



REGULATORY INFORMATION BULLETIN

RAN-00-15
June 14, 2000

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Firm Guaranteed Participation in Facilitation Cross Transactions
(File No. SR-PCX-99-18)

On May 26, 2000, the SEC approved a rule change proposal to permit options floor brokers, under certain conditions, to cross a specified percentage of a customer order with an order for a member firm, before market makers in the trading crowd may participate in the transaction. The rule change applies to orders of 200 contracts or more, in equity options or index options. It provides member firms with guaranteed cross participation of 40% (for transactions occurring *between* the trading crowd's best bid and offer) or 25% (for transactions occurring *at* the trading crowd's best bid or offer). Under the rule change, the maximum amount of guaranteed participation that any party or parties to the trade may receive, in the aggregate, is 40%. In addition, if the cross occurs at a price other than the LMM's quoted bid or offer, the LMM will be entitled to no guaranteed participation. Finally, the rule change requires that in applying the rule, floor brokers must call for a facilitation market, clearly disclosing to the trading crowd their intention to execute a facilitation cross transaction.

Following is the text of the rule change that the SEC approved. Questions regarding this Bulletin may be directed to Michael Pierson at (415) 393-4107.

EXHIBIT A

Text of the Rule Change¹

¶ 4987

“Crossing Orders”

Rule 6.47(a) -- No change.

Facilitation Crosses

(b) A Floor Broker who holds an order for a public customer ~~of a member organization or a broker-dealer (“customer order”)~~ and an facilitation order for the proprietary account of a member organization that is representing that customer (the “facilitation order”) may cross ~~those such orders provided that he proceeds in the following manner.~~ only if the following procedures and requirements are followed:

(1) The size of the customer order subject to facilitation must be at least two hundred (200) contracts. [Orders for less than 200 contracts may be facilitated pursuant to this rule but are not subject to subsection \(4\) below pertaining to firm guarantees.](#)

(2) ~~(4)~~ The option order tickets ~~for~~ of both the facilitation order and the ~~public~~ customer order ~~subject to facilitation~~ must display all of the terms of such orders, including any ~~contingency~~ contingencies involving, and all related transactions in, either options or underlying or related securities. The Floor Broker must disclose all securities that are components of the customer order.

~~(2) The Floor Broker shall disclose all securities which are components of the order subject to facilitation and then shall request bids and offers for the execution of all components of the order, making all persons in the trading crowd, including the Order book Official, aware of his request for a market.~~

~~(3) After providing an adequate opportunity for such bids and offers to be made, the Floor Broker must, on behalf of the public customer whose order is subject to facilitation, either bid above the highest bid in the market or offer below the lowest offer in the market, identify the order as being subject to facilitation, and disclose all terms and conditions of such order. After all other~~

¹ New text is underscored, deleted text is stricken and amended text is double underscored.

~~market participants are given an opportunity to accept the bid or offer made on behalf of the public customer whose order is subject to facilitation, the Floor Broker may cross all or any remaining part of such order and the facilitation order at such customer's bid or offer by announcing in public outcry that he is crossing and by stating the quantity and price(s). Once such bid or offer has been made, the order subject to facilitation has precedence over any other bid or offer in the crowd at the same price, to trade immediately with the facilitation order. The order subject to facilitation may not be blocked by revised bids or offers; however, the bid or offer of the order subject to facilitation may be accepted or improved by members in the trading crowd or orders represented in the trading crowd.~~

(3) The Floor Broker must request bids and offers for all components of the [customer](#) order and clearly disclose his intention to execute a facilitation cross transaction to the trading crowd. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the facilitation market has been improved. (The term "significant change" will be interpreted on a case-by-case basis by two Floor Officials based upon the extent of recent trading in the option and in the underlying security, and any other relevant factors.)

(4) Once a market has been established and all [public](#) customer orders represented in the trading crowd have been satisfied, the Floor Broker may cross:

(A) [forty percent \(40%\)](#) of any remaining contracts at a price between the trading crowd's quoted market (e.g., if the trading crowd's quoted market is $2 \frac{1}{8} - 2 \frac{1}{2}$, and the Floor Broker is representing a customer order to buy 1000 contracts, then the Floor Broker may cross [40%](#) of 1000 at $2 \frac{1}{4}$ or any other improved price); or

(B) [twenty-five percent \(25%\)](#) of the contracts at the trading crowd's best bid or offer (e.g., if the trading crowd's quoted market is $2 \frac{1}{8} - 2 \frac{1}{2}$, and the Floor Broker is representing a customer order to buy 1000 contracts, then the Floor Broker may cross [25%](#) of 1000 at the trading crowd's offer).

(5) If the facilitation trade occurs at the LMM's quoted bid or offer in their allocated issue, then the LMM's [guaranteed participation level](#) shall apply only to the number of contracts remaining after all [public](#) customer orders and the firm facilitation order being represented by the Floor Broker have been satisfied pursuant to this rule. [However, the total amount of participation that any firm and/or LMM may receive, as a guarantee, may not exceed, in the aggregate, forty](#)

percent (40%) of the customer order. If the trade occurs at a price other than the LMM's quoted bid or offer, the LMM is entitled to no guaranteed participation.

(6) The members of the trading crowd who established the facilitation market will have priority over all other non-public customer orders that were not represented in the trading crowd at the time that the facilitation market was established and will maintain priority over non-customer orders except for orders that improve the bid or offer. A Floor Broker who is holding a customer order and a facilitation order and who calls for a facilitation market will be deemed to be representing both the customer order and the facilitation order, so that the customer order and the facilitation order will also have priority over all other non-public customer orders that were not being represented in the trading crowd at the time that the facilitation market was established.

Nothing in this rule is intended to prohibit a Floor Broker or LMM from trading more than their percentage entitlements if the other members of the trading crowd do not choose to trade the remaining portion of the order.

Crossing of Solicited Orders

(c) No Change.

Commentary .01 - .06 – No Change.