



RULE
ADOPTION
NOTICE

RAN-02-27
August 2, 2002

TO: All PCX Members and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: LMM Guaranteed Participation
(File No. SR-PCX-2002-49)

On June 25, 2002, the Exchange filed a rule change proposal with the Securities and Exchange Commission regarding changes to the PCX guaranteed participation rule for LMMs. The new rule decreases the maximum LMM guaranteed participation level from 50% to 40%. It also eliminates provisions on the reduction of LMM guaranteed participation levels based on the market share criteria. This rule change will become operative on August 26, 2002. The following is the text of the rule change. Questions regarding this bulletin may be directed to Mai Shiver at (415) 393-4266.

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EXHIBIT A

PACIFIC EXCHANGE, INC.

RULES OF THE BOARD OF GOVERNORS

Text of the Rule Change:¹

Rule 6.82(a) – (c) – No change.

(d) Rights of Lead Market Makers:

(1) – No change.

(2) Guaranteed Participation. [Except as provided in subsections (A) and (B), below,] LMMs shall be allocated [50%] 40% participation (or such lesser percentage as the Options Allocations Committee may establish as a condition in allocating an issue to

¹ New text is underscored; deleted text is bracketed.

an LMM) in transactions occurring at their disseminated bids and/or offers in their allocated issue(s). LMM participation may be greater than [50%] 40% as a result of successful competition by means of "public outcry." LMMs at their own discretion may direct their participation to competing public orders in the crowd. Public orders placed in the book shall take priority pursuant to Exchange rules. Oversight and enforcement shall be the responsibility of the OBO.

[(A) Multiply-traded Issues. If the average daily trading volume in a multiply-traded issue reaches 3,000 contracts at the Exchange during any three-calendar-month period (measured on a "rolling" three-calendar-month basis), and if:]

[(i) in the case of an issue traded by two options exchanges, the Exchange's monthly share of the total multi-exchange customer trading volume in the issue drops from above 70% to below 70%; or]

[(ii) in the case of an issue traded by three or more options exchanges, the Exchange's monthly share of the total multi-exchange customer trading volume in the issue drops from above 45% to below 45%; the Options Allocation Committee will evaluate the LMM's performance in that issue and, based on that evaluation, may reduce the LMM's guaranteed participation in that issue from 50% to 40%.]

[(B) Non multiply-traded Issues. If the average daily trading volume in a non-multiply-traded issue reaches 3,000 contracts at the Exchange during any three-calendar-month period (measured on a "rolling" three-calendar-month basis), the Options Allocation Committee will evaluate the LMM's performance in that issue and, based on that evaluation, may reduce the LMM's guaranteed participation in that issue from 50% to 25%.]

[(C) Return to Previous Levels of Guaranteed Participation. If the Options Allocation Committee has reduced an LMM's guaranteed participation in an issue pursuant to subsections (A) or (B) above, and average daily trading volume in the issue falls below 3,000 contracts at the Exchange during any three-calendar-month period (measured on a "rolling" three-calendar-month basis), the Options Allocation Committee will evaluate the LMM's performance in that issue and, based on that evaluation, may raise the LMM's guaranteed participation in that issue from 40% to 50% (in a multiply-traded issue) or from 25% to 50% (in a non-multiply-traded issue).]