



RULE  
ADOPTION  
NOTICE

**RAN-03-03**  
**January 30, 2003**

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

**FROM: Department of Regulatory Policy**

**SUBJECT: Market Maker Quoting Obligations**  
**(File No. SR-PCX-2002-55)**

On August 8, 2002 the Pacific Exchange, Inc. filed with the Securities and Exchange Commission a proposed rule change to require options market makers to vocalize a legal-width, two-sided market for a minimum of ten contracts whenever a floor broker enters a trading crowd and calls for a market in an option series that is one of the 120 most actively traded equity options ("Top 120 options"). This obligation would apply to: (i) Market makers who have executed a transaction in a Top 120 option but not those who have been assigned either the day of the floor broker's call for a market or on the previous business day; (ii) non-broker-dealer orders; and (iii) series not designated as LEAPS. On November 8, 2002, the Exchange submitted Amendment No. 1 to the proposed rule change, and the proposed rule change was published for comment on December 13, 2002. The proposal was approved on January 17, 2003.

The following is the text of the rule change and Amendment No. 1. Questions regarding this bulletin may be directed to Steven Matlin at (415) 393-4084.

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**Exhibit A**

**Text of the Rule Change<sup>1</sup>**

**PACIFIC EXCHANGE, INC**

**RULES OF THE BOARD OF GOVERNORS**

**¶4935 Obligations of Market Makers**

Rule 6.37(a) – No change.

(b) *Appointment as a Primary Market Maker.* – No change.

(1) – (4) - No change.

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

(5) Whenever a Floor Broker enters a trading crowd and calls for a market in a particular option series, each Market Maker present at the trading post will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)) for a minimum of 10 contracts. This obligation only applies to:

(A) Market Makers who have executed a transaction in the issue, but not those who have been assigned contracts by the Order Book Official pursuant to Commentary .05, on the day of the Floor Broker's call for a market or on the previous business day;

(B) Option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the one month of trading activity that occurred two months prior to the current month;

(C) Non-broker-dealer orders; and

(D) Series not designated as LEAPS (pursuant to Rule 6.4).

*(c) In Classes of Option Contracts Other Than Those to Which Appointed. – No change.*

(1) – (3) – No change.

(4) Whenever a Floor Broker enters a trading crowd and calls for a market in a particular option series, each Market Maker present at the trading post will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)) for a minimum of 10 contracts. This obligation only applies to:

(A) Market Makers who have executed a transaction in the issue, but not those who have been assigned contracts by the Order Book Official pursuant to Commentary .05, on the day of the Floor Broker's call for a market or on the previous business day;

(B) Option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the one month of trading activity that occurred two months prior to the current month;

(C) Non-broker-dealer orders; and

(D) Series not designated as LEAPS (pursuant to Rule 6.4).

(d) – (f) - No Change.

Commentary .01 - .04 – No Change.

Commentary .05 – Whenever a Floor Broker enters a trading crowd and calls for a market in any class and series at that post, each Market Maker present at the post where the option is traded is obligated, at a minimum, to make a market for one contract except as provided for in Rule 6.37(b)(5) and Rule 6.37(c)(4), at the established price. In addition, the Options Floor Trading Committee may determine that Market Makers in trading crowds shall increase the depth of their markets as set forth in Options Floor Procedure Advice B-12. In the event a Floor Broker is unable to satisfy his order from bids and offers given in the crowd, the Order Book Official may assign one contract to every Market Maker present within the primary zone to assist the Floor Broker in satisfying his order. If a Market Maker at the post either bids lower or offers higher than the established market, such Market Maker shall be obligated to trade one contract at the price quoted by the Market Maker.

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