

REVISED

REGULATORY INFORMATION BULLETIN

RBO-00-34
November 8, 2000

To: All Options Floor Members

From: Options Allocation Committee (OAC)

Subject: Reallocation Guideline – 5% Minimum Market Share

Effective on Monday, August 14, 2000, the Options Allocation Committee (“OAC”) implemented a Minimum Market Share Guideline (“MSG”), which was subsequently revised to reflect a monthly posting interval (from daily) of options issues subject to MSG.

Revisions included in this bulletin were adopted by OAC effective on Tuesday, November 7, 2000.

I. Market Share Guideline (“MSG”)

In order to measure a Lead Market Maker’s (LMM’s) performance, OAC has established a 5% minimum market share guideline (“MSG”) for possible reallocation of an LMM’s option issues. This guideline:

- *Creates a standard minimum performance measure for market share goals and establishes consequences if an LMM fails to achieve such goals;*
- *Provides guidelines for an LMM’s performance as set forth in PCX Rule 6.82(e)(1);*
- *Establishes that all LMM issues with an average market share for any sixty (60) consecutive trading day period of less than 5% may be subject to review and reallocation; and*
- *Implements procedures to be followed by OAC, PCX and LMMs.*

II. Governing Principles of MSG

- Each potential reallocation will be judged on its individual merits, and OAC will determine whether reallocation is in the best interests of the PCX.
- MSG reinforces the fact that option issues traded at the PCX are the sole property of PCX, LMMs do not have a transferable property interest in option listings assigned to LMMs, and the PCX has the right to re-assign or re-allocate option issues.
- New applicant LMMs and LMMs with issues subject to MSG will both be provided the opportunity to appear before OAC prior to any decision regarding reallocation of an issue based on this criterion. Generally, OAC will schedule separate hearings for new applicant LMMs and LMMs subject to MSG.

III. MSG Procedures (8 Steps)

1. On a **monthly basis**, the Exchange will post a list of issues that fall below the 5% MSG. The 5% MSG will be calculated on a rolling 60-consecutive trading day period. LMM market share information will be based upon actual percentage results for Total Cleared Volume (i.e., Customer, Firm and Market Maker) as disclosed in the Scoreboard Data from Options News Network. Generally, the list of issues subject to MSG will be posted to the Options Floor on the Monday following Expiration (i.e., fourth Monday of each month).
2. If an LMM desires to be allocated issue(s) contained on the published list, it must submit a completed *Application for Option Allocation* (Bid Sheet) no later than the end of business on the Tuesday following Expiration (i.e., fourth Tuesday of each month).
3. Upon receipt of an application, staff shall provide written notification to the LMM currently assigned the option issue(s) subject to MSG that an application has been received for such issue(s).
4. If the LMM currently allocated the issue(s) desires to retain the subject option issue(s), such LMM must submit a written explanation, within three (3) business days of staff's written notification letter, detailing the reasons why the issue(s) should not be reallocated. The LMM currently assigned such issue(s) is also required to submit a completed *Application for Option Allocation* (Bid Sheet) as outlined in Step 2 of MSG Procedures.
5. Upon receipt of all written materials, staff will notify OAC, any new LMM applicants and the LMM currently trading the subject issue(s) of the date, time, and place of the OAC meeting(s) where the reallocation will be evaluated and determined. The LMM will then have the right to appear before OAC to present any relevant evidence to further explain its failure to meet the MSG.

Generally, meetings will be scheduled as follows:

- For LMMs with issues subject to MSG, OAC will convene on the second Tuesday following Expiration.
 - For new LMM applying for subject issues, OAC will schedule meetings on the second Wednesday following expiration.
6. Each potential reallocation will be judged on individual merits, based on an applicant's demonstrated ability to garner significant market share in other issues, and the criteria employed pursuant to PCX Rule 6.82(e)(1) and RBO-00-008 dated May 10, 2000 entitled *Commitment and Performance Expectations*.
 7. When OAC decides that an issue should be reallocated, OAC will provide the subject LMM with a general statement of reasons for its decision. In addition, OAC will post the reallocation determination to the entire membership the following business day. All reallocations will be made effective by OAC 5 business days following posting,

unless the LMM currently assigned the issue(s) requests an accelerated reallocation. OAC retains discretion regarding any request(s) for acceleration. In the event that OAC decides not to reallocate an issue, the LMM's market share will be reviewed every 20-business days to evaluate on-going performance and to determine whether the issue should be re-posted for reallocation pursuant to MSG procedures based upon updated market share information.

8. The LMM will then have the right to appeal the reallocation decision to the Board Appeals Committee pursuant to PCX Rule 11.7.

IV. Regulatory Policy: PCX Rules 6.82(e)(1) & (4), 6.82(f)(1).

Rule 6.82 was promulgated pursuant to Sections 6 and 19(b) of the Securities Exchange Act of 1934 to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest.

PCX Rule 6.82(e)(4) requires OAC to monitor and evaluate the performance of LMMs with regard to quality of markets. PCX Rule 6.82(f)(1)(A) provides that OAC may, at its discretion, reassign an option issue or issues to a new or existing LMM if OAC determines that an LMM has not performed satisfactorily.

PCX Rule 6.82(e)(1) provides that the OAC shall select the candidate who appears best able to perform the functions of an LMM in the designated option issue. Among the factors to be considered are willingness to promote the Exchange as a marketplace, operational capacity, floor evaluations and other criteria specified in the rule. The Exchange has determined that an LMM's market share is an appropriate criterion for establishing an LMM's performance under PCX Rule 6.82(e)(1).

Questions regarding this bulletin may be directed to Matthew Zahner, OAC Chairman, Christopher Gleason, OAC Vice Chairman, Michael Tomars, Director, Securities Qualification & Committee Administration at 393-4254, or Jesamin Yip, OAC Committee Administrator at 393-7848.