



RULE  
ADOPTION  
NOTICE

**RAN-02-08**  
**March 27, 2002**

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

**FROM: Department of Regulatory Policy**

**SUBJECT: Collective Actions of Market Makers  
(File No. SR-PCX-01-50)**

On March 15, 2002, the Securities and Exchange Commission approved an Exchange rule change proposal relating to collective actions of Market Makers. This rule change expressly prohibits Market Makers from determining by agreement the spreads or prices at which they will trade particular options. However, the rule change also specifies certain limited circumstances in which Market Makers are permitted to act collectively.

Following is the text of the approved rule change. Questions regarding this notice may be directed to Michael Pierson at (415) 393-4107.

**EXHIBIT A**

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

**¶4935 Obligations of Market Makers**

Rule 6.37(a) – (c) – No change.

(d) – [Reserved]

(e) Prohibited Practices and Procedures.

(1) Any practice or procedure whereby Market Makers trading any particular option issue determine by agreement the spreads or option prices at which they will trade that issue is prohibited.

(2) [Reserved]

---

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

(f) Notwithstanding the prohibitions set forth in Subsection (e), the LMM and members of the trading crowd are permitted to act collectively as set forth below:

(1) The LMM may receive input from the members of the trading crowd on any one or more of the following variables of the formula the LMM uses to generate automatically updated market quotations in each option issue: (A) options pricing calculation model; (B) volatility; (C) interest rates; and (D) dividends (both declared and anticipated). However, members of the trading crowd are not required to provide input to the LMM on any of these variables. Notwithstanding any input that the members of the trading crowd may have provided with regard to these variables, it is within the LMM's sole discretion to make the final independent decision regarding the variables to be used in operating the automated quotation system. LMMs using Exchange-approved proprietary automated quotation updating systems are not required to disclose proprietary information concerning the variables used by those systems; provided, however, that LMMs may disclose the variables themselves pursuant to Rule 6.82(c)(8).

(2) The obligation of Market Makers to make competitive markets does not preclude the LMM and members of the trading crowd from making a collective response to a request for a market, provided the member representing the order requests such a response in order to fill a large order. For purposes of this rule, a large order is an order for a number of contracts that is greater than the eligible order size for automatic execution pursuant to Rule 6.87.

(3) In conjunction with their obligations as a responsible broker or dealer pursuant to Rule 6.86 and SEC Rule 11Ac1-1, the LMM and Market Makers in the trading crowd may collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to Rule 6.86(c).

\* \* \*

## **LEAD MARKET MAKERS**

Rule 6.82(a) – (b) – No change.

(c) Obligations of Lead Market Makers:

Each LMM must meet the following obligations:

(1) - (7) – No change.

(8) LMMs are responsible for establishing the variables in the formula used to generate automatically updated quotations in each option issue or series. The LMM may disclose to the members of the trading crowd the following variables of the formula used to generate automatically updated market quotations in each option issue: (A) options pricing calculation model; (B) volatility; (C) interest rate; and (D) dividends (both declared and anticipated).

~~(8)~~—~~(13)~~—(9)—(14)— No change.

