



RULE  
ADOPTION  
NOTICE

**RAN-01-21**  
**April 9, 2001**

**TO: All PCX Member and Member Organizations**

**FROM: Department of Regulatory Policy**

**SUBJECT: Rules Relating to Solicited Options Transactions**  
**(File No. SR-PCX-00-36)**

On April 4, 2001, the Securities and Exchange Commission ("SEC") approved an Exchange rule proposal relating to Solicited Options Transactions. New Rule 6.49 allows members representing an options order to solicit a third party outside of the trading crowd. The purpose of the new rule is to allow members to participate in the transaction on a proprietary basis before representing the order in the trading crowd. The member, however, will still have a due diligence obligation to his/her customer when executing the transaction. Under the new rule, an options transaction can be solicited provided that the member, upon entering the trading crowd to execute the transaction:

- 1) announces to the crowd the same terms and conditions that were disclosed to the solicited party;
- 2) bids (offers) at the price that he/she is prepared to bid (offer) to the solicited party;  
and
- 3) gives the trading crowd a reasonable opportunity to accept the bid (offer).

If a member in the trading crowd decides to match or better the terms of the transaction, the new rule grants the member in the trading crowd priority over the solicited party. Finally, the new rule prohibits a member who is representing an order to enter an order to buy or sell an option on the underlying securities of any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument, until the terms of the original order are disclosed or the trade can no longer be considered imminent in view of passage of time. This portion of the rule, which will also apply to orders facilitated under the provisions of PCX Rule 6.47, seeks to prohibit anticipatory hedging that is based on inside information.

Following is the text of new Rule 6.49, which the SEC has approved. Questions regarding this notice may be addressed to Hassan Abedi, Attorney, at (415) 393-5958.

## EXHIBIT A

### Text of Rule Change<sup>1</sup>

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#### Solicited Transactions

Rule 6.49 (a) A member or member organization representing an order in options (“originating order”) may solicit another member, member organization or non-member broker/dealer outside the trading crowd (“solicited party”) to participate in the transaction on a proprietary basis provided the following criteria are met.

- (1) The member or member organization, upon entering the trading crowd to execute the transaction must announce to the trading crowd the same terms and conditions of the originating order that have been disclosed to the solicited party;
- (2) The member or member organization must bid at the price he is prepared to buy from the solicited party or offer at the price he is prepared to sell to the solicited party; and
- (3) The member or member organization must give the trading crowd a reasonable opportunity to accept the bid or offer.

The members of the trading crowd will have priority over the solicited party order.

(b) It will be considered conduct inconsistent with just and equitable principles of trade for any member, member organization or person associated with a member or member organization, who has knowledge of all material terms and conditions of an originating order, a solicited order, or a facilitation order, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option on the underlying securities of any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument until either:

- (1) All the terms and conditions of the originating order and any changes in the terms or conditions of the order of which the member, member organization or person associated with the member or member organization has knowledge are disclosed to the trading crowd, or
- (2) The trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

For the purposes of this rule, an order to buy or sell a “related instrument” means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

(c) “Solicited” shall be written in the “Optional Data” area on the order ticket of the Solicited order.

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<sup>1</sup> New text is underscored.

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## Responsibilities of Floor Brokers

Rule 6.46(a) – (c) - No change.

Commentary:

.01 - .04 – No change.

.05 A Floor Broker's use of due diligence in handling an order shall include the immediate and continuous representation of market and marketable orders at the trading post where the option class represented by his order is designated for trading, except that a Floor Broker who is acting pursuant to Rule 6.49 need not represent such orders immediately at the designated trading post.