

RAN-00-29
October 5, 2000

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Housekeeping Changes to Options Trading Rules
(File No. SR-PCX-99-36)

On September 11, 2000, the Securities and Exchange Commission approved a PCX proposal to make various housekeeping changes to the Options Trading Rules. Following is the text of the rule change that the SEC approved.

Questions regarding this Bulletin should be directed to Michael Pierson at (415) 393-4107.

Text of the Rule Change:¹

RULE 6

OPTIONS TRADING

Rules Principally Applicable to Trading of Options Contracts

BUSINESS CONDUCT

¶4725 Applicability, Definitions and References

Rule 6.1(a) - No change.

(b) ~~(a)~~ *Definitions.* The following terms as used in Rule 6 shall, unless the context otherwise indicates, have the meanings herein specified:

(1) - (11) - No change.

¹ Underscoring indicates new text.

(12) Option Issue - The term “option issue” means the option contract underlying a particular underlying security.

(13) - (31) ~~(12) —(30)~~ - No change.

(c) - (d) ~~(b) —(e)~~ - No change.

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¶4733

Admission to and Conduct on the Options Trading Floor

Rule 6.2(a) - (c) - No change.

(d) Trading Floor Badges.

(1) Admission by Badge Only. Admission to the Trading Floor will be by badge only except in the case of certain designated Exchange officials. While on the Floor, all persons must at all times display appropriate badges. All Exchange Options Floor employees seeking admission to the Floor without a badge must be identified by the Options Floor Manager or representative thereof and supplied with a temporary badge. Non-member Options Floor employees of member organizations seeking admission without a badge must be identified by a member or a member organization floor manager and supplied with a temporary badge, and the member organization may be subject to a fine in the event of continual failure of its employees to have appropriate badges.

(2) Withdrawal of Trading Floor Badges. In the event that any member’s Letter of Authorization and/or Letter of Guarantee is revoked by a clearing member in accordance with the procedures stated in Rules 6.36 and 6.45, such member will not be entitled to enter into transactions on the Floor until and unless a new Letter of Authorization and/or Guarantee has been issued to such member by a clearing member. Accordingly, the Exchange will withdraw promptly the trading floor badge of any member whose appropriate letter has been properly revoked, and will retain such badge under its control until the member is subsequently covered by an appropriate letter. A member whose badge has been withdrawn under this Rule may, so long as his membership continues, gain access to the Floor by means of his member identification pass, but may not enter into any transactions thereon.

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

(1) Visitors must be the invited guests of an Exchange member, of a member organization floor manager, or of certain designated members of the Exchange staff. Other non-member employees of member organizations are not permitted to invite visitors to the Floor.

(2) Visitors must be signed in at the reception desk by the inviting member, member organization floor manager, or staff personnel, and wear a visitors badge at all times when on the Floor. The inviting member or a member organization floor manager will be responsible for the visitor's conduct on the Floor and for the return of badges and must accompany such visitors at all times while they are on the Floor.

(3) Visitors may not enter a trading crowd, block passageways, or otherwise disrupt or impair activity on the Floor.

(4) Members of the Exchange who are not normally engaged on the Options Trading Floor (i.e., have not qualified for a "Member's Options Trading Floor Badge") may visit the Floor without an invitation, but must wear a badge when on the Floor.

(5) Allied members, Floor Representatives, or other persons associated with member organizations may visit the Floor only upon an invitation under the terms of subsection (1), above.

(6) The Options Floor Manager may restrict visiting on the Floor in any manner at any time, when with the concurrence of a Floor Official, the Floor Manager deems that the presence of some or all visitors may interfere with orderly Floor procedures.

(7) A group of visitors comprising more than fifteen persons may not enter the Trading Floor without prior approval of the Chair or Vice Chair of the Options Floor Trading Committee.

(f) *Complaints from Floor Members.* Floor Members may direct complaints concerning situations arising on or relating to the Options Trading Floor to the Options Surveillance Department or to the Enforcement Department so that appropriate follow-up action may be taken.²

Commentary:

.01 - .04 - No change.

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¶4745

Series of Options Open for Trading

² Rule 6.2(f) replaces OFPA E-5 and E-6, which are being deleted in their entirety. *See infra*.

Rule 6.4(a). After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series. At the commencement of trading on the Exchange of a particular class of options, series of options therein having ~~four~~ three different expiration months will normally be opened, ~~the first such expiration month being within approximately three months thereafter, the second such month being approximately three months after the first and the third being approximately three months after the second.~~ Additional series of options of the same class may be opened for trading on the Exchange at or about the time a prior series expires, ~~and the expiration month of each such series shall normally be approximately nine months following the opening of such series.~~ The exercise price of each series of options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange. Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying stock moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened.

(b) - (c) - No change.

(d) Unless otherwise provided in the rules of the Exchange, the Exchange may open for trading option series that expire twelve (12) to thirty-nine (39) months from the time they are opened for trading, and stock index options that expire twelve (12) to thirty-six (36) months from the time they are opened for trading.

LEAPS

(e) The Exchange may open for trading up to six ~~such~~ extended far term expiration months for any index or equity option class. The Exchange rules regarding strike price interval, bid/ask differentials and continuity shall not apply to such series until the time to expiration is less than twelve months for index options, and less than nine months for equity options. When open for trading, trading in such option series shall commence either when there is buying or selling interest, or forty minutes prior to the close of trading for the day, whichever occurs first. Quotations will not be posted for extended far term option series until trading in such series is commenced on the day.

Commentary:

.01 When put options contracts or put and call options contracts are first opened for trading on an underlying security, the Exchange ~~may~~ will open a series of put options contracts corresponding to each series of call options contracts open or to be opened for trading on the same underlying security.

.02 - .03 - No change.

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¶4757 Reporting of Options Positions

Rule 6.6(a) – No change.

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¶4823 Verification of Compared Trades and Reconciliation of Uncompared Trades

Rule 6.17 -- No change.

Commentary:

.01 Rule 6.17; requires clearing members to verify and reconcile compared and uncompared trades promptly in accordance with procedures established by the Exchange from time to time. Trades must ~~shall~~ be routinely compared during the course of the trading session.

All executing members must be available for the settlement of uncompared trades throughout the trading day and for an appropriate period of time following the close of trading, either in person or through a designated representative empowered to negotiate settlement of any dispute in such member's ~~his~~ name and ~~for his~~ account. [¶] This time period will normally be established when the Trade Processing Department closes and the number of transactions on that day is announced to the Trading Floor. The minimum amount of time that ~~which~~ members and/or their representatives will be required to remain after Trade Processing closes will be as follows:

0-8,000 transactions	<u>30</u> 45 minutes
8,001 and over	one hour, 15 minutes
<u>8,001 - 12,000 transactions</u>	<u>45 minutes</u>
<u>Over 12,000 transactions</u>	<u>60 minutes</u>

For purposes of complying with this provision, the authorized representative must be physically present on the Trading Floor during this time.

All authorized representatives will ~~shall~~ also be required to be present on the Trading Floor each Saturday immediately prior to expiration for a period of one hour beginning at 6:00 a.m. Pacific Time or for longer periods of time as may be determined from time to time by an Exchange representative. A PCX options staff member will ~~shall~~ be responsible for determining that such representatives are present for this period.

While there may be occasional instances when a trade must remain uncompleted overnight, and be resolved in conformance with Rule 6.21, any member or member organization responsible for an undue number of such occurrences will be subject to disciplinary action by the appropriate Exchange Committee pursuant to Rule 10.

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¶4847 **Resolution of Uncompleted Trades**

Rule 6.21(a). Notice of uncompleted trades must be provided ~~made~~ no later than ~~15 minutes from~~ the scheduled commencement of trading unless directed otherwise by Floor Officials. The ~~basis for establishing the~~ amount of loss as a result of an uncompleted trade will be ~~shall be the lesser of either~~ the opening price for such contract on the business day following the trade date, ~~or the price at which such uncompleted trade was closed~~. With respect to instances where the uncompleted 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 ~~shall~~ will be the offer at the time of the opening. In instances where the uncompleted 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~~ shall be the bid price.

(b) In the event an uncompleted 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 member organization 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 uncompleted transaction in question.

Commentary:

.01 - .02 -- No change.

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¶4883 **Reports of Open Exercise Positions**

Rule 6.27. The Exchange may require each ~~Each~~ member organization to ~~shall~~ file with the Exchange a report, as of the 15th of each month, of all open positions resulting from the exercise of option contracts in accounts carried by such member organization. Such reports, when required, must be filed no later than the second business day following the date as of which the report is made.

Commentary:

~~.01 Reports required by Rule 6.27 shall be filed not later than the second business day following the date as of which the report is made.~~

~~.02 An open exercise position shall include any position with respect to which the Options Clearing Corporation has assigned an exercise notice to the member organization and the member organization has not delivered the shares of the underlying stock in accordance with the Rules of the Options Clearing Corporation and these Rules.~~

~~.03 All such reports shall be delivered to the Department of Member Organizations of the Exchange.~~

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¶4889

Fast Markets and Unusual Market Conditions

Rule 6.28(a) Whenever in the judgment of two Options Floor Officials, because of an influx of orders or other unusual conditions or circumstances, the interests of maintaining a fair and orderly market so requires, such Options Floor Officials may declare the market in one or more classes of options contracts to be “fast.”

(b) The following procedures will ~~shall~~ 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 Floor 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) The OBO may temporarily move less active issues to another post if the Book is extremely active. Books left at the post may be separated and order shoes provided for the most active series to facilitate order flow. A special time stamp will be placed behind the Book to stamp incoming transactions before they go to Price Reporting.

(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(f).

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

(c) ~~(b)~~ The Option Floor Officials declaring the fast market will ~~shall~~ have the power to do one or more of the following with respect to the issue or issues ~~class or classes~~ 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) Assign brokerage responsibilities for particular series to specific Floor Brokers in the trading crowd;~~

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

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

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

(6) ~~(7)~~ Suspend the Automatic Execution [No change to remainder of this paragraph]

(7) ~~(6)~~ Take such other action [no change to the remainder of this paragraph]

(8) ~~(7)~~ The Exchange may [no change to the remainder of this paragraph]

~~(e)~~ [moved to Rule 6.28(b)(6) (see above)]

(d) Whenever market conditions warrant such special action, two Floor Officials ~~the Options Floor Trading Committee~~ 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 Board of Governors must approve any such restriction that ~~which~~ is to be effective for more than two consecutive days.

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TRADING PRACTICES AND PROCEDURES

¶5061

Certain Types of Orders Defined

Rule 6.62(a)-(j) – No change.

Commentary:

.01 All orders must be either “day,” “immediate or cancel” or “good ‘til cancelled.”

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OPTIONS FLOOR PROCEDURE ADVICES

E-5

~~¶7791~~

**Subject: Procedures for Complaints Originating
From the Options Trading Floor**

~~A Member of the Options Floor with a complaint concerning a situation arising on or relating to the Floor, should:~~

- ~~1) Notify the Surveillance Department of the circumstances involved, and~~
- ~~2) subsequent to such notification, submit the complaint in writing to the Surveillance Director.~~

~~If the concerned Member believes it necessary for the Surveillance Department to personally review or rectify the situation, a member of the Department will immediately come to the Floor.~~

~~A study will be conducted on all matters referred to the Surveillance Department pursuant to this Floor Procedure Advice. Upon completion of such study, the Member(s) filing the complaint will be informed of the conclusion (i.e., filed closed or referred to the Compliance Department for further review or action). A written report of each study will be submitted to the Options Floor Trading Committee. General Information regarding such study may be given to concerned Members; however, the specific details shall remain confidential.~~

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E-6

~~¶7793~~

**Subject: Procedure Re: Written Complaints Originating
From the Options Floor**

~~Upon receipt of a written complaint from a member of the Options Floor, the Compliance Department shall commence an investigation into the allegations contained in such complaint. The Compliance Department may, among other things, interview the~~

~~Complainant, and any witnesses and parties to the action which gave rise to the complaint. The Compliance Department may request a written response from the parties involved and any witnesses. Upon the Compliance Department obtaining the facts pertinent to the issue, a written recommendation will be drafted and presented to the Options Floor Trading Committee.~~

~~After the Options Floor Trading Committee has received the written recommendation of the Compliance Department, the item should be placed on the Committee's agenda for discussion, and final action, insofar as the Options Floor Trading Committee is concerned.~~

~~The Compliance Department may, in addition, commence Disciplinary Proceedings based upon any violation of the Pacific Stock Constitution, Rules, Commentaries or procedures uncovered during the investigation of the complaint.~~

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F-1

~~¶7799~~ **Subject: Admission to the Trading Floor**

~~Pursuant to Rule 6.2, admission to the Trading Floor shall be by badge only except in the case of certain designated Exchange officials. While on the Floor, all persons shall at all times display appropriate badges.~~

~~Visitors will be admitted to the Floor only under the circumstances outlined in PSE Options Floor Procedure Advice F-2.~~

~~All Exchange Options Floor employees seeking admission to the Floor without a badge must be identified by the Options Floor Manager or his representative and supplied with a temporary badge.~~

~~Non-member Options Floor employees of member organizations seeking admission without a badge must be identified by a member or a member organization floor manager and supplied with a temporary badge, and the member organization may be subject to a fine in the event of continual failure of their employees to have an appropriate badge.~~

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F-2

~~¶7801~~ **Subject: Visitors on the Options Trading Floor**

~~Rule 6.2(a) limits admission to the Floor to members, employees of the Exchange, clerks or messengers employed by members, and such other persons as may be provided~~

~~for in the Rules. Pursuant to this Rule, the Exchange encourages the presence of appropriate visitors on the Options Trading Floor, but it is deemed necessary to strictly enforce certain procedures governing the admission to the Floor of such visitors. Accordingly, the following provisions will apply at all times:~~

~~1) Visitors must be the invited guests of an Exchange member, of a member organization floor manager, or of certain designated members of the Exchange staff. Other non-member employees of member organizations are not permitted to invite visitors to the Floor.~~

~~2) Visitors must be signed in at the reception desk by the inviting member, member organization floor manager, or staff personnel, and wear a visitors badge at all times when on the Floor. The inviting member or a member organization floor manager shall be responsible for the visitor's conduct on the Floor and for the return of badges. He shall accompany his visitors at all times while they are on the Floor.~~

~~3) Visitors may not be permitted to enter a trading crowd, block passageways, or otherwise deport themselves in a manner which disrupts or impairs activity on the Floor.~~

~~4) Members of the Exchange who are not normally engaged on the Options Trading Floor (i.e., have not qualified for a "Member's Options Trading Floor Badge") may visit the Floor without an invitation, but must wear a badge when on the Floor.~~

~~5) Allied members, Floor Representatives, or other persons associated with member organizations may visit the Floor only upon an invitation under the terms of #1 above.~~

~~6) The inviting member or member organization floor manager may not sign in more than four guests at any given time. Visitors may remain on the Options Trading Floor a maximum of two hours during the trading session and one half hour after it. Visitors, except those referred to in paragraph #4 above, may not be allowed on the Options Trading Floor more than five times in a calendar month, regardless of the duration of each visit.~~

~~7) The Options Floor Manager may restrict visiting on the Floor in any manner at any time, when with the concurrence of the Options Floor Trading Committee, he deems that the presence of some or all visitors may interfere with orderly Floor procedures.~~

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F-6

~~¶7809~~ **Subject: Withdrawal of Trading Floor Badges**

~~Rule 6.45 requires that each Floor Broker shall have in effect a Letter of Authorization that has been issued for such Floor Broker by a clearing member, and Section 77 of Rule VI requires that each Market Maker shall have in effect a Letter of Guarantee which has been issued for such market maker by a clearing firm.~~

~~In the event that any member shall have had his Letter of Authorization and/or Letter of Guarantee revoked by a clearing member in accordance with the procedures stated in sections of Rule 6 cited above, he will not be entitled to enter into transactions on the Floor until and unless a new Letter of Authorization and/or Guarantee has been issued to him by a clearing member.~~

~~Accordingly, it shall be the responsibility of the Exchange to withdraw promptly the trading floor badge of any member whose appropriate letter has been properly revoked, and to retain such badge under its control until the member shall subsequently be covered by an appropriate letter.~~

~~A member whose badge has been withdrawn under this Procedure may, so long as his membership continues, gain access to the Floor by means of his member identification pass, but may not enter into any transactions thereon.~~

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G-9

~~¶7825~~ **Subject: Fast Market Procedures**

~~The following procedures shall become effective in a fast market situation:~~

~~1) Two Floor Officials may declare a "fast market" and the stock sign will be turned to red for the options class experiencing fast market conditions. The Staff Manager may request that a Floor 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) The OBO may temporarily move less active stocks to another post if the Book is extremely active. Books left at the post may be separated and order shoes provided for the most active series to facilitate order flow. A special time stamp will be placed behind the Book to stamp incoming transactions before they go to price reporting.~~

~~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.~~