

RBE-00-03
July 24, 2000

To: All PCX Members, ETP Holders and ETP Firms

From: Enforcement Department

Subject: Proper Parameters of Trading Privileges and Prohibitions

The Securities and Exchange Commission (“SEC”) and the PCX Equities, Inc. (“PCXE”), a wholly-owned subsidiary of the Pacific Exchange, Inc. (“PCX Parent”), have specific rules that govern the ability of members¹ and associated persons to trade through the facilities of the PCXE. This bulletin outlines the proper limits of trading under those rules.

Foundation

The PCX Parent, as a self-regulatory organization (“SRO”) registered with the SEC pursuant to Section 6 of the Securities Exchange Act of 1934 (the “Act”), has ultimate responsibility for the administration and enforcement of rules governing the operation of PCXE.

Section 11(a) of the Act and corresponding Rule 11a-1 (see attached copy of previously issued Regulatory Bulletin) govern member trading at a SRO. The Act limits the ability of members to use the facilities of an exchange for trading in their own accounts. With some limited exceptions, this general prohibition is set forth in Section 11(a) of the Act. Section 11(a) specifically states that it shall be:

“...unlawful for any member of a national securities exchange to effect any transaction on such an exchange for its own account, the account of an associated person, or an account with respect to which it or an associated person thereof exercises investment discretion.”

¹ Under PCX Equities, Inc. rules, the terms “ETP Holder,” “Equity ASAP Holder” and “ETP Firm” have status as a “member” of the PCX Parent as that term is defined in Section 3 of the Securities Exchange Act of 1934. Therefore, the term “member” as used in this bulletin is synonymous with the terms ETP Holder, Equity ASAP, and ETP Firm, if applicable.

Each SRO, including the PCX, has promulgated rules pursuant to Section 11(a) prohibiting members from trading in their own accounts. Specifically, PCXE Rule 7.8² governs “member” and “non-member” trading at the PCXE.

Rules

Set forth below is a summary of the relevant provisions of Section 11(a) of the Act and PCXE Rule 7.8 that limit member trading:

- Members are generally prohibited from using the facilities of the PCXE to trade for their own accounts [SEC Rule 11(a)] unless a specific exemption exists. Examples of such exemptions are the so-called “G” order, where qualified members may enter trades for their own accounts if they (1) meet the specific revenue and business tests of Section 11(a)(1)(G), and (2) they yield priority, parity and precedence in relation to other customer orders.
- Non-members are prohibited from consummating transactions on the PCXE trading floors (PCXE Rule 7.8(a)).
- Members are responsible for all the activities of their clerks (and other employees) in the conduct of their business (PCXE Rule 7.8(b) and Commentary .01), and such non-members are not allowed to participate in the floor operations or transactions on the PCXE (PCXE Rule 7.8(b)).
- Clerks are prohibited from trading on the PCXE and are permitted only for the purpose of transmitting orders and messages (PCXE Rule 7.8, Commentary .01) or for furnishing quotations during the temporary absence of the specialist (PCXE Rule 7.8, Commentary .02).
- In general, only those individuals registered and qualified by the PCXE are permitted on the floors for the purpose of participating in operations or transactions on the Corporation (PCXE Rule 7.8(b)).

The PCX’s Enforcement Department vigorously enforces these limitations on trading privileges and activities.

Questions regarding this Bulletin may be directed to John Chapin at (213) 977-4547 or Eilleen Clavere at (415) 393-7849.

² Copies of the Rules are included within this bulletin.