or OTP Firms receive no response to orders placed to buy or sell the underlying security; and (E) whether a vendor quote feed [for POETS] is clearly stale or unreliable.

(5) Whenever a Floor Broker enters a trading crowd and calls for a market in a particular option series, each Market Maker present at the trading post will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)) for a minimum of 10 contracts. This obligation only applies to:

(A) Market Makers who have executed a transaction in the issue, but not those who have been assigned contracts by the Trading [Order Book] Official pursuant to Commentary .05, on the day of the Floor Broker's call for a market or on the previous business day;

(B) – (D) - No Change.

*(c) In Classes of Option Contracts Other Than Those to Which Appointed.* With respect to classes of option contracts other than those to which their Primary Appointments extend, pursuant to Rule 6.35 Market Makers should not engage in transactions for an account in which they have an interest that are disproportionate in relation to, or in derogation of, the performance of their obligations as specified in paragraph (b) of this Rule with respect to those classes of option contracts to which their appointments do extend. Whenever Market Makers enter the trading crowd for a class of options in which they do not hold a Primary Appointment in other than a floor brokerage capacity, they must fulfill the obligations established by paragraph (b) of this Rule. In addition, when present anywhere on the Options Trading Floor, with regard to all securities traded on the Trading Floor, Market Makers are expected to undertake the obligations specified in paragraph (b) of this Rule in response to a demand therefore from the Trading [Order Book] Official that the performance of such obligations by other Market Makers requires supplementation. Furthermore, Market Makers should not:

(1) – (3) – No Change.

(4) Whenever a Floor Broker enters a trading crowd and calls for a market in a particular option series, each Market Maker present at the trading post will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)) for a minimum of 10 contracts. This obligation only applies to:

(A) Market Makers who have executed a transaction in the issue, but not those who have been assigned contracts by the [Order Book] Trading Official pursuant to Commentary .05, on the day of the Floor Broker's call for a market or on the previous business day;

(B) – (D) - No Change.

(d) – (g) – No Change.

(h) Obligations of Remote Market Makers

(1) – (3) – No Change.

(4) A Remote Market Maker may be called upon by a[n Exchange] Trading Q[o]fficial [designated by the Board of Directors] to submit a single quote or maintain continuous quotes in one or more series of an option issue to which the Remote Market Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of maintaining fair and orderly markets.

(5) – (7) – No Change.

*Commentary:*

.01 - .04 – No change.

.05 Whenever a Floor Broker enters a trading crowd and calls for a market in any class and series at that post, each Market Maker present at the post where the option is traded is obligated, at a minimum, to make a market for one contract except as provided for in Rule 6.37(b)(5) and Rule 6.37(c)(4), at the established price. In addition, the Exchange may determine that Market Makers in trading crowds shall increase the depth of their markets as set forth in Options Floor Procedure Advice B-12. In the event a Floor Broker is unable to satisfy his order from bids and offers given in the crowd, the Trading [Order Book] Official may assign one contract to every Market Maker present within the primary zone to assist the Floor Broker in satisfying his order. If a Market Maker at the post either bids lower or offers higher than the established market, such Market Maker shall be obligated to trade one contract at the price quoted by the Market Maker.

.06 - .09 – No Change.

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### **Market Maker Marketing Reports**

Rule 6.41. The Exchange will provide its Market Makers with statistical reports designed to measure trading volume and participation in trading activity in each option issue traded on the Exchange. The reports will provide monthly trading information that will identify, by order flow provider, the issue and number of contracts traded, the LMM post where the issue is traded, the contra and executing broker symbols, and whether the trade was executed through the Exchange's PCX Plus [Automatic Execution] System[, through the Limit Order Book,] or manually in the trading crowd.

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### **Responsibilities of Floor Brokers**

Rule 6.46(a) – (c) – No Change.

Rule 6.46(d) Pursuant to Rule 6.46(a), the Exchange has made a determination regarding print-throughs on limit orders held [either] by a Floor Broker [, or an Order Book Official]. This determination distinguishes print-throughs which occur intra-day from print-throughs occurring on the opening. When a print-through is discovered, the Floor Broker should ascertain whether the limit price or a more favorable price is available. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Floor Broker [, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade,] is responsible at the original limit price for whatever number of contracts have traded-through the limit order. Print-throughs on the opening should be treated differently than those which occur intra-day. On the opening, the Floor Broker[, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade,] is responsible for the number of contracts that trade-through the customer's limit order at the opening price, rather than at the limit price. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Floor Broker [, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade,] is responsible at the original limit price for whatever number of contracts have traded-through the limit order.

(e) Under certain circumstances a best bid or best offer is disseminated as a result of an order represented by a Floor Broker. It is the responsibility of the Floor Broker holding such an order [to instruct the Order Book staff] to remove such bid or offer when it is canceled or when such order which represented such best bid or offer has been filled in its entirety.

(f) – (g) – No Change.

*Commentary:*

.01 Pursuant to Rule 6.46, a Floor Broker's use of due diligence in executing an order shall include ascertaining whether a better price than is being displayed at that time is being quoted by another Floor Broker or a Market Maker. This rule requires that Floor Brokers announce solicitations of the best price or prices available and that they allow adequate time, depending upon market conditions, for other OTP Holders or OTP Firms to respond. If a market satisfying the standards of Rule 6.37 is not present, then the Floor Broker should request the [Order Book] Trading Official to call for bids and offers by Market Makers in accordance with Rule 6.53.

.02 - .05 - No Change.

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**“Crossing” Orders and Stock/Options, SSF/Option Orders**

Rule 6.47(a). Non-Facilitation (Regular Way) Crosses. A Floor Broker who holds orders to buy and sell the same option contract may cross such orders, provided that he proceeds in the following manner:

(1) He must request bids and offers for the option series involved and make all persons in the trading crowd, including the [Order Book] Trading Official, aware of his request for a market.

(2) – (3) – No Change.

(b) – (d) – No change.

[(e) Use of the Book to Effect a Cross. In some instances, a Floor Broker may deem it necessary to place one side of the proposed cross transaction on the Order Book with the intention of effecting the cross transaction with the Order Book. To effect such a transaction, the Floor Broker must use the following procedure: Following the announcement of the new bid or offer by the Order Book Official or his clerk, the Floor Broker must again request a market in the series, and upon determination that the bid or offer represented by the Order Book is the best market, he may then execute the cross by trading with the order on the Book.]

(e) [(f)] Stock/Option and SSF/Option Orders.

(1) When a stock/option order is taken to a crowd for execution, the stock transaction or SSF transaction must be effected prior to the option transaction pursuant to Rule 6.47, Commentary .04. The following procedure applies to all executions of stock/option and SSF/option orders: after an agreement with other OTP Holders or OTP Firms of the crowd has been reached as to the terms of the transaction, the option order must be entered into EOC or the Electronic Tablet or, for orders excepted from EOC or the Electronic Tablet, pursuant to Rule 6.67(d)(1)(A), written on tickets and timestamped. However, the option transaction will not be reported to Options Price Reporting Authority ("OPRA") by EOC or Electronic Tablet or, for orders excepted from EOC or the Electronic Tablet, pursuant to Rule 6.67(d)(1)(A), turned in to the [Order Book] Trading Official at the post at this time. The OTP Holders or OTP Firms will attempt to immediately effect the transaction in the underlying or related security. If the stock transaction cannot be executed immediately or is effected at a price other than an agreed-upon price, the OTP Holders or OTP Firms will not be held to the option transaction. If the stock transaction is effected at an agreed-upon price, then all the OTP Holders or OTP Firms who participated in the option transaction will be held to their agreed-upon price. At the time the stock transaction is effected, the option transaction must be immediately entered into EOC or the Electronic Tablet and reported to OPRA or, for orders excepted from EOC or the Electronic Tablet, pursuant to Rule 6.67(d)(1)(A), trade tickets must be given to the [Order Book] Trading Official.

(2) – No Change.

**(f) [(g)] Open Outcry "SizeQuote" Mechanism**

**(i) SizeQuotes Generally.** The SizeQuote Mechanism is a process by which a Floor Broker ("FB") may execute and facilitate large-sized orders in open outcry. Floor brokers must be willing to facilitate the entire size of the order for which they request SizeQuotes (the "SizeQuote Order"). The Exchange shall determine the classes in which the SizeQuote Mechanism will apply. The SizeQuote Mechanism will operate as a pilot program which expires February 15, 2006.

**(A) Eligible Order Size:** The Exchange shall establish the eligible order size however such size shall not be less than 250 contracts.

**(B) Trading Crowd:** The term "Trading Crowd" shall be as defined in PCX Rule 6.1(b)(30) and for purposes of this rule only shall also include any Floor Broker who is present at the trading post.

**(C) Public Customer Priority:** Public customer orders in the Consolidated Book have priority to trade with a SizeQuote Order over any member of the Trading Crowd providing a SizeQuote response at the same price as the order in the Consolidated Book.

**(D) LMM Participation Rights:** The LMM participation entitlement shall not apply to SizeQuote transactions.

**(E) FBs may not execute a SizeQuote Order at a price inferior to the national best bid or offer ("NBBO").** Unless a SizeQuote request is properly canceled in accordance with paragraph (iv), a FB is obligated to execute the entire SizeQuote Order at a price that is not inferior to the NBBO in situations where there are no SizeQuote responses received or where such responses are inferior to the NBBO.

**(ii) SizeQuote Procedure:** Upon request from a FB for a SizeQuote, members of the Trading Crowd may respond with indications of the price and size

at which they would be willing to trade with a SizeQuote Order. After the conclusion of time during which interested Trading Crowd member's have been given the opportunity to provide their indications, the FB must execute the SizeQuote Order with the members of the Trading Crowd and/or with a firm facilitation order in accordance with the following procedures:

(A) Executing the Order at the Trading Crowd's Best Price: Members of the Trading Crowd that provide SizeQuote responses at the highest bid or lowest offer ("best price") have priority to trade with the SizeQuote Order at that best price. Allocation of the order among members of the Trading Crowd shall be prorata, up to the size of each member's SizeQuote response. The FB must trade at the best price any contracts remaining in the original SizeQuote Order that were not executed by the members of the Trading Crowd providing SizeQuote responses.

(B) Executing the Order at a Price that Improves upon the Trading Crowd's Price by One Minimum Increment: Members of the Trading Crowd that provide SizeQuote responses at the best price ("Eligible Trading Crowd Members") have priority to trade with the SizeQuote Order at a price equal to one trading increment better than the best price ("improved best price"). Allocation of the order among Eligible Trading Crowd Members at the improved best price shall be prorata, up to the size of each eligible Trading Crowd Member's SizeQuote response. The FB must trade at the improved best price any contracts remaining in the original SizeQuote Order that were not executed by Eligible Trading Crowd Members.

(C) Trading at a Price that Improves upon the Trading Crowd's Price by more than One Minimum Increment: A FB may execute the entire SizeQuote Order at a price two trading increments better than the best price communicated by the Trading Crowd members in their responses to the SizeQuote request.

(iii) Definition of Trading Increments: Permissible trading increments are \$0.05 for options quoted below \$3.00 and \$0.10 for all others. In classes in which bid-ask relief is granted pursuant to Rule 6.37(b)(1)(F), the permissible trading increments shall also increase by the corresponding amount. For example, if a series trading above \$3.00 has double-width bid-ask relief, the permissible trading increment for purposes of this rule shall be \$0.20.

(iv) It will be a violation of the FB's duty of best execution to its customer if it were to cancel a SizeQuote Order to avoid execution of the order at a better price. The availability of the SizeQuote Mechanism does not alter a FB's best execution duty to get the best price for its customer. A SizeQuote request can be canceled prior to the receipt by the FB of responses to the SizeQuote request. Once the FB receives a response to the SizeQuote request, if he/she were to cancel the order and then subsequently attempt to execute the order at an inferior price to the previous SizeQuote response, there would be

a presumption that the FB did so to avoid execution of its customer order in whole or in part by the others at the better price.

Commentary .01 - .07 – No Change.

.08 The Exchange has determined that when a facilitation cross transaction occurs, as defined in Rule 6.47(b); or when, pursuant to Rule 6.75(e), a spread, straddle, combination or stock/option order involving a transaction in an underlying or related security takes priority over customer orders in the Consolidated Book or orders held by other OTP Holders or OTP Firms, a record of such transaction shall be kept by the Trading Official at the post and forwarded to the Surveillance Department at the end of the trading day.

\* \* \*

### **Trading [Order Book] Officials**

#### **[Order Book Official Defined]**

Rule 6.51[(a)] Reserved. [An Order Book Official ("OBO") is an Exchange employee who is responsible for (i) maintaining the book with respect to the classes of options assigned to him; (ii) effecting proper executions of orders placed in the book; (iii) displaying bids and offers pursuant to Rule 6.55 and (iv) monitoring the market for the classes of options assigned to him.

(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.]

#### **[Obligations for Orders]**

Rule 6.52 Reserved. [(a). In option issues designated for trading on PCX Plus pursuant to Rule 6.90, limit orders for the accounts of Public Customers, broker-dealers and Market Makers will be eligible for representation in the Consolidated Book. In addition, Quotes with Size of Market Makers will be included in the Consolidated Book. OTP Holders or OTP Firms submitting orders or Quotes with Size to the Order Book Official for execution or for entry into the Consolidated Book must comply with such format requirements as may be prescribed by the Exchange. There is no limit to the size of orders or quotes that may be entered into the Consolidated Book. The Exchange will determine whether any or all types of contingency orders (as defined in Rule 6.62(c)) will be eligible to be included in the Consolidated Book.

If an option issue has not been designated as eligible for trading on PCX Plus, then the provisions of subsections (b) through (d) below will apply.

(b) 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 Exchange. An Order Book Official will not accept orders of any other type or from any source other than an OTP Holder or OTP Firm. Only non-broker/dealer customer orders may be placed with an Order Book Official pursuant to this Rule. For the purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

(c) Execution. Order Book Officials must use due diligence to execute the orders placed in their custody at the best prices available.

(d) 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 reasonably away from the market and had no immediate urgency. OBOs must report to Trading Officials or the Exchange any instances that appear to violate this obligation.

*Commentary :*

.01 In addition to limit orders that the Order Book Official is obligated to accept, an Order Book Official may only accept such other types of orders that have been designated by the Exchange.

.02 Pursuant to Rule 6.52(a), the Exchange has adopted the following guideline: Order Book Officials shall be under no obligation to accept orders after the time set for the opening of trading on the Exchange for execution at the opening of the market. In addition, Order Book Officials shall be under no obligation to accept a cancel/replace (CFO) or cancel order relating to a prior market order once the opening rotation for option contracts covering the same underlying security has begun.

.03 For purposes of this Rule, an order shall be deemed to be from an OTP Holder or OTP Firm if the order is placed with an Order Book Official by a person associated with an OTP Holder or OTP Firm (e.g., a clerk or a runner), provided that the order is either (i) an order to buy at a price equal to or below the highest bid in the Order Book Official's book or (ii) an order to sell at a price equal to or above the lowest offer in the Order Book Official's book. These conditions will not be applicable when a person associated with an OTP Holder or OTP Firm is placing a cancel/replace (CFO) with the Book.

.04 For purposes of this Section, orders excepted from EOC or the Electronic Tablet, pursuant to Rule 6.67(d)(1)(A), will be within the custody of Order Book Officials only when they have been deposited, properly timestamped and marked, in the proper receptacle.

.05 In the exercise of "due diligence" within Rule 6.62(b), Order Book Officials are allowed a reasonable time, (never to exceed five minutes) after book orders are put in their custody before incurring responsibility for execution of such orders.]

### **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 Trading [Order Book] Official's opinion the interests of a fair and orderly and competitive market are best served by such action, a[n] Trading [Order Book] Official must 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 Trading [Order Book] Official will 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 Trading [Order Book] Official will make a record of this fact. Copies of all records kept in accordance with the Rule will be forwarded to the Options Surveillance Department.

*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 Trading Official [OBO]. Only the Trading Official [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 Trading Official [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 Trading Official [OBO] to issue such calls for Market Makers as may be necessary to implement fully the requirements of PCX Rule 6.37.

#### **[Duty to Report Unusual Conditions]**

Rule 6.54. Reserved [When, in the opinion of an Order Book Official, there is any unusual activity, transactions, or price change or there are other unusual market conditions or circumstances which are, with respect to any option contract in which he is acting as an Order Book Official, detrimental to the maintenance of a fair and orderly and competitive market, he shall promptly make a report to a Trading Official or an Exchange Official.

*Commentary :*

.01 The Exchange has determined that when a facilitation cross transaction occurs, as defined in Rule 6.47(b); or when, pursuant to Rule 6.75(d), a spread, straddle, combination or stock/option order involving a transaction in an underlying or related security takes priority over orders in the Order Book or orders held by other OTP Holder or OTP Firm, a record of such transaction shall be kept by the Order Book Official and forwarded to the Surveillance Department at the end of the trading day.]

### **[Displaying Bids and Offers in the Book]**

Rule 6.55. Reserved [The limit orders in the custody of an Order Book Official constitute the book. Each Order Book Official shall display immediately the full price and size of any customer limit order that improves the price or increases the size of the best disseminated PCX quote. For the purpose of this rule "immediately" means as soon as practicable after receipt, which under normal market conditions means no later than 30 seconds after receipt. The term "customer limit order" means an order to buy or sell a listed option at a specified price that is not for the account of either a broker or dealer; provided, however, that the term customer limit order shall include an order transmitted by a broker or dealer on behalf of a customer. The following order types are exempt from the display obligation:

- (a) an order executed upon receipt;
- (b) an order where the customer who placed it requests that it not be displayed, and upon receipt of the order, the Floor Broker announces in public outcry the information concerning the order that would be displayed if the order were subject to being displayed;
- (c) an order the terms of which are delivered immediately upon receipt to another options exchange that is a participant in the Intermarket Options Linkage Plan;
- (d) order types defined in PCX Rule 6.62(c)-(d), (f)-(h) and (j)-(k);
- (e) large-sized orders (orders for more than 100 contracts), unless the customer placing such order requests that the order be displayed;
- (f) orders received before or during a trading rotation (once the trading rotation ends and regular trading begins, orders received before or during the trading rotation will be subject to the display requirement).

*Commentary :*

.01 At any time, the highest bid or the lowest offer, and the size in each, by which the Order Book Official is bound shall be those bids and offers actually appearing on his book, notwithstanding bids, offers, or sizes erroneously displayed at other prices or sizes.

.02 Order Book Officials shall not be bound by verbal confirmations of executions based on their book displays until a reasonable period (never to exceed five minutes) has been allowed for OBO's to determine that the terms of the executions may be satisfied by their books.]

### **[Transactions Outside Order Book Official's Last Quoted Range]**

Rule 6.56. Reserved [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 OTP Holder or OTP Firm 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.]

#### **[Disclosure of Orders]**

Rule 6.57. Reserved [(a). Equal Access to Book Depth and Size. If an option issue has not been designated by the Exchange as eligible for trading on PCX Plus, the provisions of Rule 6.57(b) will apply. If an option issue has been designated as eligible for trading on PCX Plus, then the provisions of subsection (c), below, will apply.

(b) Upon request of an OTP Holder or OTP Firm and so long as such request does not interfere with the operation of the Book, an OBO, or such other person designated by the Exchange, may disclose the price and number of contracts which are bid below or that are offered above the Book information displayed pursuant to Rule 6.55. The OBO or such designated person shall not disclose such information until the requesting OTP Holder or OTP Firm discloses by open outcry to the trading crowd for what OTP Holder or OTP Firm such request is being made. The Exchange may, in its discretion from time to time, establish the depth to which such information may be disclosed.

(c) In option issues designated for trading on PCX Plus, all Crowd Participants (as defined in Rule 6.1(b)(38)) will be able to access at the same time the same information in regard to orders and Quotes with Size placed through PCX Plus.]

#### **[Designation by Exchange]**

Rule 6.58. Reserved [Order Book Officials will be designated by the Exchange to perform the functions set forth herein.]

#### **[Liability of Exchange for Actions of Order Book Officials]**

Rule 6.59. Reserved [(a). Except to the extent provided in Rule 6.59(b), the Exchange's liability to OTP Holders or OTP Firms or persons associated therewith, for any loss, expense, damages or claims arising out of any errors or omissions of an Order Book Official or the assistants or clerks of an Order Book Official shall be subject to the limitations set forth in Rule 13.

(b) As used in this Rule, the term "transaction" shall mean any single order or instruction, which is placed with an Order Book Official, or any series or orders or instructions, which is placed at the same time with an Trading Order Book Official by the same OTP Holder or OTP Firm and which relates to any series of options of the same class. All errors and omissions made by an Order Book Official in the course of executing a transaction shall give rise to a single claim against the Error Fund or the Exchange or the Error Fund and the Exchange together for losses resulting therefrom as provided in this Section. However, no claim shall arise when such errors or omissions are found to have resulted from the OTP Holder or OTP Firm's failure to enter or cancel

an order on a timely basis, or to clearly and accurately communicate to the Order Book Official:

(i) the description or symbol of the security involved; or

(ii) the exercise price or option contract price; or

(iii) the type of option; or

(iv) the number of trading units; or

(v) the expiration month; or

(vi) any other type of information or data which is material to the Order Book Official's role in the transaction.

(c) Any claim for losses arising from errors or omissions of an Order Book Official shall be presented in writing to the Exchange no later than the opening of trading on the next business day following the transaction giving rise to the claim; provided, that if an error or omission by an Order Book Official has resulted in an uncomparing trade, then any claim based thereon shall be presented after the uncomparing trade has been closed out in accordance with Rule 6.21, but no later than the opening of trading on the next business day following such resolution of the uncomparing trade.

(d) All disputed claims shall be referred for binding arbitration to an Arbitration Panel whose resolution of the dispute shall be final. The Arbitration Panel shall be composed of an odd number of panelists who shall be selected as follows. Each of the parties to the dispute shall select one member of the Exchange to serve as panelist on the Arbitration Panel. The panelists so selected shall then among them agree on the selection of one or more additional panelists; provided that the additional panelists so selected are either [members] or representatives of member organizations of the Exchange, and provided further that no member of the Arbitration Panel may be a person with a direct or indirect financial interest in the claim. In the event that the initial panelists selected by the parties to the dispute cannot agree on the selection of the above-mentioned additional panelist or panelists, as the case may be, then in that event such additional panelist(s) shall be appointed by the Exchange, except that any OTP Holders or OTP Firms of the Exchange who either have already been selected to serve on the Arbitration Panel or who have a direct or indirect financial interest in the claim shall not participate in the selection of such additional panelist(s). Parties (including the Exchange) interested in the proceedings before such Arbitration Panel may make oral and written submissions thereto; provided, that any such submission must be made within seven calendar days of the selection of the Arbitration Panel, or, if the Arbitration Panel determines that delay in the resolution of the dispute may increase the loss, within such shorter period of time as the Arbitration Panel, in its discretion may prescribe.

(e) Out of the transaction fee charged by the Exchange for use of the services of an Order

Book Official, an amount, fixed from time to time by the Board of Directors (which amount may be zero), shall be paid into an Error Fund. The Error Fund shall be initially augmented by a one-time contribution by the Exchange of \$200,000 made prior to the commencement of options trading on the Exchange. In the discretion of the Board of Directors of the Exchange any cash contained in the Error Fund may from time to time be wholly or partially invested by the Exchange in securities issued or guaranteed by the United States and to the extent not so invested shall be deposited by the Exchange in its name in such depository or depositories as may be selected by the Exchange.

Contributions to the Error Fund shall be held separate and apart from the other assets of the Exchange; provided, that interest, or any return received, on investment of the Error Fund may, at the discretion of the Board of Directors, be added to the general assets of the Exchange, and, provided further, that the Board of Directors may withdraw all or any portion of the principal amount contained in the Error Fund upon thirty days written notice to the OTP Holder or OTP Firm. If the use of Exchange employees as Order Book Officials for options trading is ever discontinued, then any assets of the Error Fund remaining after the resolution of all outstanding claims arising under this Section shall become a part of the general assets of the Exchange.

(f) Except with respect to criminal, dishonest, or fraudulent acts of Order Book Officials or other acts of Order Book Officials to the extent the Exchange is indemnified for such acts, the Exchange shall not be liable to the OTP Holder or OTP Firm, and any successors or representatives thereof for any claims growing out of errors or omissions of an Order Book Official, and no assets of the Exchange shall be applied, or shall be subject, to any such liability except to the extent provided in this paragraph.

(i) If the Error Fund contains at least \$200,000 both (A) at the time recovery on the claim is granted and (B) at any time during the trading day on which the transaction giving rise to the claim occurs, then the Exchange shall not be liable or responsible for any errors or omissions of an Order Book Official giving rise to such claim except to the extent of the Error Fund existing at the time recovery on the claim is granted. If a number of claims subject to this subparagraph arise from transactions occurring on the same trading day and cannot be fully satisfied out of amounts existing in the Error Fund, then final recovery on each such claim shall be deemed to be given on the same day and such recovery shall be limited to a pro rata share of the amount existing in the Error Fund at that time.

(ii) Notwithstanding subparagraph (i) of this paragraph or any other provision of this Rule 6, recovery on any one claim, against the Error Fund or against the Exchange, or against the Error Fund and the Exchange together, shall not exceed \$100,000. The Board of Directors may, from time to time, by an amendment to this Rule, set further limits with respect to recovery for particular types of claims.

(iii) Should an OTP Holder or OTP Firm fail to close out an uncomparated trade in the period of time provided in Rule 6.21, then the Exchange's liability with respect to any claims arising from such trade shall be limited to the least recovery as measured by: (A) the recovery permitted by subparagraph (i) of this paragraph; (B) the recovery permitted

by subparagraph (ii) of this paragraph; (C) the loss which would have been experienced by the OTP Holder or OTP Firm if the uncomparated trade had been closed out at the opening of trading on the day provided in Rule 6.21 for the closing out of such uncomparated trade; or (D) the actual loss realized by the OTP Holder or OTP Firm making the claim.

(g) If any damage is caused by an error or omission of an Order Book Official which is the result of any error or omission of an OTP Holder or OTP Firm, then such OTP Holder or OTP Firm shall indemnify the Exchange and the Order Book Official and hold them harmless from any claim of liability resulting from or relating to such damage.

(h) Except to the extent this Rule provides for the contrary, nothing contained in this Rule 6.59 shall in any way limit, waive, or proscribe any defenses the Exchange may have to any claim, demand, liability, action or cause of action, whether such defense arises in law or equity, or whether such defense is asserted in a judicial, administrative, or other proceeding.

*Commentary :*

.01 The limitations of liability referred to in this Rule 6.59 are applicable only to claims against the Exchange by OTP Holders or OTP Firms, and any successors or representatives thereof. These provisions of limited liability have no applicability to claims of or liabilities, if any, to other persons.

.02 Nothing contained in this Rule 6.59 shall, in any way, limit the PCX's ability to authorize an Order Book Official to enter into a transaction either for the purpose of satisfying its obligation to the book or for the purpose of correcting a trade made in error by an Order Book Official.]

\* \* \*

### **Trading Rotations**

Rule 6.64(a). A "trading rotation" is a process by which trading is initiated in a specified options class. [Two Trading Officials or the Exchange may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market. For each rotation so employed, two Trading Officials or the Exchange must specify the particular option contracts to be included and the sequence of such option contracts in the rotation. Two or more trading rotations may be employed simultaneously, if two Trading Officials or the Exchange so prescribe.] Trading rotations may be employed at the opening and at the close of the Exchange each business day. Trading rotations, when held, will be conducted by the Trading [Order Book] Official acting in such class of options. The rotations will be conducted in the following manner:

(b) Reserved. [Opening Rotations. The opening rotation, when used, will be held promptly following the opening of the underlying security or Exchange-Traded Fund Share on the principal market where it is traded. The Order Book Official will follow the following procedures when conducting an opening rotation:

(1) As a rule, an Order Book Official acting in more than one class of options should open them in the same order in which opening transactions are reported in the underlying securities or Exchange-Traded Fund Shares. In conducting each such opening rotation, the Order Book Official should first open the one or more series of options of a given class having the nearest expiration, and then proceed to series of options having the next distant expiration, and so forth, until all series have been opened.

(2) Prior to the opening of the underlying security on the primary market, the OBO will try to determine from the Floor Brokers the size and prices of those customer orders which are near the previous closing prices of those classes traded at the post.

(3) The OBO will then ask the Floor Brokers in the crowd what customer orders they are holding to be executed at the opening and, when possible, match all customer orders at the appropriate price.

(4) Except as other provided by two Trading Officials or the Exchange, if both puts and calls covering the same underlying security or Exchange-Traded Fund Shares are traded, the Order Book Official will determine which type of options could open first, and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions.

(5) After the underlying security has opened, the OBO will request markets in each of the series traded at the post from the primary Market Makers at the post.

(6) If the OBO believes that the response to a request for a market is insufficient either as to price or size, the OBO may request markets from each Market Maker who did not respond and/or may call for supplemental Market Makers.

(7) If imbalances occur the OBO will allocate to the Market Maker or Market Makers who established that price.

(8) Broker-dealer orders and/or Market Maker orders held by Floor Brokers with limit prices better than the opening price are not entitled to participate in the opening rotation unless the OBO has called for Market Maker and/or broker-dealer participation in response to an imbalance of customer orders.

#### Automated Opening Rotations]

(c) Reserved. [Automated Opening Rotations. The Exchange will designate option issues that are eligible for automated opening rotations pursuant to this Rule 6.64(c). The Exchange will also designate option issues that are eligible for automated opening rotations pursuant to Rule 6.64(d). If an option series has not been designated as eligible for automated opening rotations pursuant to Rule 6.64(d), and if that series is not opened automatically pursuant to Rule 6.64(c), then that series will be opened manually pursuant to Rule 6.64(b).

(1) Establishing a Market for the Opening Rotation: Prior to the opening rotation in a particular option series, the Order Book Official will determine whether there are any manual orders being represented in the trading crowd to be executed during the opening rotation. In doing so, the Order Book Official will call for bids and offers from the trading crowd once the underlying security has opened. The trading crowd may determine that the bids and offers then being displayed on the overhead screens are accurate, or alternatively, may modify those bids and offers by public outcry.

(2) Designating Series that are Not Eligible for the Automated Opening Rotation. The Order Book Official must identify, prior to the opening, all option series that are not eligible for the automated opening rotation. These series include:

(A) Series for which there are no market or marketable limit orders in the POETS system.

(B) Series for which there are one or more manual orders being represented in the trading crowd that are likely to be executed during the opening rotation, as determined by an Order Book Official.

(C) Series for which one or more OTP Holder or OTP Firm of the trading crowd has reasonably requested that a manual opening rotation be conducted. Two Trading Officials or the Exchange may deny OTP Holder or OTP Firm requests for manual opening rotations in the absence of reasonable justification for doing so.

(D) Series in which the "imbalance threshold" has been exceeded. Prior to the opening, the OBO, in conjunction with the Lead Market Maker in the issue, will set for each option issue a number of contracts that constitutes an imbalance threshold, i.e., a specific number of option contracts to buy in excess of the number of contracts to sell or a specific number of contracts to sell in excess of the number of contracts to buy. The POETS system will not automatically open any series with an imbalance exceeding the threshold for that issue.

(3) Automated Opening Rotations. Series eligible for the Automated Opening Rotation will be opened automatically based on the following principles and procedures:

(A) The POETS system will determine a single price at which a particular option series will be opened, as provided in Commentary .01, below.

(B) Orders in the system will maintain priority over Market Maker bids and offers. Orders in the system will be matched up with one another, if possible, before they are executed against the accounts of Market Makers participating on the Automatic Execution System.

(C) If there is an imbalance in the number of contracts to buy or sell at the opening, then the imbalance will be cleaned up by the Market Makers who are

participating on the Automatic Execution System. Accordingly, each Market Maker will be assigned a number of option contracts for execution until the imbalance has been exhausted. When the Auto-Ex System assigns the imbalance of contracts to Market Makers, the assignments will be made in the same manner in which option contracts are allocated to Market Makers who are participating on the Auto-Ex System pursuant to Rule 6.87. The maximum number of contracts assigned will be the same as the number assigned under the Auto-Ex procedures established pursuant to Rule 6.87.

(4) Manual Accommodation of Non-Bookable Orders. If a non-bookable order is represented in the trading crowd and disclosed to the Order Book Official prior to the opening rotation, and if the order is either a market order or a limit order with a limit price equal to the opening price of the particular series, then that order will be entitled to an execution immediately following the opening of that series as follows:

(A) If the order is a market order or limit order for a public customer, the order will be filled in its entire size by the Market Makers in the trading crowd (assuming that any contingency accompanying the order is satisfied).

(B) If the order is a limit order for a broker-dealer, the order will be entitled to be filled up to a number of contracts equal to a pro rata share of the number of contracts that the Auto-Ex system assigns to the Market Makers in the trading crowd pursuant to subsection (3), above. If a broker is holding more than one order to trade at the same limit price, then that broker is limited to no more than one pro rata share of the number of contracts that the Auto-Ex System assigns to the Market Makers.]

#### PCX Plus Automated Opening Rotations

(d) The following Rule 6.64(d) will apply to automated opening rotations [in options designated for trading] under PCX Plus, pursuant to Rule 6.90.

(1) Establishing a Market for the Opening Rotation. The PCX Plus system will accept market and limit orders and Quotes with Size for inclusion in the opening rotation process ("Rotation Process") up until the Rotation Process is initiated in that option series. Contingency orders (except for "opening only" orders) will not participate in the Rotation Process. Market orders will have priority over limit orders during the Rotation Process. Any open orders residing in the Consolidated Book from the previous trading session will be included in the Rotation Process. After the primary market for the underlying security disseminates the opening trade or the opening quote, the related option series will be opened automatically based on the following principles and procedures:

(A) PCX Plus will verify that a Quote with Size has been received from the LMM before a series is eligible for automated opening rotation.

(B) PCX Plus will determine a single price at which a particular option series will be opened, as provided in Commentary .02, below.

(C) Orders in the PCX Plus system will maintain priority over Market Maker bids and offers that are not being represented in the Consolidated Book as Quotes with Size. Orders in the PCX Plus system will be matched up with one another, based on the priority rules as set forth in Rule 6.76(a); provided, however, that:

(i) Market Maker Quotes with Size will have priority over orders for Firms, Market Makers, and Non-OTP Holder or OTP Firm Market Makers during the Automated Opening Rotation; and

(ii) orders for the accounts of Firms, Market Makers, and Non-OTP Holder or OTP Firm Market Makers will be executed based on price/time priority.

(D) Following the opening, any unexecuted contracts will be represented as bids and offers on the Exchange.

(e) Closing Rotations. [Transactions may be effected in a class of options after 1:02 p.m. (Pacific Time) or, 1:15 p.m. (Pacific Time) for certain index options, if they occur during a trading rotation. Such a trading rotation may be employed in connection with the opening or reopening of trading in the underlying security or Exchange-Traded Fund Share after 12:30 p.m. (Pacific Time) or due to the declaration of a "fast market" pursuant to Rule 6.28. The decision to employ a trading rotation after 12:30 p.m. will be publicly announced on the Trading Floor prior to the commencement of such rotation and Book Staff should notify Floor Brokers by 12:50 p.m., if possible, that a closing rotation may be necessary. The closing rotation should commence at least ten minutes after the Trading Floor has been notified. No more than one trading rotation may be commenced after 1:02 p.m. If a trading rotation is in progress and Trading Officials or the Exchange determine that a final trading rotation is needed to assure a fair and orderly close, the rotation in progress will be halted and a final rotation begun as promptly as possible after 1:02 p.m. Any trading rotation conducted after 1:02 p.m. may not begin until ten minutes after news of such rotation is disseminated. Only orders that have been entered before 1:02 p.m. are eligible for execution during the closing rotation. As provided below, transactions may be effected in a class of options after the end of normal trading hours in connection with a trading rotation.

(1) [When a closing rotation is necessary, the Order Book Official shall use a single price closing procedure. In a closing rotation, customer orders will receive the same priority as they do during opening rotations.] A trading rotation may be employed whenever the Exchange concludes that such action is appropriate in the interest of a fair and orderly market. The factors that may be considered include, but are not limited to, whether there has been a recent opening or reopening of trading in the underlying security, a declaration of an unusual market condition pursuant to Rule 6.28, or a need for a rotation in connection with expiring individual stock options or index options, an end of the year rotation, or the restart of a rotation which is already in progress.

(2) [Except as otherwise provided by the Exchange, if both puts and calls

covering the same underlying security or Exchange-Traded Fund Share are traded, the Order Book Official shall determine the order of closing each series of such puts and calls in light of current market conditions, in the manner provided in paragraph (a) for opening rotations.] The decisions to employ a trading rotation in non-expiring options shall be disseminated prior to the commencement of such rotation. In general, no more than one trading rotation will be commenced after the normal close of trading.

(3) If a trading rotation is in progress and the Exchange determines that a final trading rotation is needed to assure a fair and orderly market close, the rotation in progress shall be halted and a final rotation begun as promptly as possible.

(4) Any trading rotation in non-expiring options conducted after the normal close of trading may not begin until five (5) minutes after news of such rotation is disseminated by the Exchange.

(f) Reserved [A closing trading rotation shall be employed for each series of individual stock options on the last business day prior to its expiration. The closing rotation shall commence at 1:02 p.m. Pacific Time, or after a closing price of the stock in its primary market is established, whichever is later. Open trading on expiring series of index options shall be permitted on the last business day prior to expiration until 1:15 p.m. Pacific Time, but a closing rotation for such expiring series of index options shall not be employed.]

(g) For those option classes and within such time periods as the Exchange may designate, OTP Holders or OTP Firms may, prior to opening rotation, enter option market quote indications based upon the anticipated opening price of the securities underlying such designated option class.

(h) Responsibility of Floor Brokers at the Opening.

(1) Rule 6.46(a) places a general responsibility upon Floor Brokers to use due diligence in executing orders entrusted to them. This will be interpreted to mean that Floor Brokers who do not fully cooperate with the Trading Official [OBO] or other OTP Holders or OTP Firms in creating a single price orderly opening, or fail to notify the Trading Official [OBO] of the size and price of orders that they anticipate executing at the opening, or attempt to execute at the opening orders that are clearly too late to participate in the opening rotations, may be deemed in violation of this Rule.

(2) Reserved. [As an aid in facilitating an orderly opening, the Exchange will permit OBOs, as a convenience to Floor Brokers, to match market orders during the opening or any subsequent rotation. Orders so matched will be entered into Price Reporting by the Trading Official OBO, and the Exchange will impose no charge for this service. However, a Floor Broker who elects to make use of this convenience must remain on the trading floor during the rotation. The Exchange has determined that the OBO is under no obligation to accept CFOs and cancels of market orders placed with the OBO once the opening rotation for option contracts covering the same underlying security has begun.]

(3) Reserved. [If a Floor Broker is unable to remain on the trading floor, he may notify the OBO that he has appointed another Floor Broker who will represent the order on his behalf in accordance with the provisions of Rule 6.66(d). If the Floor Broker fails to designate another Floor Broker to represent the order, the OBO shall select a Floor Broker in the crowd to receive the report copy and the provisions of Rule 6.66(d) will apply.]

(4) Floor Brokers holding eligible market orders during a rotation who do not choose to avail themselves of the above procedures are cautioned that they may not disrupt an opening price once arrived at, nor may they presume automatic inclusion of their order in the opening.

[*Commentary :*

*.01 Determining the Opening Price for Option Issues Not Designated for Trading on PCX Plus.* The appropriate price to be used in a single price opening on the Exchange is determined in the following manner: Once the trading crowd has established the bid and offering prices in a particular series, the Order Book Official will identify the number of contracts available to sell at the previously-established bid price and the number of contracts available to buy at the previously-established offering price.

(a) If the number of contracts available to sell at the bid price is greater than the number available to buy at the offering price, then the opening price will be the bid price.

(b) If the number of contracts available to buy at the offering price is greater than the number available to sell at the bid price, then the opening price will be the offering price.

(c) If eligible market and marketable limit orders can be completely satisfied by trading against other orders in the Book, then the market may open between the established bid and ask prices, with no Market Maker participation. For example, if the market is 2 - 2.25, with an order in the Book to sell 20 contracts at 2.10, and there is a market order to buy 5 contracts, the single price opening will occur with 5 contracts trading at 2.10. The opening price will always be on or between the established bid and offer.

(d) If there is no trading increment available at the half-way point between the bid and offering prices (e.g., as in the case of a market of 2 bid, 2.10 asked), then the opening price will be established at the price closest to the last sale price of option contracts in that series.]

[.02] (i) *Determining the Opening Price for Option Issues Designated for Trading on PCX Plus.* PCX Plus will determine a single price at which a particular option series will be opened. The opening price is that price at which the maximum number of contracts may be executed within the established market.

(1)[(a)] The opening price will always be on or between the bid and offer established by the Rotation Process.

(2)[(b)] If there are two or more prices at which the maximum number of contracts are executable within the established market, then the opening price will be the midpoint of the available prices. If, however, the midpoint of the available prices is not consistent with the minimum price variation ("MPV"), then the opening price will be determined as follows:

(a)[(1)] at the next higher (lower) price that is consistent with the MPV if that price is closer to the midpoint than the next lower (higher) price that is consistent with the MPV; or

(b)[(2)] if the next higher and lower prices that are consistent with the MPV are equidistant from the midpoint, then the opening price will be established at the next higher or lower price consistent with the MPV that leaves the least residual customer limit order volume; or

(c)[(3)] if the next higher and lower prices consistent with the MPV are equidistant from the midpoint price and leave equal residual customer limit order volume, then the opening will be determined at the next MPV that is greater than the midpoint price

(3)[(c)] If the opening price cannot be determined within the range of 75% of the lowest Quote with Size bid and 125 of the highest Quote with Size offer, then PCX Plus will initiate a Request for Quote ("RFQ") process as follows:

(a)[(1)] An RFQ will be sent to all Crowd Participants (as defined in Rule 6.1(b)(38)). The RFQ will indicate the series and the total sell (buy) interest at the lowest Quote with Size bid (highest Quote with Size offer), if insufficient bids (offers) have been submitted.

(b)[(2)] All opening eligible bids and offers will continue to be accepted during the RFQ period for inclusion in the opening transaction calculation. At the conclusion of the RFQ period, the Rotation Process will determine an opening price pursuant to subsection (i) above. [(2)of this Commentary .02.]

(c)[(3)] If the Rotation Process cannot be completed after the first RFQ, a second RFQ will be disseminated.

(d)[(4)] If the Rotation Process cannot be completed following the second RFQ period, a third, expanded, RFQ will be disseminated to all Crowd Participants and any other Market Makers logged on to the system. The expanded RFQ will include the series; the volume representing the total sell (buy) interest at the lowest Quote with Size bid (highest Quote with Size offer), if insufficient bids (offers) have been submitted; and the side of the market with the imbalance.

(e)[(5)] If the Rotation Process cannot be completed following the third RFQ period, an alert will be generated to Exchange staff. No additional RFQs will be disseminated. The Rotation Process will attempt to open the series every 30 seconds until it can be successfully completed.

[.03 *Pilot Program*. The Automated Opening Rotation System set forth in Rule 6.64(c) is subject to a pilot program, which is set to expire on March 31, 2005.]

### **Trading Halts and Suspensions**

Rule 6.65(a) – (b) – No Change.

(c) Options Floor Trading Halt Guidelines. Trading halts are, by definition, unusual market conditions. Accordingly, all of the precise circumstances of a trading halt cannot be anticipated. An evaluation of all the circumstances at the time a trading halt is under consideration is critical. Except as provided below, to ensure consistent application of the Exchange's trading halt guidelines, such decisions shall be made by a [two] Trading Official[s] [or an Exchange Official]. Bearing in mind the need to exercise discretion in response to particular circumstances as they occur, the following are guidelines for trading halts at the Exchange under varying circumstances:

(1) *No last sale and/or quotation dissemination either by the Exchange or by OPRA*. At the outset, a time-critical review by a [two] Trading Official[s] and an [senior] Exchange officer [Official] (the "group") will be made of the circumstances causing the failure of dissemination. If it is believed by the group that the dissemination will resume in less than 15 minutes, trading ordinarily will continue and a message will be given to the news wire services announcing the dissemination difficulty. If it is believed by this group that the dissemination problem will extend beyond 15 minutes, the [two] Trading Official[s] or the Exchange, in the Trading Official's [their] discretion, may impose a halt on all trading in affected securities or Exchange-Traded Fund Shares. In any event, [two] a Trading Official[s] or the Exchange may permit trading to continue for more than 15 minutes after a failure of dissemination only with the concurrence of an [senior] Exchange Officer [Official]. Trading may resume upon a determination by the group that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(2) *Primary market halts trading in one or more securities or Exchange-Traded Fund Shares for regulatory reasons*. Upon notification by the primary market of a regulatory trading halt of an individual equity security or Exchange-Traded Fund Share in the primary market, the Exchange may impose a trading halt in the individual stock option overlying the security or Exchange-Traded Fund Share so halted. Trading will resume upon a determination by a [two] Trading Official[s] or the Exchange that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading.

(3) *Primary market non-regulatory trading halt in one or more equity securities or Exchange-Traded Fund Shares.* Upon notification by the primary market of a non-regulatory trading halt of an individual equity security in the primary market, a[ny two] Trading Official[s or the Exchange], in the Trading Official's [their] discretion, may impose a trading halt in the individual stock option overlying the security so halted. Trading may resume upon a determination by the [two] Trading Official[s or the Exchange] that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(4) *The primary market halts trading floor-wide.* If the primary market halts trading floor-wide, the Exchange will halt trading in all individual equity options overlying the securities so halted in the primary market and will assess the viability of markets in the underlying securities, as measured by transactions and by share volume. In the event that it is determined by a [two] Trading Official[s] [or an Exchange Official], that sufficient markets will support trading other than on the primary exchange, the Exchange will resume trading. Generally the Exchange will notify OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(5) *Primary market is open but is unable to disseminate last sale or quotation information.* The Exchange's options trading ordinarily will remain open for trading unless, in the opinion of a [two] Trading Official[s or the Exchange], the absence of disseminated information will impede the ability of market makers to maintain fair and orderly markets in the option. The concurrence of an a [senior] Exchange officer [Official] is required if more than one option class is affected.

(6) *Over-the-counter quote dissemination halt.* A [Two] Trading Official[s or the Exchange], in his or her [their] discretion, may halt trading in options overlying over-the-counter securities or Exchange-Traded Fund Shares affected by such a quote dissemination halt upon first notification of the dissemination halt. Trading may resume upon a determination by [two] the Trading Official[s or the Exchange] that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading, Generally the Exchange will notify OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(7) *Expiration Friday trading in individual equity options.* In the event that any of the foregoing should occur on expiration Friday, it is the preference of the Exchange to allow trading to continue on that date. This will be a primary consideration in the assessments to be made by the Trading Official[s] [or an Exchange Official].

(8) *Dissemination of news after the close of trading in the primary market.* A[ny two] Trading Official[s] [or an Exchange Official] may halt trading in any security or Exchange-Traded Fund Share in the event of disseminated news that causes the Trading Official[s] [or the Exchange Official] to believe that trading in options should be halted to

allow market participants an opportunity to consider the effect of the news on pricing of trades. A [Two] Trading Official[s] [or an Exchange Official] will then decide whether and, if so, when to recommence trading. This may occur after the primary market of the underlying security has closed for the day, in which event, the decision may be to not resume trading until the next trading day or to have a closing rotation after appropriate notification to the public.

*Commentary :*

.01 In the event that trading in an underlying stock or Exchange-Traded Fund Share has not opened in the primary market for such stock or Exchange-Traded Fund Share within a reasonable time after the time set for the opening of trading on the Exchange, the Trading [Order Book] Official shall report the delay to an Exchange officer [Options Trading Official assigned to his zone] and appropriate steps shall be taken to determine the cause for the delay. The opening of trading in such options shall be delayed until the underlying stock or Exchange-Traded Fund Share has opened unless the Exchange shall determine that the interest of a fair and orderly market are best served by opening trading in such options.

.02 In the event that trading in any option is halted, it will be the responsibility of [one of] the [Options] Trading Official[s] who authorized the trading halt [or the Exchange Official and of the Order Book Official assigned to the option with respect to which trading was halted,] to file a report with the Exchange Operations setting forth the time and duration of such halt and the reasons therefore.

.03 For purposes of this Rule, a "regulatory halt" is a halt that is initiated by a regulatory authority in the primary market and a "non-regulatory halt" is a halt initiated by floor staff or at the request of a Market Maker or Trading Crowd in the primary market. For example, regulatory halts may be initiated by [E]xchange [S]taff in the primary market if listing or maintenance requirements are not met [;] ; if there is a need for dissemination of news regarding market developments or material information; or at the request of the issuer. Examples of non-regulatory halts in the primary market would be requests by OTP Holder or OTP Firm due to an influx, or imbalance of orders, or by Trading Officials [or the Exchange] due to volatility in market conditions [;] , or natural disasters.

**Order Identification**

Rule 6.66(a) – (c) – No Change.

(d) Floor Broker Identification. A Floor Broker acting as an agent for another Floor Broker in effecting a transaction must give up his or her own name as executing OTP Holder. The practice of a Floor Broker acting as an agent for another Floor Broker and giving up the name of the latter as executing OTP Holder, as though the latter were on the Floor and had actually made the trade, will not be permitted. [This procedure shall apply in particular to situations arising from the matching of customer orders by the OBO during a rotation, as well as all other appropriate situations.] The basis for this Rule lies in Rule 6.77, which states that all bids or offers made and accepted in accordance with

the Rules shall constitute binding contracts. Since these contracts are binding upon the OTP Holders or OTP Firms who actually effected the transactions, their names must appear thereon.

\* \* \*

### **Order Format and System Entry Requirements**

Rule 6.67(a) – (c) – No Change.

(d)(1) Exceptions to EOC or Electronic Tablet Entry Requirement. The EOC or Electronic Tablet entry requirement provision of subsection (c) will not apply to the following:

(A) Any EOC or Electronic Tablet system disruption or malfunction as confirmed by a [two] Trading Official[s or Exchange staff (as designated by the Chief Regulatory Officer)].

(B) – No Change.

(2) EOC/Electronic Tablet Contingency Reporting Procedures. If the exception set forth in subsection (d)(1)(A) applies, then the following procedures must be followed:

(A) – (B) – No Change.

(C) If there is an EOC or Electronic Tablet system disruption/malfunction as set forth in subsection (1)(A), the EOC or Electronic Tablet order entry requirements in Rule 6.67(c) will be reinstated once the disruption/malfunction to the EOC or Electronic Tablet system has been corrected as determined by a [one] Trading Official [or Exchange staff (as the case may be)]. Once the disruption/malfunction to the EOC or Electronic Tablet system has been corrected, all OTP Holders and OTP Firms affected by the system disruption/malfunction must input all relevant orders into an EOC device via the "as-of" field, noting the times of events of the orders. The required information must be entered into EOC by such prescribed period of time, as determined by the Exchange, following the trade, but no later than the end of the trading day that such trade occurred (or on the day the order was received if no trade was executed). Any OTP Holder or OTP Firm who fails to follow such procedures will be subject to disciplinary action pursuant to Rule 10.

(e) – No Change.

\* \* \*

### **Manner of Bidding and Offering**

Rule 6.73. To be effective, a bid or offer must either be represented electronically in the Consolidated Book or be made by open [public] outcry at the trading post where the option is traded. All bids and offers shall be general ones and shall not be specified for acceptance by particular OTP Holders or OTP Firms.

*Commentary :*

.01 Open [Public] Outcry/Trading Official [OBO] Awareness. The "open [public] outcry" requirement means that vocalization of market quotes (Rule 6.73) and transactions (Rule 6.69(.01)) at the post where the option is traded to be effective, must be in a tone loud enough to be heard by the OTP Holders and OTP Firms in the trading crowd. The Trading Official [OBO], under the provisions of Rule 6, has specific responsibilities and obligations for a fair, orderly and competitive marketplace. In addition, the [OBO, with the concurrence of two] Trading Official[s] [or the Exchange and] having solicited comments from the crowd, can require the revocalization of any transaction in dispute. Any transaction not meeting the "open [public] outcry" definition will be deemed a "whisper trade" and in violation of the provisions of "just and equitable principles of trade."

\* \* \*

### **Priority and Order Allocation Procedures For Open Outcry**

Rule 6.75. Except as provided by Rule 6.76 below, the following rules of priority shall be observed with respect to orders executed by open outcry [bids and offers]:

(a) Priority of bids. The highest bid shall have priority but where two or more bids for the same option contract represent the highest price and one such bid is displayed in the Consolidated Book [by the Order Book Official in accordance with Rule 6.55], such bid shall have priority over any other bid at the post. If two or more bids represent the highest price and a bid displayed in the Consolidated Book [by an Order Book Official] is not involved, priority shall be afforded to such bids in the sequence in which they are made.

(b) Priority of offers. The lowest offer shall have priority, but where two or more offers for the same option contract represent the lowest price, priority shall be determined in the same manner as specified in paragraph (a) in the case of bids.

### **Simultaneous Bids and Offers**

(c) Except as otherwise provided, if the bids (or offers) of two or more OTP Holders or OTP Firms are made simultaneously, or if it is impossible to determine clearly the order of time in which they were made, such bids (or offers) will be deemed to be on parity and priority will be afforded to them, insofar as practicable, on an equal basis.

(d) Reserved. [*Opening rotations*. The following priority rules will apply when a manual opening rotation is employed pursuant to Rule 6.64(b):

(1) In order to achieve a single price opening, the Order Book Official may give market orders, entitled to participate in the opening, priority over limit orders at the same opening price on the Order Book Official's Book. The Exchange shall establish a cut-off time for orders entitled to participate in the opening.

(2) The Order Book Official, while conducting an opening rotation, will attempt to match all public customer orders (of which he has knowledge) at a single price. If there exists an imbalance of public customer orders the Order Book Official will seek market maker and firm participation to establish the opening price.

(3) Broker/dealer orders and/or Market Maker orders held by Floor Brokers with limit prices better than the opening price are not entitled to participate in the opening rotation unless the OBO has called for Market Maker and/or broker-dealer participation in response to an imbalance of customer orders.]

(e) Notwithstanding anything in paragraphs (a) and (b) to the contrary, when a OTP Holder or OTP Firm holding a spread order, a straddle order, or a combination order and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with or within the bids and offers displayed in the Consolidated Book [by the Order Book Official or other OTP Holders or OTP Firms], in procedures determined by the Exchange, then the order may be executed as a spread, straddle, or combination at the total credit or debit with one or more OTP Holder or OTP Firm without giving priority to bids or offers for the individual option series in the Consolidated Book [of the Order Book Official or of other OTP Holders or OTP Firms] at the post that are no better than the bids or offers comprising such total credit or debit. Under the circumstances described above, a stock/option or SSF/option order has priority over the bids and offers of OTP Holders or OTP Firms in the trading crowd but not over the customer bids and offers in the Consolidated Book [of the Order Book Official].

### **Order Allocation Procedures**

(f) Determination of Time Priority Sequence.

(1) *Floor Brokers.* A Floor Broker is responsible for determining the sequence in which bids or offers are vocalized on the Trading Floor in response to the Floor Broker's bid, offer or call for a market. Any disputes regarding a Floor Broker's determination of time priority sequence will be resolved by the Trading [Order Book] Official, provided that such determinations of the Trading [Order Book] Official are subject to further review by an Exchange officer [two Trading Officials or the Exchange], pursuant to Rule 6.77.

(2) – No Change.

(3) *Market Makers and Trading [Order Book] Officials.* A Market Maker is responsible for determining the sequence in which bids and offers are vocalized on the Trading Floor in response to that Market Maker's bid, offer or call for a market. Likewise, a[n] Trading [Order Book] Official is responsible for determining the sequence in which bids and offers are vocalized on the Trading Floor in response to the Trading [Order Book] Official's bid, offer or call for a market. The order allocation procedures for Market Makers and Trading [Order Book] Officials, including the determination of

time priority sequence, are the same as those for Floor Brokers as set forth in this Rule 6.75(f).

(4) LMM Guaranteed Participation.

(A) – No Change.

(B) If one or more orders in the Consolidated Book [limit order book] have priority over an LMM's bid or offer, then the LMM's guaranteed participation level will apply only to the number of contracts remaining *after* all contracts in the Consolidated Book [limit order book] that are at, or better than, the LMM's bid or offer have first been satisfied.

(C) – (E) – No Change.

(5) – (6) – No Change.

(g) – (h) – No Change.

*Commentary :*

[.01 Such priority of bids not in the book may be pre-empted, however, by a new "Buy" order being accepted by the Order Book Official, if such order is at a price equal to or higher than the highest bid then existing in the crowd at the post. The priority of offers will be similarly affected by new "Sell" orders accepted by the Order Book Official, if such order is at a price equal to or lower than the lowest offer then existing in the crowd at the post. The Order Book Official must announce at the time of accepting the order, that the existing bid or offer in the crowd has been preempted by the new order in the book.

.02 The Exchange has adopted the following guideline regarding orders to sell at a price of .10 or 1/16 :

When an Order Book Official is displaying, pursuant to Rule 6.55, limited orders to sell at .10 or 1/16 which have priority pursuant to Rule 6.75, no Floor Broker or Order Book Official shall hold a market order to sell that series. Whenever this condition occurs, Floor Brokers and Order Book Officials shall immediately return any held orders to the OTP Holders and OTP Firms' floor communication station clearly marked "Market Order Unacceptable --.10 or 1/16 limit in book." The OTP Holder or OTP Firm initiating the order on the Floor shall immediately transmit a request for a cancellation of the market order or a change to a limit order back to the office originating the order.

.03 *Procedure for Entering Orders in the Book Under Certain Circumstances.* Rule 6.75 provides that priority as between two or more bids representing the highest price or two or more offers representing the lowest price shall be determined in accordance with the sequence in which the bids or offers are made, except that any such bids or offers displayed by the Order Book Official shall have priority. A condition may arise in which

a Floor Broker holding a public order has been actively bidding or offering at a price better than that existing in the Book; and, subsequently, a new public order which would include a cancel/replace order ("CFO") enters the crowd to be placed on the Book at a price equal to said bid or offer held by the Floor Broker. In the best interest of all public orders competing at the same price, under such circumstances, the earlier order should be afforded the opportunity to be entered on the Book prior to the new order provided, however, that a CFO that merely reduces the size of an existing order on the Book will not be considered to be a new order.

This procedure is applicable only to such an earlier order that has been actively represented in the crowd. This will be interpreted to mean that it has been bid or offered at a specific price by public outcry for a period of time, and will not apply to any orders represented in the crowd whose existence has not been clearly evident to other participants. Additionally, this procedure will apply only when a single Floor Broker is making the best bid or offer in the crowd. If two or more Floor Brokers are competing at the same price, and a new equal order is entered in the Book, neither of the original competing Brokers will be entitled to precede the new order since they had, in effect, waived their rights to priority by competing with each other.]

.01[.04] *Combination, Spread, Ratio, and Straddle Orders*. Following are the proper trading procedures for combination, spread, ratio, and straddle orders:

(a) – (e) – No Change.

(f) If there is a customer interest in the Consolidated Book which creates a Locked Book Market. The situation may occur when the only prices at which the order may be executed are equal to the Consolidated Book's bids or offers for both series involved in the order. If those prices are the only prices at which the order may be executed, then the order will be given priority over the Consolidated Book. For example, a Floor Broker enters the crowd with a spread order to sell the XYZ April 20/July 20 call spread for a credit of 1. The Consolidated Book's bids and offers for these two series are:

XYZ April 20: [.90] 1.00 – [1.20] 1.05

XYZ July 20: 2 – [2 1/6] 2.05

Consolidated Book's market for the April 20/July 20 spread is [15/16] .95 – [1 1/16] 1.05.

The spread cannot be executed by accepting the Consolidated Book's bid of 2 for the XYZ July 20s and the Consolidated Book's offer of the XYZ April 20s at [1 1/16] 1.05. There are no other prices within the Consolidated Book's bids and offers at which the spread may be done. The spread may be done, however, if the XYZ July 20s are sold at [2 1/16] 2.05 and the XYZ April 20s are bought at [1 1/16] 1.05 or the July 20s are sold at 2 and the April 20s are bought at 1. Although these prices are equal to both Consolidated Book bids or both Consolidated Book offers, this spread may be done in the crowd with one other member on a one-for-one basis at 1 and 2 or [1 1/16] 1.05 and [2 1/16] 2.05.

### **Priority and Order Allocation Procedures**

Rule 6.76. [The rules of priority and order allocation procedures set forth in this Rule 6.76 will apply to option issues designated by the Exchange to be traded in PCX Plus. The maximum size of an inbound order that may be eligible for execution on PCX Plus pursuant to Rule 6.76(b) ("the Maximum Order Size") will be initially established by the LMM in the issue, subject to the approval of the Exchange. Any request by the LMM for changes to the Maximum Order Size must be accompanied by a verified statement indicating the business reason for the change and the estimated duration of such change. Such requests must be approved by two Trading Officials, whose approval must be further ratified by the Exchange. An LMM is prohibited from requesting changes to the Maximum Order Size in order to manipulate the operation of PCX Plus or for any anti-competitive purposes.]

(a) – No Change.

(b) PCX Plus Executions. This subsection (b) addresses situations in which orders or Quotes with Size are executed through PCX Plus.

(1) An inbound order that is marketable will be immediately executed against bids and offers in the Consolidated Book[, unless the size of the inbound order exceeds the Maximum Order Size established pursuant to Rule 6.76.]

[If it does exceed the Maximum Order Size, the order will be represented in the trading crowd pursuant to Rule 6.76(d)].

(2) – (4) – No Change.

(5) NBBO Step-Up.

(A) The LMM in an issue may "Step-Up" and execute inbound orders at the NBBO price when the NBBO is better than the PCX's disseminated quote. Subject to the approval of a [two] Trading Official[s or the Exchange], the LMM will have sole discretion to determine whether the NBBO Step-Up feature:

(i) – (iii) – No Change.

(B) – (C) – No Change.

(c) – No Change.

(d) Orders Executed Manually.

(1) Floor Brokers manually representing orders in the trading crowd must comply with the order execution and priority principles set forth in Rule 6.75 and, in addition, with the following provisions establishing priority for bids and offers by account type:

(A) [Public] Customer orders in the Consolidated Book have first priority. Multiple customer orders at the same price are ranked based on time priority.

(B) Bids and offers of the OTP Holders or OTP Firms of the trading crowd have second priority. These bids and offers include those made by Market Makers and Floor Brokers (on behalf of orders they are representing).

(C) Bids and Offers of broker-dealers (including Quotes with Size and orders of Market Makers) in the Consolidated Book have third priority. Multiple bids and offers of broker-dealers will be executed on a size pro rata basis pursuant to Rule 6.76(a).

[*Commentary* :

.01 The provisions of Rule 6.90 will apply to transactions automatically executed pursuant to Rule 6.76(b), above.

.02 For purposes of Rule 6.76(b)(4)(B)(ii), during the initial rollout of PCX Plus, the Floor Broker Hand Held terminals will not have the functionality to support Floor Broker interaction with EBEs via SAMs. Such functionality will become available to Floor Brokers on or before December 31, 2004. The PCX will file a proposed rule change with the Commission when the Floor Broker Hand Held terminals have such functionality.]

### **Contract Made on Acceptance of Bid or Offer**

Rule 6.77 – No Change.

*Commentary* :

.01 A [Two Options] Trading Official[s or the Exchange] may nullify a transaction or adjust its terms if they determine the transaction to have been in violation of any of the following:

(a) Rule 6.73 (Manner of Bidding and Offering);

(b) Rule 6.75 (Priority [of Bids and Offers] and Order Allocation Procedures);

[(c) Rule 6.56 (Transactions Outside Order Book Official's Last Quoted Range)];

(c)[(d)] Rule 6.76 (Priority [on Split Price Transactions] and Order Allocation Procedures);

(d)[(e)] Rule 6.86 ( [Trading Crowd] Firm [Disseminated Market] Quotes).

(e)[(f)] Rule 6.66(c) (*Order Identification: Broker-Dealer Orders*: Failure to identify a

broker-dealer order, provided that the transaction may be nullified or its terms may be adjusted only if the transaction is for 20 contracts or less).

### **Transactions Off the Exchange**

Rule 6.78 (a) – No Change.

(b) Transactions as Agent. No OTP Holder or OTP Firm shall effect an off-board transaction (off a participating exchange) as agent, involving any purchase or sale of an option for a premium in excess of \$1.00 covering the same underlying security and having the same exercise price and expiration date as a series of options currently open for trading on the Exchange unless the OTP Holder or OTP Firm insures that, either immediately before, simultaneously with or immediately after execution of such transaction off a participating exchange, bids or offers entered on the Consolidated Book [Order Book Official's book], for options covering the same underlying security and having the same exercise price and expiration date as the option that was the subject of such transaction off a participating exchange, as limited price orders at prices equal to or better than the price of such transaction off a participating exchange are satisfied at the limit prices bid or offered.

(c) – (d) – No Change.

(e) Transfer of Positions Offered on the Floor. "Transfer of positions offered on the floor" is defined as moving an OTP Holder or OTP Firm ownership interest in securities from its account to an account of another OTP Holder or OTP Firm or person in circumstances other than those set forth in subsection (d)(1).

(1) *Transfer Procedure for Positions Offered on the Floor.* An OTP Holder or OTP Firm seeking a transfer must offer the positions on the floor in the following manner:

(A) – (B) – No Change.

(C) A Transfer Package consisting of positions in an option issue and other financial instruments must be offered at the FLEX post. In addition, notice must be given to the Trading Official [OBO] of each post (or the LMM for the particular issue, as appropriate) where a component of the Transfer Package trades. The Trading Official [OBO] will announce the pending transfer of positions prior to the offer being made at the FLEX post.

(D) – (E) – No Change.

(F) Acceptance of the best bid or offer ("BBO") creates a binding contract under Rule 6.77. The Transferor is not obligated to accept the BBO. If the Transferor does not accept the BBO, the Transferor may request an exemption pursuant to paragraph (f) of this Rule, or may offer the Transfer Package(s) (or the Transfer Positions in any other allowable combination) on the floor the next day pursuant to the procedures in this

Rule. If the Transferor decides not to accept a BBO on a second day, the Transferor must request permission of a [two] Trading Official[s or the Exchange] to offer the Transfer Positions on any subsequent day(s).

(G) The "Request Response Time" for a "Request for Quotes" for Transfer Packages is two hours. The transferor may apply to a [two] Trading Official[s or the Exchange] to have a Request Response Time for a transfer procedure that is less than two hours, where the Transfer Package is not complicated, or that is greater than two hours, where the complexity of the particular Transfer Package warrants the additional time.

(H) A Request for Quotes that is to be submitted later than 11:00 a.m. Pacific Time must have the approval of a [two] Trading Official[s or the Exchange]. In no event may a Request for Quotes be submitted to the floor later than 12:30 p.m. Pacific Time.

(I) – (J) – No Change.

(K) If equal bids or offers are received for a Transfer Package at a price accepted by the Transferor, the Transfer Package will be divided equally among all OTP Holders and OTP Firms submitting the bids or offers to the extent possible unless the parties submitting the bids or offers agree to a division in another manner. A [Two] Trading Official[s or the Exchange] will resolve Transfer Package division disputes.

(f) – No Change.

\* \* \*

### **Accommodation Transactions (Cabinet Trades)**

Rule 6.80(a) – No Change.

(b) Except as provided by subsection (c) below, the following provisions will apply to cabinet trading on the Exchange:

(1) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(2) Limit orders labeled at a price of \$1 per option contract must be placed with the Trading [Order Book] Official.

(3) Orders may be placed for customer, firm and Market Maker accounts, with priority based upon the sequence in which such orders are placed with the Trading [Order Book] Official. The split-price priority provisions of Rule 6.75(h) shall not apply.

(4) Market Makers shall not be subject to the requirements of Rule 6.37 for orders placed pursuant to this Rule.

(5) The Trading [Order Book] Official appointed to each class of option contracts shall be responsible for \$1 per contract orders for that class. All bids and offers must be submitted to the Trading [Order Book] Official in writing, and displayed as such in accordance with Rule 6.55, and the Order Book] The Trading Official shall effect all such transactions during the day by matching such orders placed with him. Bids or offers on orders to open for the accounts of customers or firms may be made at \$1 per option contract, but such orders must yield to all closing orders in the cabinet.

(6) All transactions at a price of \$1 per option contract shall be reported to the Exchange following the close of each business day.

(7) A[n] Trading [Order Book] Official who receives a closing buy order for \$1 per option contract shall attempt to execute the order against any \$1 closing sell orders in his possession. If any part of the buy order cannot be immediately executed the Trading [Order Book] Official shall display the \$1 bid.

The Trading [Order Book] Official shall effect all cabinet transactions by matching closing purchase or sale orders which have been placed in the cabinet or, provided there is no matching closing purchase or sale order in the cabinet by matching an opening purchase or sale order.

Upon receiving a closing sell order for \$1 per option contract the Trading [Order Book] Official shall attempt to execute the order at the best price available. If any part of the sell order cannot be immediately executed the Trading [Order Book] Official shall display the order as a \$1 per option contract offering. [However, since a market or a .10 buy order may come to the market next, the \$1 per contract closing sell order should be filed in time sequence with any order to sell at .10. This provides the ability to execute the closing sell order at \$1 per contract if a \$1 per contract buy order arrives next, or at .10 if a market or .10 buy order arrives next.]

(c) – No Change.

\* \* \*

### **Lead Market Makers**

Rule 6.82 (a) – (b) – No Change.

(c) Obligations of Lead Market Makers:

(1) – (4) – No Change.

(5) Be present at the trading post throughout every business day and, in addition, designate an approved LMM to act as a back-up LMM and notify a Trading Official [Book Staff] of such designation;

(6) – (14) – No Change.

## (d) Rights of Lead Market Makers:

(1) – No Change.

(2) *Guaranteed Participation.* LMMs shall be allocated 40% participation (or such lesser percentage as the Exchange may establish as a condition in allocating an issue to an LMM) in transactions occurring at their disseminated bids and/or offers in their allocated issue(s). LMMs will be entitled to their 40% guaranteed participation on ["public outcry"] open outcry trades only when present in the trading crowd. LMM participation may be greater than 40% as a result of successful competition by means of ["public outcry."] open outcry. LMMs at their own discretion may direct some or all of their participation to competing public orders in the crowd. Public orders placed in the book shall take priority pursuant to Exchange rules. Oversight and enforcement shall be the responsibility of the Trading Official [OBO].

(e) – (g) – No Change

## (h) LMM Performance of [Order Book Official,] Market Maker and Floor Broker Functions.

(1) – (2) – No Change.

(3) LMM Performance of Floor Broker Function.

(a) – No Change.

(b) LMMs may (but are not obligated to) accept non-discretionary orders that are not eligible to be placed in the Consolidated [Public Order] Book, and LMMs may represent such orders as Floor Brokers. An LMM may not represent discretionary orders, whether as a Floor Broker or otherwise. All orders in the LMM's possession that are eligible to be booked must be booked.

\* \* \*

**Limitations on Dealings of Lead Market Makers**

## Rule 6.83

(a)[.] No OTP Holder or OTP Firm, other than a Lead Market Maker ("LMM") acting pursuant to Rule 6.82, limited partner, officer, employee, approved person or party approved, who is affiliated with an LMM or OTP Holder or OTP Firm, shall, during the period of such affiliation, purchase or sell any option in which such LMM is appointed for any account in which such person or party has a direct or indirect interest. Any such person or party may, however, reduce or liquidate an existing position in an option in which such LMM is appointed provided that such orders are (i) identified as being for an account in which such person or party has a direct or indirect interest; (ii) approved for

execution by a Trading Official [or an Exchange Official] ; and (iii) executed by the LMM in a manner reasonably calculated to contribute to the maintenance of price continuity with reasonable depth. No order entered pursuant to this Subsection (a) shall be given priority over, or parity with, any order represented in the market at the same price.

(b) – (j) – No Change

\* \* \*

### **Market Maker Orders Executed By Floor Brokers**

Rule 6.85 (a) – (b) – No Change.

(c) A Floor Broker representing an order on behalf of a Market Maker order must verbally identify the order as such prior to consummating a transaction. Upon consummation of the transaction, the Floor Broker must, by open [public] outcry, inform the trading crowd of the identity of the Market Maker on whose behalf the order was executed, upon request by any OTP Holder or OTP Firms present in the trading crowd.

*Commentary:*

.01 – No Change.

.02 A Market Maker, having effected a transaction in a particular option class through the services of a Floor Broker, whether in an assigned option class or otherwise, is obligated, for the balance of the trading session, to make a market in the particular option class, upon a call by the Trading [Order Book] Official, pursuant to Rule 6.37.

.03 – No Change.

\* \* \*

### **Firm Quotes**

Rule 6.86(a). Applicability and Definitions

(1) – No Change.

(2) For purposes of this Rule and SEC Rule 11Ac1-1 as applied to the Exchange and its OTP Holders and OTP Firms, the term "Responsible Broker or Dealer" means that with respect to any bid or offer for any listed option made available by the Exchange to quotation vendors:

(A) [in the case of option issues designated for trading on PCX Plus,] the Lead Market Maker and any registered Market Makers who are quoting at the disseminated bid or offering price and who are constituting the trading crowd in such

option series will collectively be the Responsible Broker or Dealer to the extent of the sizes of their respective bids and offers, [; or

(B) for option issues not designated for trading on PCX Plus, the Lead Market Maker and any registered Market Makers constituting the trading crowd in such option series will collectively be the Responsible Broker or Dealer to the extent of the aggregate quotation size specified.]

(3) – No Change.

(b) – (d) – No Change.

\* \* \*

### **Obvious Error [Automatic Execution System]**

Rule 6.87[(a).Definitions. For purposes of Rule 6:

(1) The term "Auto-Ex" means the automated execution system feature of POETS that is owned and operated by the Exchange and that provides automated order execution and reporting services for options.

(2) The term "User" means any person or firm that obtains electronic access to Auto-Ex through an Order Entry Firm.

(3) The term "Order Entry Firm" means an OTP Holder or OTP Firm of the Exchange that is registered as an Order Entry Firm for purposes of sending orders to the Exchange for execution by Auto-Ex.

(b) Eligible Orders. The Exchange will designate options issues that are eligible for execution on the Auto-Ex system pursuant to this Rule. Option issues that are not eligible for execution pursuant to Rule 6.87 will be eligible for execution pursuant to Rule 6.90. The following types of orders are eligible for execution on the Auto-Ex system:

(1) Only non-broker/dealer customer orders are eligible for execution on the Exchange's Auto-Ex System, except that two Trading Officials or the Exchange may determine, on an issue-by-issue basis, to allow the following types of orders to be executed on Auto-Ex:

(A) Broker-dealer orders; or

(B) Broker-dealer orders that are not for the accounts of Market Makers or Specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

Broker-dealer orders entered through the Exchange's Member Firm

Interface (MFI) will not be automatically executed against orders in the limit order book. Broker-dealer orders may interact with orders in the limit order book only after being re-routed to a floor broker for representation in the trading crowd. Broker-dealer orders are not eligible to be placed in the limit order book pursuant to Rule 6.52.

(2) Notwithstanding subsection (1), above, broker-dealer orders for the lesser of five contracts or the Exchange's disseminated size are eligible for automatic execution on the Exchange's Auto-Ex System in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month.

(3) If two Trading Officials or the Exchange permit broker-dealer orders to be automatically executed in an issue pursuant to this Rule, then they may also permit the following with respect to such orders:

(A) The maximum order size eligibility for the broker-dealer orders may be less than the applicable order size eligibility for non-broker-dealer customer orders.

(B) Non-broker-dealer customer orders may be eligible for automatic execution at the NBBO pursuant to Rule 6.87(i) while broker-dealer orders are not so eligible.

(C) Broker-dealer orders may be re-routed for manual representation when the NBBO is crossed or locked pursuant to Rule 6.87(j) while non-broker-dealer customer orders would not be re-routed for manual handling in such circumstances.

(4) PCX Market Makers must assure that orders for their own accounts are not entered on the PCX and represented or executed in violation of the following provisions: Rule 6.84(h) (concurrent representation of a joint account), Rule 6.85(a) (concurrent representation of a market maker account), and Section 9 of the Securities Exchange Act of 1934 (wash sales).

(5) For purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

(6) The Exchange or its delegate consisting of two Trading Officials shall determine the size of orders that are eligible to be executed on Auto-Ex. They may approve requests of Lead Market Makers to execute orders on Auto-Ex in sizes greater than 20 contracts. Although the order size parameter may be changed on an issue-by-issue basis by the Exchange or its delegate, the maximum order size for execution through Auto-Ex is as follows:

(A) Equity Options: the maximum order size for execution through Auto-

Ex for equity options is 250 contracts except for options on the Nasdaq-100 Tracking Stock (QQQ) in which case, the maximum order size will be 2,000 contracts in the first two (2) near term expiration months and 1,000 contracts for all other expiration months;

(B) Index Options: the maximum order size for execution through Auto-Ex is 250 contracts.

(7) The OFTC or its delegate consisting of two Trading Officials or the Exchange may increase the size of Auto-Ex eligible orders in one or more classes of multiply traded equity options to the extent that other options exchanges permit such larger-size orders in multiply traded equity options of the same class or classes to be entered into their own automated execution systems. If the OFTC or its delegate, two Trading Officials or the Exchange intend to increase the Auto-Ex order size eligibility pursuant to this subsection, the Exchange will notify the Securities and Exchange Commission pursuant to Section 19(b)(3)(A) of the Exchange Act.

(c) Order Entry Firm Registration. Participation in Auto-Ex as an Order Entry Firm requires registration with the Exchange. Continued registration depends upon the Order Entry Firm's initial and continuing compliance with the following requirements:

(1) execution of an Auto-Ex Order Entry Firm Application Agreement with the Exchange;

(2) compliance with all applicable PCX options trading rules and procedures;

(3) written notice must be provided to all Users regarding the proper use of Auto-Ex; and

(4) maintenance of adequate procedures and controls that will permit the Order Entry Firm to effectively monitor and supervise the entry of electronic orders by all Users. Order Entry Firms must monitor and supervise the entry of orders by Users to prevent the prohibited practices set forth in subsection (d).

(d) Prohibited Practices. Prohibited practices include, but are not limited to, the following:

(1) Entering an order for an account that is ineligible for execution on Auto-Ex pursuant to subsection (b), above.

(2) Dividing an order involving a single investment decision into multiple smaller lots for the purpose of meeting the order size requirements for Auto-Ex eligibility.

(A) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered within any 15-second period for the account of the same beneficial owner will be presumed to be based on a single investment decision.

(B) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered outside of any 15-second period for the account of the same beneficial owner will be deemed to be separate investment decisions; provided, however, that no Order Entry Firm may divide up or permit an existing order to be divided up to make its parts eligible for entry into Auto-Ex.

(3) Entering orders via POETS to perform a market making function as provided in Rule 6.88(c).

(4) Effecting transactions that constitute manipulation as provided in PCX Rule 11.5 and SEC Rule 10b-5.

(e) Market Maker Requirements and Eligibility. Any Exchange OTP Holder or OTP Firm who is registered as a Market Maker and who has obtained written authorization from a clearing member is eligible to participate on the Auto-Ex system, subject to the following conditions and requirements:

(1) A Market Maker is only eligible for Auto-Ex at one trading post that is within that Market Maker's primary appointment zone. However, participants in a joint account may log onto Auto-Ex in a trading crowd outside of their primary appointment zones, but only if they are substituting for another participant in the same joint account and they have obtained the approval of two Trading Officials or the Exchange. Market Makers who have not been assigned a primary appointment zone may not participate on the Auto-Ex system. All Auto-Ex transactions made on behalf of a Market Maker will count toward that Market Maker's in-person requirement. If an option issue is included in a Market Maker's primary appointment zone, then Auto-Ex transactions in that issue that are made on behalf of that Market Maker will count towards that Market Maker's primary appointment zone requirement.

(2) All Auto-Ex trades to which a Market Maker is a party will be assigned to and clear into that Market Maker's designated account. Market Makers may designate that their Auto-Ex trades be assigned to and clear into either an individual account or a joint account in which that Market Maker is a participant. Unless exempted by two Trading Officials or the Exchange, only one participant in a joint account may use the account for trading in a particular option issue at one time.

(3) Unless exempted by two Trading Officials or the Exchange, Market Makers may log onto Auto-Ex only in person and may continue on the system only so long as they are present in that trading crowd. Accordingly, absent an exemption from the foregoing limitation, Market Makers may not remain on Auto-Ex, and must log off Auto-Ex, when they have left the trading crowd, unless the departure is for a brief interval. (Under normal circumstances, a brief interval is deemed to be 15 minutes.) A Market Maker who fails to comply with the foregoing log-off requirement will be subject to the following fines pursuant to Rules 10.13 and 10.14:

<i>Number of Failures in a Twelve-Month Period</i>	<i>Amount of Fine Per Violation</i>
1 - 2	\$100
3 - 5	\$250
6 +	\$500

Market Makers who have logged onto Auto-Ex but who have left the trading crowd or the Floor will be responsible for trades executed through the system during their absence. The Exchange may log a Market Maker off the system if that Market Maker has left the trading crowd or the Floor for longer than a brief interval.

(4) Reserved.

(5) Market Makers may not log off the Auto-Ex wheel during the first ten minutes of a "fast market" declared pursuant to Rule 6.28 in an issue traded on that wheel, in the absence of an exemption from two Trading Officials or the Exchange.

(6) If there is inadequate Auto-Ex participation in a particular option issue, two Trading Officials or the Exchange may require Market Makers who are participants of the trading crowd to log onto Auto-Ex. while present in the crowd, absent reasonable justification or excuse for non-participation. A Market Maker is considered to be a participant of a trading crowd if that Market Maker is present in the trading crowd and either (a) holds an appointment in the option issues at the trading post where such crowd is located or (b) regularly effects market maker transactions in person at that trading post.

(7) A Market Maker who fails to abide by the foregoing requirements may be subject to disciplinary action and may also be subject to remedial action by the Exchange, including but not limited to suspension of the Market Maker's eligibility to participate on Auto-Ex.

(f) Market Makers who receive an execution through Auto-Ex may not re-direct the option contracts from that trade to another Market Maker without first giving the other OTP Holder or OTP Firms in the trading crowd an opportunity to participate.

(8) Auto-Ex Tick Better Requirement in Certain Issues.

(A) Except as provided in subsection (B), below, Lead Market Makers who are participating on Auto-Ex must assure that Exchange staff (i.e., the Order Book Official or Control Room staff) has set the Auto-Ex System either:

(i) to execute incoming electronic orders at prices that are one trading increment better than the Exchange's disseminated bid or offering price when another options exchange is disseminating the national best bid or offer at a price that is one trading increment better than the price being disseminated by the Exchange. The

order will default for manual representation in the trading crowd when another options exchange is disseminating a price that is more than one trading increment better than the price being disseminated by the Exchange, or

(ii) to execute incoming electronic orders at the NBBO pursuant to Rule 6.87(i).

(B) Applicability. The requirements of subsection (A), above, will apply only to non-broker-dealer orders for ten contracts or less in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally for a specified month based on volume as reported by the Options Clearing Corporation. For each current month, the Exchanges determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month. In addition, the requirements of Subsection (A), above, will only apply to orders in option series that are not designated as LEAPS pursuant to Rule 6.4(e)]

(a)[(g)] Trade Nullification and Price Adjustment Procedures.

The Exchange shall either bust a transaction or adjust the execution price of a transaction that results from an Obvious Error as provided in this rule.

(1) – (3) – No Change.

*Commentary:*

**.01** All determinations made by the Exchange under subsection (a) [(g)] (3) will be rendered without prejudice as to the rights of the parties to the transaction to submit a dispute to arbitration.

**.02** No Change.

**.03** When the Exchange determines that an Obvious Error has occurred and action is warranted under Rule 6.87(a) [(g)](3)(B) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.

**.04** Buyers of options with a zero bid may request that their execution be busted if at least one strike below (for calls) or above (for puts) in the same options class was quoted with a zero bid at the time of the execution. Such buyers must follow the procedures of Rule 6.87(a) [(g)](3) above.

**.05** For purposes of Rule 6.87(a) [(g)](2)(A), the competing options exchange with the most liquidity will be the options exchange that had the highest total contract volume in the options class for the previous two months (e.g., if an obvious error occurs on March 9, the total contract volume from January 8 to March 9 will be used)

**.06** For purposes of Rule 6.87(a) [(g)](3)(B), an "erroneous sell transaction" is one in which the price received by the person selling the option is erroneously low, and an "erroneous buy transaction" is one in which the price paid by the person purchasing the option is erroneously high.

[(h) Suspension and Unusual Use of Auto-Ex.

(1) *Floor-Wide POETS System Malfunction.* If there is a POETS system or vendor quote feed malfunction that affects the Exchange's ability to disseminate or update market quotes, the senior person then in charge of the Exchange's Control Room will halt Auto-Ex floor-wide once two Trading Officials or the Exchange declares a floor-wide "fast market." Once the floor-wide system malfunction has been corrected and the market quotes have been updated, either the senior person then in charge of the Control Room or two Trading Officials may re-start Auto-Ex.

(2) *Non-Floor-Wide POETS System Malfunction.* If POETS is inoperable and Market Makers are physically unable to update their quotations in an issue or issues at the same trading post or trading quad, two Trading Officials or the Exchange may declare a "fast market" and direct the OBO to turn off the Auto-Ex system in the affected issue or issues. Once the system malfunction has been corrected, two Trading Officials or the Exchange may re-start Auto-Ex. If a POETS malfunction occurs but the Exchange is able to process and disseminate quotes accurately, two Trading Officials or the Exchange may decrease the guaranteed Auto-Ex size in one or more option issues pursuant to the procedures set forth in subsection (h)(3)(B).

(3) *Other Unusual Conditions.* If there are other unusual market conditions not involving a POETS System malfunction, two Trading Officials or the Exchange may suspend Auto-Ex In accordance with Rule 6.28(b).

(A) *Unusual Market Conditions.* The unusual market conditions that may permit increasing or decreasing the size of orders that may be automatically executed over the Auto-Ex or suspending Auto-Ex pursuant to subsections (B) and (C) are caused by news announcements (e.g. announcements relating to earnings speculation, economic news, reports of mergers or takeovers, disasters, etc.). Unusual market conditions that would permit unusual use of Auto-Ex under this Rule include:

(i) *High Volatility.* High volatility occurs generally when a stock or the entire market is experiencing rapid and extreme price fluctuations usually accompanied by doublewide spreads.

(ii) *Large Influx of Orders.* A large influx of orders occurs when volume is two or more times the average daily volume in an issue. It may also occur when an extraordinarily large options order is executed on the PCX and reported.

(iii) *Unreliable Quote Feed.* The underlying quote feed is

unreliable when the Exchange is unable to accurately collect, process and/or disseminate quotation data.

(B) *Suspension of Auto-Ex.* If there are other unusual market conditions not involving a POETS System malfunction, two Trading Officials or an Exchange Official may suspend Auto-Ex for a period of time not to exceed five minutes if, because of unusual market conditions or circumstances, the Trading Officials or the Exchange determines that such action is appropriate in maintaining a fair and orderly market. Whenever such action is taken, Trading Officials or senior Exchange Staff must immediately notify a Floor Governor. Thereafter, the suspension of Auto-Ex may be ended, or may be continued for more than five minutes, based on a determination of two Trading Officials or an Exchange Official.

(C) *Unusual use of Auto Ex.* Two Trading Officials or the Exchange may increase the size of orders that may be automatically executed over the Auto-Ex system up to 100 contracts or decrease the size of orders eligible for automatic execution in one or more option issues when they believe that unusual market conditions exist, provided that the decision is made for no more than one trading day. To the extent the conditions exist on the following trading day, two Trading Officials or the Exchange must review the situation again and make an independent decision of whether to increase or decrease the Auto-Ex eligible order size for that subsequent day. Any decisions made by two Trading Officials or the Exchange to increase or decrease the Auto-Ex eligible order size for a particular option issue for two or more consecutive days will be reviewed by the Exchange at its next regularly scheduled meeting. Whenever two Trading Officials or the Exchange decrease the size of orders eligible for automatic execution, the lowest number of contracts that may be established is five.

(D) Any suspension or unusual use of Auto-Ex must be documented pursuant to Rule 6.87(n).

(i) Auto-Ex NBBO. The Exchange or its delegate, two Trading Officials may approve an LMM's request to designate electronic orders in an option issue to receive automatic executions at prices reflecting the national best bid or offer ("NBBO"), provided that the two Trading Officials or the Exchange may also designate, for an option issue, that an order will default for manual representation in the trading crowd if the order would be executed at a price that is more than one trading increment away from the PCX market price. LMMs may determine the maximum size of orders that are eligible to receive executions at the national bid or offering price, provided that this determination is subject to the approval of two Trading Officials or the Exchange.

(j) Crossed or Locked Markets. Except as provided herein, two Trading Officials or an Exchange Official may approve an LMM's request to designate, for an option issue, that an order will default for manual representation in the trading crowd if the NBBO is crossed or locked. Notwithstanding the foregoing, Linkage Orders subject to PCX Rule 6.93(e) will not default for manual representation if the NBBO is locked.

(k) Allocation of Auto-Ex Trades to Individual Market Makers. The Exchange will determine the manner in which orders entered through the Auto-Ex system will be assigned to individual Market Makers for execution, on an issue-by-issue basis, as follows:

### **Auto-Ex Incentive Program**

(1) Auto-Ex orders are assigned to Market Makers who are logged-on Auto-Ex according to the percentage of their in-person agency contracts traded in that issue (excluding Auto-Ex contracts traded) compared to all of the Market Maker in-person agency contracts traded (excluding Auto-Ex contracts) during the review period. The review period will be determined by the Exchange and may be for any period of time not in excess of two weeks. The percentage distribution determined for a review period will be effective for the succeeding review period.

(A) Participation Percentage Calculation. Each Auto-Ex order in an issue will be allocated to Market Makers on Auto-Ex on a rotating basis. On each rotation (subject to the exceptions described below) each participating Market Maker logged onto Auto-Ex will be assigned the number of Auto-Ex contracts that reflects the percentage of agency contracts that the Market Maker traded in-person in that issue during the review period. A participation percentage will be calculated for each Market Maker for each issue that the Market Maker trades. For this purpose, all transactions on behalf of the same LMM will be aggregated into a single percentage for the LMM.

(B) Assignment of Contracts. Once a Market Maker has logged onto Auto-Ex, the Market Maker will be assigned contracts during the Auto-Ex rotation until that Market Maker's participation percentage has been met. This may mean that multiple orders (or an order and a part of the succeeding order) will be assigned to the same Market Maker during the rotation.

(C) Joint Accounts. A joint account participant may substitute on the Auto-Ex wheel for another participant who is registered to trade the same joint account and may receive the same participation percentage that has been established for the participant for which the replacement is substituting, provided that the following conditions are met:

(i) the substitute must notify the OBO of the substitution;

(ii) the substitute must log on to the same option issues that the original trader was logged-on to; and

(iii) the agency trades of the substitute will count toward the calculation of the participation percentage of the original participant for the subsequent review period.

(D) Minimum Participation. The Exchange will determine the number of

contracts that make up one percent of the rotation. Market Makers logged onto Auto-Ex in an issue, regardless of their participation percentage, will be entitled to at least one percent of the rotation on every rotation.

(E) Rotation. Generally, one rotation consists of the number of contracts replicating the cumulative percentage of all Market Makers logged onto Auto-Ex who have a participation percentage plus one percentage for each Market Maker that does not have a specific participation percentage.

(F) Maximum assignment. The maximum number of contracts that a Market Maker may be consecutively assigned at any one time during a rotation will be variable and may be different for different issues or the same for all issues. Because the maximum number of contracts permitted may be smaller than the number of contracts to which a particular Market Maker is entitled during one rotation, that Market Maker will receive more than one turn during one rotation.

(l) Auto-Ex Book Function

(1) The Auto-Ex Book function of POETS will permit orders in the Limit Order Book to be executed via the Auto-Ex system when those orders become marketable, subject to the following procedures:

(A) When one or more orders in the Limit Order Book become marketable, as indicated by a locked or crossed market being displayed on the trading floor, the LMM may direct the OBO to initiate the Auto-Ex Book function, which will cause marketable orders in the Limit Order Book to be automatically executed against the accounts of market makers who are participating on the Auto-Ex system at the time.

(2) The Auto-Ex Book function is subject to a pilot program, which is set to expire on June 30, 2005.

(m) Auto-Ex-Between-the Quotes. Lead Market Makers may, at their discretion, employ the Auto-Ex-Between-the-Quotes feature of POETS. This feature will permit the automatic execution of limit orders entered into POETS that are: (i) to buy or sell five option contracts or less; and (ii) have limit prices that are between, but not equal to, the best bid or offering price then being disseminated on the PCX. Lead Market Makers must provide the members of the trading crowd with at least five minutes notice before activating this feature. If the feature is on, Market Makers are exempt from the mandatory log-on requirements of Rule 6.87(e)(4). This feature does not allow the execution of orders at prices that trade-through other markets.

(n) Documentation of Auto-Ex Use. The Exchange will document any action taken to suspend Auto-Ex, increase or decrease the size of Auto-Ex eligible orders or to operate Auto-Ex in a manner other than the usual manner with an Unusual Activity Report (UAR). The UAR will be signed by two Trading Officials or the Exchange and will state the system problem or market activity that led to the ruling. The UAR information will be

recorded in the Floor Surveillance log, which will document the option issues affected by the action, the time the action was taken, the Exchange officials who undertook the action, and the reasons why the action was taken.

(o) Reserved.

(p) Auto-Ex Split-Price Executions. When the best bid or offer on the Exchange's book constitutes the best bid or offer on the Exchange, contra-side incoming Auto-Ex orders will be executed as follows:

(1) When the best bid or offer on the Exchange's book constitutes the best bid or offer on the Exchange and is for a size less than the Auto-Ex guaranteed size for the issue, that best bid or offer will be denoted in the Exchange's disseminated quote by a "Book Indicator". An incoming Auto-Ex order will be executed against the order in the book. In the event the order in the book is for a smaller number of contracts than the Auto-Ex order, the balance of the Auto-Ex order up to the firm quote size for the issue will be assigned to Market-Makers on the Auto-Ex wheel at the same price at which the initial portion of the order was executed. Any remaining balance thereafter will be:

(A) Assigned to Market Makers on the Auto-Ex wheel at the Auto-Quote price if Auto-Quote constitutes the new prevailing market bid or offer that is equal to or better than the NBBO; or

(B) Executed against any order in the book that constitutes the new prevailing market bid or offer with the balance of the Auto-Ex order being assigned to Market Makers on the Auto-Ex wheel at that price up to the firm quote size. Any additional remaining balance of an Auto-Ex order shall be handled in accordance with (A) or (B) of this paragraph.

(2) Notwithstanding paragraph (1) above, if the bid or offer generated by the Exchange's Auto-Quote system (or any Exchange approved proprietary quote generation system used in lieu of the Exchange's Auto-Quote system) crosses or locks the Exchange's best bid or offer established by an order in the Exchange's customer limit order book, or is outside the NBBO, then Auto-Ex orders for options of that series will not be automatically executed but instead will be rerouted to Floor Broker Hand-Held Terminals or to another location in the event of system problems or contrary firm routing instructions. These rerouted orders will be executed in accordance with Rule 6.86.

*Commentary:*

.01 For purposes of this rule, the firm quote size is the minimum quotation size established by Rule 6.86.

.02-.07 Reserved

.08 *Pilot Program.* The Auto-Ex Incentive Program set forth in Rule 6.87(k)(1) is subject to a pilot program, which is set to expire on June 30, 2005.]

\* \* \*

### **Floor Broker Hand-Held Terminals**

Rule 6.89(a). Exchange Sponsored Hand-Held Terminals.

(1) OTP Holders and OTP Firms may send orders electronically through the Exchange's Member Firm Interface and route them directly to PCX Plus [POETS], to an OTP Holder or OTP Firm's booth on the Options Floor, to a Floor Broker Hand-Held Terminal located on the Options Floor, or to any other location designated by the Exchange, provided that the OTP Holder or OTP Firm has been approved by the Exchange to do so.

(2) – No Change.

(b) – No Change.

\* \* \*

### **PCX Plus**

Rule 6.90(a) – (d) – No Change.

(e) Prohibited Practices. Prohibited practices include, but are not limited to, the following:

(1) [Dividing an order involving a single investment decision into multiple smaller lots so as not to exceed the Maximum Order Size established pursuant to Rule 6.76.

(A) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered within any 15-second period for the account of the same beneficial owner will be presumed to be based on a single investment decision

(B) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered outside of any 15-second period for the account of the same beneficial owner will be deemed to be separate investment decisions; provided, however, that no Order Entry Firm may divide up or permit an existing order to be divided up to make its parts eligible for execution pursuant to Rule 6.76(b).]

[(2)] Entering orders via PCX Plus to perform a market making function. No OTP Holder or OTP Firm or person associated with an OTP Holder or OTP Firm may use PCX Plus on a regular and continuous basis to simultaneously execute orders to buy and sell series for the account of the same beneficial holder. In making the determination of whether an OTP Holder or OTP Firm or person associated with an OTP Holder or OTP Firm is using PCX Plus to perform a market making function, the Exchange will consider

the following factors: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same option; and the entry of multiple limit orders at different prices in the same option series.

(2) [(3)] Effecting transactions that constitute manipulation as provided in PCX Rule 11.5 and SEC Rule 10b-5.

(f) – No Change

(g) Suspension of the PCX Plus System.

(1) System Disruption and Malfunctions. In the event of any disruption or a malfunction in the use or operation of PCX Plus with respect to an option issue or issues, two Trading Officials [or the Exchange] may disengage the PCX Plus system for that option issue or issues. If a PCX Plus system disruption or malfunction occurs but the Exchange is able to process and disseminate quotes accurately, then any orders received by the Exchange will be routed to Floor Broker Hand Held Terminals for representation in the trading crowd pursuant to Rule 6.76(d). Regular trading procedures will be resumed by the Exchange when two Trading Officials [or the Exchange] determine that the disruption or malfunction is corrected.

(h) – No Change.

\* \* \*

## **Intermarket Linkage**

### **Definitions**

Rule 6.92(a). The following terms have the meaning specified in this Rule solely for the purposes of Rules 6.92 --6.95.

(1) – (6) – No Change.

(7) "Eligible Market Maker," with respect to an Eligible Option Class, means a market maker that:

(i) is assigned to, and is providing two-sided quotations in, the Eligible Option Class;

(ii) is logged on to participate in [Auto-Ex or] PCX Plus in such Eligible Option Class; and

(iii) is in compliance with the requirements of Rule 6.95 (relating to limitation on principal order access).

(8) – (21) – No Change.

\* \* \*

## Order Protection

Rule 6.94(a) – (d) – No Change.

(e) **Declaring Away Markets Unreliable.** When the Exchange determines that quotes from one or more particular markets in one or more options series are not reliable, the Exchange may direct the senior person in charge of the Exchange's Control Room to exclude the unreliable quotes from the determination of the NBBO in the particular options series.

(A) – No Change.

(B) *Procedures to Follow.* If either of the factors set forth in subsection (A)(i) or (ii) above occurs, then the procedures in (i) - (vi) below must be followed. If the factor set forth in subsection (A)(iii) above occurs, then the procedure in (vii) below must be followed.

(i) First, an LMM contacts a[n] Trading [Order Book] Official [("OBO")] and requests that the away market be declared unreliable.

(ii) Second, the Trading Official [OBO] contacts the Control Room and requests that the Control Room confirm with the away market that it is unreliable pursuant to subsection (A).

(iii) Third, if the Control Room has confirmed that an away market is unreliable, then the Trading Official [OBO] will contact the Exchange and request a declaration that the away market is unreliable.

(iv) Fourth, the Exchange reviews and verifies the circumstances and determines whether the away market should be declared unreliable. The Trading Official [OBO] notifies the Control Room that the away market is unreliable and should be removed from the NBBO calculation.

(v) Fifth, the Floor Surveillance Unit ("FSU") contacts the away market, and notifies the away market that one or more of its quotes have been removed from the NBBO calculation.

(vi) Sixth, the Exchange will continue to monitor the away market that has been declared unreliable and notify the Control Room to return to firm mode when appropriate.

(vii) Seventh, the senior person in charge of the Control Room will direct

that the unavailable away market be declared unreliable and removed from the NBBO calculation until the sooner of the end of the trading day, or at the time that the quotes are confirmed by the Exchange to be reliable again.

(C) *Documentation Required.* The following documentation is required when an away market is declared unreliable. If either of the factors set forth in subsection (A)(i) or (ii) above occurs, then the procedures in (i) - (iv) below must be followed. If the factor set forth in subsection (A)(iii) above occurs, then the procedure in (v) below must be followed.

(i) The Trading Official [OBO] must log the issue(s) and time of the LMM's request for a declaration that the away market was unreliable. This provision does not apply if an away market is declared unreliable because a market has been disconnected from Linkage.

(ii) The Trading Official [OBO] must prepare an Unusual Activity Report ("UAR") documenting the facts giving rise to the LMM's request, the date, time, and duration of the exclusion and the reasons for placing the away market back into the NBBO calculation. This provision does not apply if an away market is declared unreliable because a market has been disconnected from Linkage.

(iii) An [The]Exchange [Official] officer or member of the Floor Surveillance Unit must sign the UAR.

(iv) The Control Room will maintain a log of the time the away market was taken out of the NBBO calculation and the time that the away market was placed back into the NBBO calculation.

(v) When an away market is declared unreliable because it has been disconnected from Linkage, the Control Room will document a UAR and the UAR must be signed by a[n] Trading [Exchange] Official.

(D) – No Change

\* \* \*

### **Minor Rule Plan**

Rule 10.12(a) – (f) – No Change.

(g) Floor Citations. [Exchange staff, a] A Trading Official[, an Options Order Book Official] or any PCX Regulatory Staff designated by the Exchange may issue a Floor Citation to any OTP Holder, OTP Firm, or associated person of an OTP Firm, when it appears to such Official(s) that a Minor Rule Plan violation specified in subsections (h) or (i) of this Rule has occurred. In issuing a Floor Citation, the [Exchange staff,] Trading [Floor] Official[, the Options Order Book Official] or any PCX Regulatory Staff designated by the Exchange must:

(1) – (3) – No Change.

(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 10.13 (Summary Sanction Procedure), the circumstances underlying the issuance of each floor citation shall be reviewed by the Ethics and Business Conduct 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) – (4) – No Change.

(5) Market Maker failed to respond to a call for market Makers by a[n] Trading [Order Book] Official. (Rule 6.53)

(6) – No Change.

(7) OTP Holder failed to give up the name of the clearing member by open [public] outcry when requesting a quote and size of the market or after effecting a trade. (Rule 6.66)

(8) Reserved [OTP Holder inadvertently placed a non-public order with the Order Book Official. (Rule 6.52(a))]

(9) – (28) – No Change.

(29) Reserved [Entry of broker/dealer order for execution on Auto-Ex system. (Rule 6.87(a))]

(30) – (32) – No Change.

(33) Reserved [Dividing up an order to make its parts eligible for entry into Auto-Ex or PCX Plus. (Rules 6.87(d)(2) and 6.90(e)(1))]

(34) Reserved [Market Maker failed to comply with the Auto-Ex log-off requirement when leaving the trading crowd for more than a brief interval. (Rule 6.87(d)(3))]

(35) – (44) – No Change

(45) Failure to maintain adequate procedures and controls to monitor and supervise the entry of electronic orders by Users to prevent the prohibited practices set forth in Rule[s 6.87(d) and] 6.90(e). (Rule[s 6.87(c)(4) and] 6.90(d)(3)).

(i) – (j) – No Change.

(k) Minor Rule Plan: Recommended Fine Schedule

(i) Options Floor Decorum and Minor Trading Rule Violation	1 <sup>st</sup> Violation	2 <sup>nd</sup> Violation	3 <sup>rd</sup> Violation
1. – 4. – No Change.			
5. Market Maker failed to respond to a call for market Makers by a[n] <u>Trading</u> [Order Book] Official. (Rule 6.53)	\$2,000.00	\$2,500.00	\$3,500.00
6. – No Change.			
7. OTP Holder failed to give up the name of the clearing member by <u>open</u> [public] outcry when requesting a quote and size of the market or after effecting a trade. (Rule 6.66)	\$500.00	\$1,000.00	\$2,500.00
8. <u>Reserved</u> [OTP Holder inadvertently placed a non-public order with the Order Book Official. (Rule 6.52(a))]	\$500.00	\$1,000.00	\$2,500.00
9. – 28. – No Change.			
29. <u>Reserved</u> [Entry of broker/dealer order for execution on Auto-Ex system. (Rule 6.87(a))]	\$1,000.00	\$2,500.00	\$3,500.00
30. – 32. – No Change.			
33. <u>Reserved</u> [Dividing up an order to make parts eligible for entry into Auto-Ex or PCX Plus. (Rules 6.87(d)(2) and] 6.90(e)(1))]	\$2,500.00	\$3,750.00	\$5,000.00
	[No. of Failures in a Twelve-Month Period	Amount of Fine Per Violation]	
34. <u>Reserved</u> [Market Maker failed to comply with the Auto-Ex log-off requirement when leaving the trading crowd for more than a brief interval. (Rule 6.87(d)(3))]	1-2	\$500.00	
	3-5	\$1,000.00	
	6+	\$1,500.00	
35. – 44. – No Change.			
45. Failure to maintain adequate procedures and controls to monitor and supervise the entry of electronic orders by Users to prevent the prohibited practices set forth in Rule[s 6.87(d) and] 6.90(e).	\$1,000.00	Full Disciplinary Proceeding	Full Disciplinary Proceeding

(Rule[s 6.87(c)(4) and] 6.90(d)(3)).

(ii) – (iii) – No Change.

\* \* \*

### **Summary Sanction Procedure**

Rule 10.13 (a). In lieu of commencing a "disciplinary action," as that term is used in Rule 10.4, the Exchange may summarily sanction any OTP Holder, OTP Firm, or associated person with an OTP Firm subject to the requirements set forth herein. In issuing a summary sanction, [Exchange staff or two] a Trading Official[s] shall:

(1) – (5) – No Change.

(6) Give the remaining copies of the citation to the [Order Book Official or other designated staff person, who will then forward such copies to the] Exchange Regulatory Staff for processing.

(b) – No Change.

(c) – If [Exchange Staff or two] a Trading Official[s] does not become aware of a violation until the Exchange Regulatory Staff has discovered the violation and notified such [Exchange Staff or] Trading Official, a summary sanction may, for any [the] violation[s] stated below, be imposed by such Trading Official[s] at the time they are so notified. The Trading Official[s] will then be responsible for issuing a floor citation. The violations for which this subsection shall apply are the following:

(1) Failure to time stamp an order ticket. (Rule 6.69).

[(2) OTP Holder inadvertently placed a non-public order with an Order Book Official. (Rule 6.52(a))]

\* \* \*

### **Pacific Exchange Sanctioning Guidelines**

Rules 10.16(a) – (d) – No Change.

(e) Specific Sanctioning Guidelines for Options Order Handling Rules.

(1) – No Change.

[(2) Limit Order Display --PCX Rule 6.55

(A) Principal Considerations in Determining Sanctions.

- (i) See list of principal considerations applicable to all violations.
- (ii) Whether customer limit order was executed during the period of non-compliance.
- (iii) Whether other transactions were executed at prices equal to or better than the customer limit order.
- (iv) Whether misconduct had a significant adverse impact on market transparency and availability of price information.
- (v) Amount of time beyond 30 seconds that elapsed before limit order was displayed.

(B) Monetary Sanctions.

- (i) First Disciplinary Action Fine of \$1,000 to \$5,000.
- (ii) Second Disciplinary Action Fine of \$2,000 to \$10,000.
- (iii) Subsequent Disciplinary Actions Fine of \$5,000 to \$50,000.

*Commentary:*

.01 To determine if an action is the first disciplinary action, consider disciplinary actions with respect to violative conduct that occurred within the two years prior to the misconduct at issue. As indicated in the General Principles, recent acts of similar misconduct may be considered to be aggravating factors.

(C) Suspension, Expulsion, or Other Sanctions. In egregious cases, consider suspending the named party with respect to any or all activities or functions for up to two years. In particularly egregious cases involving a pattern of misconduct, consider expelling the OTP Holder or OTP Firm, withdrawing approval of the responsible approved person, and/or permanently barring a named party from employment or association with any OTP Holder or OTP Firm.]

(2)[(3)] Priority Rules and Obligations of Market Makers --PCX Rules 6.37, [and] 6.75 and 6.76.

(A) – (C) – No Change.

(4) – (5) – No Change.

(f) – No Change.

\* \* \*

