

## **Options Floor Procedure Advices**

### **A-5**

#### **Subject: Prohibitions Against Use of the Book by Floor Brokers in Closing Out Errors**

Rule 6.34 forbids any OTP Holder or OTP Firm [member], while on the Floor, from initiating a transaction in which the OTP Holder or OTP Firm [member] has an interest, unless the OTP Holder or OTP Firm [member] is acting as a Market Maker, or unless the OTP Holder or OTP Firm [member] is liquidating a position taken into his own account as a result of an error made while attempting to execute an order for a customer. Since bids, offers and transactions made to close out a position carried by a Floor Broker as the result of a brokerage error are clearly for the proprietary account of that OTP Holder or OTP Firm [member], they should not receive the priority treatment accorded to public customer orders held in the Book.

Accordingly, the placing of such orders in the Book shall be deemed a violation of [Section 66(a) of] Rule 6.52**(b)**[(a)].

## **Conduct of Market Makers**

### **B-8**

#### **Subject: Trading in Dually Listed Options**

To facilitate the public order flow in options classes "dually listed" with the Pacific Exchange and one or more other national securities exchanges and to guard against Market Maker violations of SEC and PCX provisions relating to "occasional investment account transactions" (Rule 15c3-1 under the Securities Exchange Act of 1934--the "Net Capital Rule"), Market Makers must (1) announce proposed transactions in dually listed option classes, and (2) determine the market conditions for completing such transactions on the PCX Options Trading Floor, before effecting, or attempting to effect, the transactions elsewhere.

A Market Maker or Floor Broker handling an order for a Market Maker while on the Floor, must adhere to the provisions set forth above and present the order to the OBO for time-stamping and initialing, before attempting to effect the transaction elsewhere.

Transactions effected or attempted to be effected elsewhere, where the order tickets do not indicate PCX representation, will be deemed to be in violation of this Advice and subject the OTP Holder or OTP Firm to disciplinary action.

### **B-12**

#### **Subject: Depth of Quoted Markets**

The Exchange [Options Floor Trading Committee] has determined that with respect to certain option series and in response to requests for bids or offers or markets made on behalf of Floor Brokers representing non-broker dealer option orders, that trading crowds should provide a depth of ten contracts. Specifically, the Exchange [Committee] has determined that for all options overlying listed equity securities, when a request for bids or offers or markets, crowds will provide a depth of ten contracts for all series which are at-the-money, and just in and just out-of-the-money at the time the request is made. If there is insufficient response to provide a depth of ten contracts, the Order Book Official shall allocate amongst the Market Makers in the trading crowd contracts to satisfy this ten-deep requirement. When such allocating occurs, the Order Book staff shall record and maintain lists of the individual Market Makers as a result of the allocation who provided this ten-deep bids and/or offers and to take into consideration such allocations when similar occasions arise in the same trading session. The Order Book Officials shall seek, as reasonably as possible, to equalize such allocations amongst the Market Makers in the trading crowds. The Exchange [Options Floor Trading Committee] has also determined that Market Makers in trading crowds need not provide ten contract depth if the best bid or offer is on behalf of a brokered order. Consequently, the trading crowds, in meeting this requirement need only to provide a ten deep market when such market is that being made by one or more Market Makers present in the crowd. In the event that Fast Market conditions are declared, this provision may be waived with the approval of two Trading [Floor] Officials or the Exchange.

## **Conduct of Order Book Officials**

### **C-2**

#### **Subject: Pre-Opening Option Market Quote Indication Procedure**

The following procedures shall be followed by the Order Book Official at each post when posting pre-opening option market quote indications.

1. For those options classes designated by the Exchange [Options Floor Trading Committee] as eligible for pre-opening option market quote indications procedures the OBO shall, no earlier than 6:15 a.m. (PT), request market quote indications from the OTP Holders or OTP Firms [members] present in the trading crowd.

2. The OTP Holders or OTP Firms [Members] may then provide pre-opening option market quote indications at which time the OBO shall post these quotations. Upon the opening of the underlying stock and in no case earlier than 6:30 a.m. (PT) the OBO shall request verbal confirmation from the trading crowd that such pre-opening option market quote indications reflect the actual market and constitute valid opening quotations. If the crowd indicates that such pre-opening option market quote indications reflect the actual market and constitute valid opening quotations, the OBO shall conduct a one-price opening in accordance with applicable Exchange Rules for all series in which Floor Brokers in the crowd or the Book hold executable limit or market orders. After such orders have been executed, the OBO shall note the time and declare the class open.

3. Notwithstanding paragraphs 1 and 2 of this Advice, the OBO may direct that an opening rotation take place pursuant to Rule 6.64(a) if a) the OBO fails to receive market quote indications; or b) the underlying security opens substantially higher or lower than the opening price anticipated by the [members of the] crowd providing the pre-opening market quote indications; or c) there are substantial order imbalances affecting the options class or; d) for such other reasons as the [Options Floor Trading Committee the] OBO or the Exchange may determine.

## **Orders**

### **D-1**

#### **Subject: Time Limitation of Orders Accepted in the Book**

[Members are reminded that the provisions of Rule 5.2(a) are made applicable to option trading by Rule 6.1A. Accordingly, o]Only day orders or GTC (Good 'Til Cancelled) orders will be accepted in the Book. Floor Brokers holding orders good through a specific date must enter such orders in the Book as GTC orders and take responsibility for canceling them on the appropriate date.

### **D-2**

#### **Subject: Disposition of Unfilled Day Orders**

[Rule 5.2(a) requires that all orders be "day" orders or "Good 'Til Cancelled" (GTC) orders.] Rule 6.52 requires Order Book Officials to use due diligence in executing orders placed in their custody. Pursuant to these Rules, one copy of unfilled day orders, or unfilled partial balances of day orders, in the Book at the close of trading each day will be marked "ND" (Nothing Done) by the OBO and promptly made available to the entering Floor Broker.

The OBO will retain one copy of all such orders on file.

### **D-3**

#### **Subject: Stop-Loss Orders in the Book**

Reference is made to Rule 6.52(b)[(a)] which preclude the placing of other than limit orders in the Book.

Since stop-loss orders of any kind, whether straight stop-loss or stop-loss-limit orders, are defined as contingency orders in Rule 6.62(c), they are not deemed to be acceptable limit orders and their entry into the Book is prohibited.

### **D-5**

#### **Subject: Reconfirmation of Open Orders in the Book**

[Rule 5.2(a) requires that all orders be "day" orders or "Good 'Til Cancelled" (GTC) orders.] Rule 6.46 and Rule 6.52 require that Order Book Officials and Floor Brokers use due diligence in executing orders entrusted to them. Pursuant to these Rules, all open GTC orders in the Book will be reconfirmed between the OBO and the entering member organization as to their current validity on a quarterly basis, approximately 30 days prior to the next expiration date of any series of options in the class of options involved, i.e., options expiring on a January-April-July-October cycle will be reconfirmed approximately 30 days prior to the expiration date in each of these months, and options expiring on a February-May-August-November cycle will be reconfirmed separately based on these months.]

The method of reconfirmation shall be as follows:

1) At the close of business on dates established by the Exchange [Options Floor Trading Committee] in accordance with the above, each OBO shall return all open orders in his Book to the OTP Holder or OTP Firm [members organization] designated on the order as the "selling firm" or "buying firm".

2) As soon thereafter as practicable, but in no event later than 6:30 a.m. on the following business day, those orders which remain valid shall be returned to the OBO for reassembly in the Book in their entitled order or priority as indicated by their original time stamp of entry.

3) All orders not returned to the OBO within the time limit specified shall be deemed to have been cancelled, and if subsequently re-entered shall have priority only from the time and date of such re-entry.

#### **D-6**

#### **Subject: Disposition of Limit Orders in the Book in the Event of Their Being Made Market Orders**

Since Commentary .01 to Rule 6.52(a) prohibits acceptance by the Book of any market orders, any limit order in the Book which is changed to a market order must be in effect cancelled from the Book by the entering OTP Holder or OTP Firm [member] who will thereafter be responsible for its execution.

#### **[D-8a**

#### **Subject: Marking Orders to Reflect Split Transactions**

Reference is made to Rule 6.76(a) and (b) which permit special priorities to purchases or sales under specified conditions. These purchases or sales constitute the type of transactions commonly referred to as splits.

In order that such transactions may be readily identified in the event of subsequent questions pertaining to priority, the Exchange Options Floor Trading

Committee requests that all members effecting splits shall so indicate on the ticket by writing the word "split" next to the executed price.

In addition, trading in the splits will be considered as contingent orders and therefore one side cannot be executed without the other.]

#### **D-10**

#### **Subject: Imprinting the Name of OTP Holder or OTP Firm [Member Organizations] on Trade Tickets**

Rule 6.66 requires an OTP Holder or OTP Firm [member] to immediately give up the name of the clearing member through whom the transaction will be cleared and Rule 6.67 requires that orders be in a written form approved by the Exchange.

In order to reduce confusion and potential errors, the Exchange [Options Floor Trading Committee] has ruled that OTP Holders or OTP Firms [member organizations] ordering trade tickets, other than Market Maker trade tickets, either from the Exchange or from other approved sources, shall cause to be imprinted or written thereon the name of the OTP Holder or OTP Firm [member organization] that will be given up in transactions effected by the use of that ticket.

### **Trading Practices**

#### **G-11**

#### **Subject: "Marking"**

The term "marking" is used to describe the practice of effecting last reported transactions and/or market quotations for the purpose of establishing specific "mark-to-the-market" values which are used for calculating account equity and margin requirements in accordance with Regulation T of the Board of Governors of the Federal Reserve and capital requirements under the Securities and Exchange Commission's Rule 15c3-1.

The "mark-to-the-market" value utilized by most firms is:

- (a) the last sale transaction in each option series each day; or
- (b) if the last reported transaction price is lower than the final bid, the option series is "marked-to-the-market" at the last disseminated bid price in the series; or
- (c) if the last reported transaction price is higher than the final offer, the option series is "marked-to-the-market" at the last disseminated offer price in the series.

Example No. 1. OTP Holder or OTP Firm [Member] A holds a short position of 100 XYZ July 30 call option contracts. Just prior to the close of trading, the market quotations were disseminated as 4 bid, offered at 4 1/2 with last sale as 4 1/2. OTP Holder or OTP Firm [Member] A offers the July 30 option series at 4 and sells one (1)

contract to the Book at that price. As such, the "mark-to-the-market" value for the July 30 option series was 4. Had the last reported transaction not taken place, the "mark-to-the-market" value would have been 4 1/2. The effect of OTP Holder or OTP Firm [Member] A offering and selling one contract was to decrease the "mark-to-the-market" value of the July 30 option series by 1/2 which, in connection with the short position of 101 contracts held by OTP Holder or OTP Firm [Member] A, would increase the net liquidating equity in his account by \$5,050.00 (101 x \$50.00).

Example No. 2. OTP Holder or OTP Firm [Member] A holds a long position of 100 XYZ Oct 35 call option contracts. Just prior to the close of trading, the market quotations are disseminated as 5 3/4 bid, offered at 6 1/4. The last sale had occurred earlier in the day at 5 1/2. As such, the "mark-to-the-market" value would be the last disseminated bid price of 5 3/4. However, OTP Holder or OTP Firm [Member] A buys one (1) contract from OTP Holder or OTP Firm [Member] B, who also has a long position in the series, at 6 1/4, causing the "mark-to-the-market" value to be increased by 1/2 which, in connection with the long positions held by both OTP Holders or OTP Firms [Members], would increase the net liquidating equity in their respective accounts proportionately.

The transactions described above may be considered to have been effected for the purpose of improperly influencing the market price of the option series for the purpose of establishing a price which did not reflect the true state of the market in the option series. It should be noted that the examples above are not exclusive and marking may be deemed to occur in other circumstances, e.g., trading or quoting total debit or credit on "spreads."

In this respect, the Exchange [Committee] considers it to be conduct inconsistent with just and equitable principles of trade, in violation of Rule 11.2 [Article XI, Section 2(b), of the Exchange Constitution]; manipulation, (Rule 11.5 [4.6(a)]); and conduct which impairs public confidence in the operations of the Exchange, (Rule 6.2(b)), for a OTP Holder or OTP Firm [member] or persons associated with a OTP Holder or OTP Firm [member] or an account in which such OTP Holder or OTP Firm [member] or person exercises investment discretion, to effect a transaction and/or quotation for the purpose of changing a particular "mark-to-the-market" value or for establishing last reported sales for the purpose of inducing public participation.