

**RB-05-12  
August 09, 2005**

**TO: ALL OTP HOLDERS, OTP FIRMS AND ALLIED PERSONS  
ALL ETP HOLDERS AND ETP SPONSORED PARTICIPANTS**

**FROM: ENFORCEMENT DEPARTMENT**

**SUBJECT: DISCIPLINARY SANCTIONS IMPOSED AND ARBITRATION AWARDS RENDERED**

This Regulatory Information Bulletin advises OTP Holders, OTP Firms and Allied Persons, ETP Holders and ETP Sponsored Participants of certain final disciplinary actions that resulted in the imposition of sanctions for violations of the federal securities laws and the Bylaws and Rules of the Exchange. This Bulletin also reports on the results of arbitration proceedings that were resolved at the Exchange.

**A. Disciplinary Sanctions Imposed From April 1, 2005 Through June 30, 2005**

**OPTIONS:**

***The Exchange Regulatory Staff resolved the following matters pursuant to the Minor Rule Plan:***

OS0402041	An OTP Holder was fined \$2,500 for engaging in prohibited practices pertaining to the entering of orders on the Exchange's automatic execution system for options order execution and reporting. (PCX Rule 6.87(d).)
OS0308011	An OTP Firm was fined \$2,000 for an employee's violation of the obligation to disseminate accurate quotes by not abiding by the maximum allowable bid/ask differentials (3 <sup>rd</sup> violation). (PCX Rule 6.37(a) and (b).)
OS0405101	An OTP Holder was fined \$1,800 for engaging in an unprofessional manner towards a member of PCX staff. (PCX Rule 6.2.)
OS0308011	An OTP Holder was fined \$2,000 for violating the obligation to disseminate accurate quotes by not abiding by the maximum allowable bid/ask differentials (3 <sup>rd</sup> violation). (PCX Rule 6.37(a) and (b).)
FC-0502071	An OTP Firm was fined \$500 for neglecting to update its Form BD to reflect its current clearing arrangements and change of address, and \$500 for failing to notify the Exchange of its financial arrangements within 10 business days, for a total of \$1,000. (PCX Rules 2.17(b) and 11.11.)
FC-0503041	An OTP Firm was fined \$2,000 for failing to update its Form BD to reflect its clearing arrangements and change of address. (PCX Rule 2.17(b).)
FC-0503011	An OTP Firm was fined \$2,000 for failing to updated its Form BD to reflect its clearing arrangements. (PCX Rule 2.17(b).)
FC-0502221	An OTP Holder was fined \$500 for failing to failing to update the Form BD to reflect current address and clearing arrangements. (PCX Rule 2.17(b).)
OS0312023	An OTP Holder was fined \$500 for making unprofessional comments on the trading floor. (PCX Rule 6.2(c)(2).)
OS0404121	An OTP Holder was fined \$1,000 for failing to properly vocalize a cross trade. (PCX Rule 6.47(a).)
SEC No. 8-65802	An OTP Firm was fined \$500 for failing to file a Compliance Acknowledgement Form in a timely manner. (PCX Rule 11.3(b).)
SEC No. 8-53047	An OTP Holder was fined \$500 for failing to file a Compliance Acknowledgement Form in a timely manner. (PCX Rule 11.3(b).)

***The Ethics and Business Conduct Committee resolved the following matters through the rendering of Decisions accepting Offers of Settlement and Consent:***

- OS0310163 KIM NURSS was fined \$1,000 for failing to meet the 75% trading in primary appointment requirement (2<sup>nd</sup> violation). (PCX Rule 6.35.)
- OS0503032 STUDENT OPTIONS, LLC was fined \$9,400 for the failure of its employees to immediately record incoming orders into Electronic Order Capture or the Electronic Tablet. (PCX Rule 6.67(c).)

**EQUITIES:**

***The Exchange Regulatory Staff resolved the following matters pursuant to the Minor Rule Plan:***

- 05-09 An ETP firm was fined \$500 for failing to disclose to PCXE that it had entered into a financial arrangement with another entity. (PCXE Rule 6.11(b).)
- 05-06 An ETP firm was fined \$500 for failing to file a Compliance Acknowledgment Form in a timely manner, and fined \$500 for failing to disclose to PCXE that it had entered into a financial arrangement with another entity, for a total fine of \$1,000. (PCXE Rules 6.3(b) and 6.11(b).)
- 05-17 An ETP firm was fined \$500 for failing to file a Compliance Acknowledgment Form in a timely manner. (PCXE Rule 6.3(b).)
- 05-10 An ETP firm was fined \$500 for failing to file a Compliance Acknowledgment Form in a timely manner. (PCXE Rule 6.3(b).)
- 05-20 An ETP firm was fined \$100 for failing to maintain a continuous, two-sided Q-Order for an issue in which it is registered to trade. (PCXE Rule 7.23(a)(1).)
- 05-08 An ETP firm was fined \$100 for failing to maintain a continuous, two-sided Q-Order for an issue in which it is registered to trade. (PCXE Rule 7.23(a)(1).)
- 04-10 An ETP firm was fined \$100 for failing to maintain a continuous, two-sided Q-Order for an issue in which it is registered to trade. (PCXE Rule 7.23(a)(1).)
- 05-16 An ETP firm was fined \$500 for failing to file a Compliance Acknowledgment Form in a timely manner. (PCXE Rule 6.3(b).)

***The Business Conduct Committee resolved the following matters through the rendering of Decisions accepting Offers of Settlement and Consent:***

- 05-03 MICHAEL J. WORTHINGTON and SEQUOIA TRADING, INC. were censured and jointly and severally fined \$7,000 for failing to maintain continuous, two-sided Q-Orders for issues in which they are registered to trade, failing to give 24 hour notice that they were withdrawing Market Maker registration, and failing to disclose to PCXE that they had entered into a financial arrangement with another entity. (PCXE Rules 7.23(a)(1), 6.11, 7.22(c), and 6.2(b).)

**B. Arbitration Awards During the Period April 1, 2005 through June 30, 2005**

Pursuant to PCX Rule 12.29(f), arbitration awards shall be made publicly available provided that the name of the customer party will not be disclosed if he/she so requests in writing. Upon written request, copies of the awards will be available from the Department of Arbitration of the Pacific Exchange. The following awards were made during the above-referenced period:

**Case Name:** Johnson v. First Union et al (Stipulated Award)  
**Case No:** 02-S021  
**Date Received:** 06/17/02  
**Summary of Issues:** Unsuitability; Failure to Supervise  
**Amount of Dispute:** \$159,000

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**Amount Awarded:** N/A  
**Decision Date:** 04/18/05

**Case Name:** Lajala v. Morgan Stanley et al  
**Case No:** 03-L012  
**Date Received:** 04/18/03  
**Summary of Issues:** Unsuitability; Failure to Supervise; Fraud; Breach of Fiduciary Duty  
**Amount of Dispute:** \$160,986  
**Amount Awarded:** \$0  
**Decision Date:** 04/18/05

**Case Name:** Rickwal v. Salomon Smith Barney et al  
**Case No:** 02-S055  
**Date Received:** 11/15/02  
**Summary of Issues:** Unsuitability; Failure to Supervise; Breach of Fiduciary Duty  
**Amount of Dispute:** \$400,000  
**Amount Awarded:** \$301,665  
**Decision Date:** 05/06/05

**Case Name:** Arndt v. Salomon Smith Barney et al  
**Case No:** 02-S016  
**Date Received:** 05/16/02  
**Summary of Issues:** Failure to Execute; Negligence  
**Amount of Dispute:** \$50,000  
**Amount Awarded:** \$0  
**Decision Date:** 05/16/05

**Case Name:** Elzarka et al v. A.G. Edwards & Sons, et al  
**Case No:** 02-S054  
**Date Received:** 12/05/02  
**Summary of Issues:** Fraud; Unsuitability; Failure to Supervise; Unauthorized Trading; Breach of Contract; Breach of Fiduciary Duty  
**Amount of Dispute:** \$ 2,610,799  
**Amount Awarded:** \$964,000  
**Decision Date:** 05/19/05

**Case Name:** Silver v. Prudential et al  
**Case No:** 04-L009  
**Date Received:** 09/13/04  
**Summary of Issues:** Unsuitability; Failure to Supervise; Breach of Fiduciary Duty; Misrepresentation  
**Amount of Dispute:** \$9,999  
**Amount Awarded:** \$0  
**Decision Date:** 05/23/05

**Case Name:** Levin v. UBS Financial Services et al  
**Case No:** 04-L010  
**Date Received:** 11/26/04  
**Summary of Issues:** Misrepresentation; Breach of Fiduciary Duty  
**Amount of Dispute:** \$ 3,876  
**Amount Awarded:** \$3,876  
**Decision Date:** 05/31/05

Questions regarding disciplinary sanctions for options may be directed to Larry Hing, Director of Options Enforcement, at (415) 393-4151. Questions regarding disciplinary sanctions for equities may be directed to Chris Hill, Director of Equities Enforcement, at (312) 442-7944. Questions regarding arbitration awards may be directed to Matt Mennes, Director of Arbitration, at (415) 393-4240.