



RULE  
ADOPTION  
NOTICE

**RAN-01-28**  
**June 25, 2001**

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

**FROM: Department of Regulatory Policy**

**SUBJECT: Housekeeping Amendments to Rules Governing Floor Brokers  
(File No. SR-PCX-99-45)**

On June 8, 2001, the Securities and Exchange Commission approved a PCX proposal to make various housekeeping changes to the Floor Broker Rules. The Rule changes include the following. First, the registration of Floor Brokers is modified by Rule 6.44. Second, a Flex provision was added to Rule 6.45. Third, OFPA A-10 (Broker Responsibility on Print-Throughs) is renumbered and modified as Rule 6.46(d). Fourth, OFPA A-11 (Broker Responsibility to Cancel Best Bid or Best Offer) is renumbered as Rule 6.46(e). Fifth, OFPA D-4 (Use of Orders Which Specify More than One Contract) is renumbered as Rule 6.46(f). Sixth, OFPA A-6 (Responsibility of Floor Brokers in Effecting a Cross Transaction) is renumbered as Rules 6.47 (d)(e) and (f). Seventh, Rule 6.47(c)(5) relating to crossing of solicited orders is added. Eighth, Rule 6.46(g) is added and provides that Floor Broker Error Accounts may only be used to correct bona fide errors. Ninth, OFPA A-9 (Discretionary Transaction) is renumbered as Rule 6.48(b). Tenth, Rule 6.46 Commentary .02 is changed to require floor brokers to make reasonable attempts to make all persons in the crowd aware of each request for quote. Finally, OFPA A-2 (Floor Brokers Acting as Both Principal and Agent in the Same Transaction) is renumbered as Rule 6.50.

Following is the text of the rule change. Questions regarding this Bulletin should be directed to Cindy Sink at (415) 393-7926.

## EXHIBIT A

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

#### ¶ 4969

#### Registration of Floor Brokers

Rule 6.44(a). An applicant for registration as a Floor Broker must [shall] file an [his] application in writing with the Exchange [Department of Operations] on such form or forms as the Exchange may prescribe. [Applications shall be reviewed by the Options Floor Trading Committee which shall consider an applicant's ability as demonstrated by his passing] Applicants must pass a Floor Broker examination prescribed by the Exchange[, or such other factors as the Option Floor Trading Committee deems appropriate. After reviewing the application, the Options Floor Trading Committee shall either approve or disapprove the applicant's registration as a Floor Broker.] Before a registration [shall] become s effective, the Exchange will[, upon direction of the Options Floor Trading Committee, shall] post the name of the applicant on the bulletin board on the Floor of the Exchange for at least ten calendar [ three (3) business] days.

(b) The registration of any person as a Floor Broker may be suspended or terminated by the Options Floor Trading Committee upon a determination that such person has failed to perform properly as a Floor Broker. Any member or prospective member adversely affected by a determination of the Options Floor Trading Committee under this Rule [Section] may obtain a review thereof in accordance with the provisions of Rule 10 [10.12].

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#### ¶ 4975

#### Letters of Authorization

Rule 6.45 (a) - (c) -- No change.

(d) FLEX Options. Floor Brokers may not act as such in respect of FLEX Options contracts unless one or more Letter(s) of Authorization on behalf of such Floor Brokers has been issued by a Clearing Member in accordance with Rule 8.115(b).

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#### ¶ 4981

#### Responsibilities of Floor Brokers

Rule 6.46(a) - (c) -- No change.

(d) Pursuant to Rule 6.46(a), the Options Floor Trading Committee has made a determination regarding print-throughs on limit orders held either by a Floor Broker, or an Order

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<sup>1</sup> New text is underscored. Deleted Text is bracketed

Book Official. This determination distinguishes print-throughs which occur intra-day from print-throughs occurring on the opening. [With respect to trading during the day, the Options Floor Trading Committee finds that it is a generally accepted industry practice that a Broker is responsible for whatever number of contracts print-through a limit order.] When a print-through is discovered, the Floor Broker should ascertain whether the limit price or a more favorable price is available. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible at the original limit price for whatever number of contracts have traded-through the limit order. Print-throughs on the opening should be treated differently than those which occur intra-day. On the opening, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible for the number of contracts that trade-through the customer's limit order at the opening price, rather than at the limit price. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible at the original limit price for whatever number of contracts have traded-through the limit order.

(e) Under certain circumstances a best bid or best offer is disseminated as a result of an order represented by a Floor Broker. It is the responsibility of the Floor Broker holding such an order to instruct the Order Book staff to remove such bid or offer when it is canceled or when such order which represented such best bid or offer has been filled in its entirety.

(f) Floor Brokers may accept orders that bid for or offer a specified number of contracts and no less. These include orders designated as "fill or kill," "all or none," or "immediate or cancel," (including such orders specifying that any unfilled portion of a multiple order is to be immediately canceled). However, Floor Brokers must assure that all such orders (including the contingency) are vocalized in the trading crowd, and that the bid or offer is not disseminated.

(g) Floor Brokers who are required to establish and maintain error accounts pursuant to Rule 4.21 may only use such error accounts for the purpose of correcting bona fide errors, as provided in Rule 6.14.

*Commentary:*

.01 – No change.

.02 Pursuant to Rule 6.46, a Floor Broker's use of due diligence in executing an order includes the use of a reasonable effort to make [shall include making] all persons in the trading crowd aware of the Floor Broker's [his] request for a quotation.

.03 - .05 – No change.

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**“Crossing” Orders and Stock/Option Orders**

Rule 6.47 (a) Non-Facilitation (Regular Way) Crosses. [(a)] A Floor Broker who holds orders to buy and sell the same option contract may cross such orders, provided that he proceeds in the following manner:

(1) – (3) – No change.

(b) Crossing of Facilitation Orders. [(b)] A Floor Broker who holds an order for a public customer of a member organization and a facilitation order may cross such orders provided that he proceeds in the following manner:

(1) - (6) – No Change.

(c) Crossing of Solicited Orders. A Floor Broker who holds an order for a public customer of a member organization may solicit an opposing side for such order. The solicited order shall be entitled to priority of execution on the original order amount of the order which prompted the solicitation, provided the following criteria are met.

(1) - (4) – No Change.

(5) If a Floor Broker announces an order in the trading crowd, and then steps out of the trading crowd to solicit interest, but continues to be within hearing distance, the Floor Broker need not re-announce the order upon returning to the trading crowd.

(d) Trading Crowd Opportunity to Respond. Floor Brokers are cautioned that they must allow members in the trading crowd a reasonable period in which to respond to the bid and/or offer prior to consummating the cross transaction. A reasonable period will not be defined in terms of a specific time limit. However, an obvious attempt to execute the cross in an uninterrupted sequence with the announcement of the bid and offer is deemed to be a violation of Rule 6.47 and Rule 6.73, and grounds for objection to the cross transaction.

(e) Use of the Book to Effect a Cross. In some instances, a Floor Broker may deem it necessary to place one side of the proposed cross transaction on the Order Book with the intention of effecting the cross transaction with the Order Book. To effect such a transaction, the Floor Broker must use the following procedure: Following the announcement of the new bid or offer by the Order Book Official or his clerk, the Floor Broker must again request a market in the series, and upon determination that the bid or offer represented by the Order Book is the best market, he may then execute the cross by trading with the order on the Book.

(f) Stock/Option Orders. When a stock/option order is taken to a crowd for execution, the stock transaction must be effected prior to the option transaction pursuant to Rule 6.47, Commentary .04. The following procedure applies to all executions of stock/option orders: After an agreement with other members of the crowd has been reached as to the terms of the transaction, the option order tickets must be written up and time stamped. However, the order tickets should not be turned in to the Order Book Official at this time. The members shall

attempt to immediately effect the transaction in the underlying or related security. If the stock transaction cannot be executed immediately or is effected at a price other than the agreed-upon price, the members shall not be held to the option transaction. If the stock transaction is effected at the agreed-upon price, then all the members who participated in the option transaction shall be held to their agreed-upon price. At the time the stock transaction is effected, the option trade tickets should be given to the Order Book Official.

*Commentary:*

.01 - .04 - No change.

.05 Market Makers are under an affirmative obligation to indicate their market and size so that the Floor Broker may establish the current market. [A Floor Broker, in all cases, must allow members in the trading crowd a reasonable period of time for response to his request for a market and the bids or offers made prior to consummating the cross transaction. An attempt to execute the cross transaction in an uninterrupted sequence is a violation of Rule 6.47 and Rule 6.73.]

.06-No change.

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¶4993

### **Discretionary Transactions**

Rule 6.48(a) – No change.

(b) Pursuant to Rule 6.48, the Options Floor Trading Committee has determined that no Floor Broker may hold concurrently a “not held” market order to buy and a “not held” market order to sell (or orders which have the effect of such “not held” market orders to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Holding such orders will be interpreted as allowing the Floor Broker discretion with respect to whether to purchase or sell such options.

(c) [(b)] A Market Maker shall not exercise discretion in an account unless he has a direct interest in such account. Market Makers may not exercise discretion over any account other than: a joint account approved pursuant to Rule 6.39, or an account in which the Market Maker has a direct interest. For purposes of this Rule, the term “direct interest” in an account is limited in its meaning to include only a participation in the profits and losses in such account, or in the case of a partnership or corporation, a representative of such partnership or corporation who has a supervisory responsibility over such account. Only persons registered as Market Makers and subject to the performance obligations set forth in Rule 6.37, may exercise discretion over an account.

(1) A Market Maker wishing to effect such discretionary transactions for accounts other than the Market Maker’s personal account or a joint account must enter the order with a Floor Broker and the procedures set forth in Rule 6.85. The identification of the

order as a discretionary order is required pursuant to PCX Rule 6.68(a)(7), “Record of Orders.”

(A) The name of the Market Maker for whom the transaction is being executed must be printed at the bottom of the ticket (B-6-1(c)), along with the badge number of the Market Maker exercising discretion (i.e. e.g., Joe Trader/MO7); and

(B) A “D” must be placed after the Market Maker’s number, for whose account the trade is executed, in the firm box (e.g., MO5 D).

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¶ 4995 **Floor Broker Acting as Both Principal and Agent in the Same Transaction**

Rule 6.50(a) A Floor Broker holding an agency order may not fill any part of such order as principal unless that Floor Broker inadvertently “misses the market” for the account of a customer and, owing a report at a specified price or better, cannot effect the necessary transaction except by filling all or some portion of the order as principal.

(b) For the purposes of facilitating a customer order via the firm error account, in connection with a broker’s “missing the market,” the following procedures will apply:

(1) Floor Broker errors (positions resulting from a broker’s error or omission) must be liquidated promptly except for unusual circumstances that are beyond the control of such Floor Broker.

(2) Error account positions not liquidated by the next business day must be maintained in a customer (investment) account and be subject to customer margin.

(3) Error account positions, not initially established as part of an investment transaction (i.e., executed as agent) may not subsequently be transferred, adjusted, or journaled into a Market Maker account.

(4) The price and size of the transaction, if made through the Exchange’s adjustment system, must be justified by the market condition at the time the order was entered, if it was a market order and at the limit or better if it was a limit order.

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**OPTIONS FLOOR PROCEDURE ADVICES  
CONDUCT OF FLOOR BROKERS**

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[A-2]

**¶7703            Subject: Floor Broker Acting as Both Principal and Agent in the  
                         Same Transaction**

Under Rule 6.43, a Floor Broker "is an individual ... who is registered with the Exchange for the purpose, while on the Exchange Floor, of accepting and executing option orders received from members." Pursuant to this Rule, a Floor Broker holding an agency order shall under no circumstances fill any part of such order as principal unless he inadvertently "misses the market" for the account of his customer and, owing a report at a specified price or better, cannot effect the necessary transaction except by filling all or some portion of the order as principal.

For the purposes of facilitating a customer order via the firm error account, in connection with a broker's "missing the market," the Options Floor Trading Committee has determined that the following procedures shall be applicable.

1) Floor Broker errors (positions resulting from a broker's error or omission) shall be liquidated promptly except for unusual circumstances which are beyond the control of such Floor Broker.

2) Error account positions not liquidated by the next business day shall be maintained in a customer (investment) account and subject to customer margin.

3) Error account positions, not initially established as part of an investment transaction (i.e., executed as agent) may not subsequently be transferred, adjusted, or journaled into a market maker account.

4) The price and size of the transaction, if made through the Exchange's adjustment system, must be justified by the market condition at the time the order was entered, if it was a market order and at the limit or better if it was a limit order.]

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[A-6]

**¶7711            Subject: Responsibility of Floor Brokers in Effecting a Cross  
                         Transaction**

Floor Brokers are cautioned that they must allow members in the trading crowd a reasonable period in which to respond to the bid and/or offer prior to consummating the cross transaction. While the Options Floor Trading Committee will not attempt to define a reasonable period in terms of a specific time limit, they will deem an obvious attempt to execute the cross in an uninterrupted sequence with the announcement of the bid and offer to be a violation of Rule 6.47, and grounds for objection to the cross transaction.

In some instances, a Floor Broker may deem it necessary to place one side of the proposed cross transaction on the Order Book with the intention of effecting the cross transaction

with the Order Book. To effect such a transaction, the Floor Broker must use the following procedure:

Following the announcement of the new bid or offer by the Order Book Official or his clerk, the Floor Broker must again request a market in the series, and upon determination that the bid or offer represented by the Order Book is the best market, he may then execute the cross by trading with the order on the Book.

When a stock/option order is taken to a crowd for execution, the stock transaction must be effected prior to the option transaction pursuant to Rule 6.47, Commentary .04. The following procedure should be observed:

After agreement with other members of the crowd has been reached as to the terms of the transaction, the option order tickets shall be written up and time-stamped. However, the order tickets should not be turned in to the Order Book Official at this time. The members shall attempt to immediately effect the transaction in the underlying or related security. If the stock transaction cannot be executed immediately or is effected at a price different than the agreed-upon price, the members shall not be held to the option transaction. If the stock transaction is effected at the agreed-upon price, then all the members who participated in the option transaction shall be held to their agreed-upon price. At the time the stock transaction is effected, the option trade tickets should be given to the Order Book Official.

This procedure applies to all executions of stock/option orders.]

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#### [A-9]

#### ¶7717 **Subject: Discretionary Transactions (Floor Brokers)**

Pursuant to Rule 6.48, the Options Floor Trading Committee has determined that no Floor Broker shall hold concurrently a "not held" market order to buy a "not held" market order to sell (or orders which have the effect of such "not held" market orders to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Holding such orders will be interpreted as allowing the Floor Broker discretion with respect to whether to purchase or sell such options.

A "not held" order is an order marked "not held," "NH" or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed.]

#### [A-10]

#### ¶7719 **Subject: Broker Responsibility on Print-Throughs**

Pursuant to Rule 6.46(a), the Options Floor Trading Committee has made a determination regarding print-throughs on limit orders held either by a Floor Broker, or an Order Book Official. This determination distinguishes print-throughs which occur intraday from print-throughs occurring on the opening.

With respect to trading during the day, the Options Floor Trading Committee finds that it is a generally accepted industry practice that a Broker is responsible for whatever number of contracts print-through a limit order. When a print-through is discovered, the Broker should

ascertain whether the limit price or a more favorable price is available. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible at the original limit price for whatever number of contracts have traded-through the limit.

The Options Floor Trading Committee has determined that print-throughs on the opening should be treated differently than those which occur intra-day. On the opening, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible for the number of contracts which trade-through the customer's limit at the opening price, rather than at the limit price. If a more favorable price than the opening price is available, the order should be filled at the more favorable price.]

**[A-11]**

**¶7721      Subject: Broker Responsibility to Cancel Best Bid or Best Offer**

Under certain circumstances a best bid or best offer is disseminated as a result of an order represented by a Floor Broker. It shall be the responsibility of the Floor Broker holding such order to instruct the Order Book staff to remove such bid or offer when it is cancelled or when such order which represented such best bid or offer has been filled in its entirety.]

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**CONDUCT OF MARKET MAKERS**

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**[B-10]**

**¶7741      Subject: Discretionary Transactions by Market Makers**

Rule 6.48 provides that a Floor Broker shall not exercise discretion with respect to choice of class or series of options to be bought or sold, number of contracts to be bought or sold, or whether the transaction shall be a purchase or a sale. It further provides that a Market Maker shall not exercise discretion over an account unless he has a direct interest in such account.

The Options Floor Trading Committee has determined that a Market Maker may not exercise discretion over any account other than:

- (i) a joint account approved pursuant to Rule 6.39, or
- (ii) an account in which he has a direct interest.

For purposes of this Advice and Rule 6.48, the term "direct interest" in an account shall be limited in its meaning to include only a participation in the profits and losses in such account, or in the case of a partnership or corporation, a representative of such partnership or corporation who has a supervisory responsibility over such account. Furthermore, only persons registered as Market Makers and subject to the performance obligations set forth in Rule 6.37, may exercise discretion over an account.

A Market Maker wishing to effect such discretionary transactions for accounts other than his personal account or a joint account must enter the order with a Floor Broker and the procedures set forth in Options Floor Procedure Advice B-6 shall be applicable with the following modifications:

A) The name of the Market Maker for whom the transaction is being executed must be printed at the bottom of the ticket (B-6-1(c)), along with the badge number of the Market Maker exercising discretion (i.e., Joe Trader/M07); and

B) A "D" shall be placed after the Market Maker's number, for whose account the trade is executed, in the firm box (i.e., M05 D).

NOTE: The identification of the order as a discretionary order is required under Rule VI, Section 43(7), "Record of Orders."]

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**D-4**

**¶7761      Subject: Use of Orders Which Specify More Than One Contract**

Rule 6.74 states in part: "A bid or offer for more than one option contract shall be deemed to be for that amount or any lesser number of option contracts, unless specified otherwise."

This Rule permits Floor Brokers to accept orders which bid for or offer a specified number of contracts and no less. Thus the Rule permits vocalization of such bids or offers in the trading crowds. However, any Floor Broker making a bid or offer contingent upon the execution of a specified amount of contracts must vocalize such contingent and should use due diligence in assuring that the posted market does not reflect such bid or offer.

"Immediate or cancel" orders which specify that any unfilled portion of a multiple order is to be immediately cancelled, are covered by this provision.]