



RULE
ADOPTION
NOTICE

RAN-01-44
November 19, 2001

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: New Rules Relating to Maintenance Requirements
(File No. SR-PCX-01-43)

On November 6, 2001, an Exchange rule proposal relating to maintenance requirements for securities underlying options classes traded on the Exchange became effective upon filing with the SEC. New Rule 3.7 ("Withdrawal of Approval of Underlying Securities") changes the threshold maintenance requirement from \$5 to \$3 in the primary market in which the security is traded and eliminates the step-up provisions of the prior rule. The new rule generally provides:

1. new series may be added for the next day if the underlying security closed at or above \$3 on the previous trading day;
2. new series may be added intra-day if the last reported trade in the underlying security at the time the Exchange determines to add the new series is at or above \$3; and
3. new series may be added following an options expiration if the closing price of the underlying security on the last trading day preceding expiration Friday is at or above \$3.

The following is the text of the rule change that has become effective upon filing. Questions regarding this notice may be addressed to Mai Shiver, Senior Attorney, at (415) 393-4266.

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Text of the Rule Change:¹

¶ 3597 Withdrawal of Approval of Underlying Securities

Rule 3.7(a) The approval of an underlying security for exchange transactions shall be withdrawn by the Exchange if the underlying security fails to meet the then current requirements necessary to maintain such approval or for any reason the Exchange deems necessary. In the event the Exchange withdraws approval, no additional series of option contracts of the class covering that underlying security shall be opened; provided, however, that where exceptional

¹ New text is underscored; deleted text is in brackets.

circumstances have caused the noncompliance of an underlying security with Subsection (B) or (C) [or (D)] of Section 1 of Commentary .01 or Section 2 or 3 of Commentary .01 hereunder, the Exchange may, in the interest of maintaining a fair and orderly market or for the protection of investors, open additional series of option contracts of the class covering the subject underlying security.

(b) No change.

Commentary:

.01 In connection with Rule 3.7(a), the Exchange has adopted certain requirements which must be met in order for an underlying security to maintain approval for exchange transactions. Therefore the Exchange shall take the action prescribed by Rule 3.7(a) for the withdrawal of an underlying security when any one of the following occurs:

1. The Exchange ordinarily relying upon information publicly available at the Securities and Exchange Commission determines that:

(A) The issuer has failed to make timely reports as required by any applicable sections of the Securities Exchange Act of 1934, and such failure has not been corrected within 30 days after the date the report was due to be filed;

(B) There is a failure to have a minimum of 6,300,000 shares of the underlying security held by persons other than those who are subject to the requirement of Section 16(a) of the Securities Exchange Act of 1934, as amended; or

(C) There is a failure to have a minimum of 1,600 holders of the underlying security.

2. The volume of trading in the underlying security is less than 1,800,000 shares in the preceding twelve months.

3. The market price per share of an underlying security closes below \$3.00 on the previous trading day [\$5.00], as measured by the highest closing price recorded in the primary [any] market on which the underlying security trades. [, on a majority of the business days of any six-month period.]

4. If an underlying security is approved for options listing and trading under the provisions of Rule 3.6, Commentary .05, the trading volume and price history of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including “when issued” trading, may be taken into account in determining whether the trading volume and market price requirements of subsections 2 and 3 of this Commentary .01 [as well as the trading volume and market price requirements of Rule 3.7, Commentary .04, subsections 3 and 4] are satisfied, provided, however, that in the case of a Restructure Security approved for

options listing and trading under subsection (d) of Commentary .05 to Rule 3.6, such trading volume requirements must be satisfied based on the trading volume history of the Restructure Security.

5. The issue, in the case of an underlying security that is principally traded on a national securities exchange, is delisted from trading on that exchange and neither meets NMS criteria nor is traded through the facilities of a national securities association, or the issue, in the case of an underlying security that is principally traded through the facilities of a national securities association, is no longer designated as an NMS security.

.02 In connection with Rule 3.7(a) and Commentary .01.3 thereto, the Exchange shall direct that no additional series of options contracts of the class covering an underlying security be opened at any time when the market price per share of the subject underlying security is less than \$3.00. [\$5.00 as measured by the highest closing price recorded in any market on which the underlying security trades.] Subject to Paragraph 3 of Commentary .01 above, the market price per share of the underlying security will be determined as follows:

1. for intra-day series additions, the last reported trade in the primary market in which the security is traded at the time the Exchange determines to add these additional series intra-day;

2. for next-day series additions, the closing price reported in the primary market in which the security is traded on the last trading day preceding the day on which such series additions are authorized; and

3. for expiration series additions, the closing price reported in the primary market in which the security is traded on the last trading day preceding expiration Friday.

.03 No change.

[.04 Notwithstanding paragraph 3 to Commentary .01 and Commentary .02, the Exchange may continue to open for trading additional series of option contracts of a class covering an underlying security, provided:

1. The aggregate market value of the underlying security equals or exceeds \$50 million;

2. Customer open interest (reflected on a two-sided basis) equals or exceeds 4,000 contracts for all expiration months;

3. Trading volume in the underlying security (in all markets in which the underlying security is trading) has been at least 2,400,000 shares in the preceding twelve months; and

4. The market price per share of the underlying security closed at \$3 or above on a majority of the business days during the preceding six calendar months, as measured by the highest closing price reported in any market in which the underlying security traded, and further provided the market price per share of the underlying security is at least \$3 at the time such additional series are

authorized for trading. During the next consecutive six calendar month period, to satisfy this Commentary .04, the price of the underlying security as referenced in this Commentary .04(4) shall be \$4.]

[.05 - .12] .04-.11 No change.