

DATE: January 12, 1994

TO: Market-Makers and Market-Maker Organizations

FROM: Market Performance Committee

RE: Exchange Rules 8.3 (Appointment of Market-Makers) and
8.7 (Obligations of Market-Makers)

The Market Performance Committee, which is responsible for monitoring market-maker trading requirements (both the 75% Distribution and the 25% In-Person requirements) as outlined in Exchange Rules 8.3 and 8.7, is issuing this memorandum to highlight member obligations under the rules relating to both the distribution and in-person trading requirements. This memorandum also outlines the Committee's enforcement policies.

MARKET-MAKER TRADING DISTRIBUTION REQUIREMENTS

Exchange Rule 8.3(c) reads as follows:

(c) Absent an exemption by the Market Performance Committee, an appointment of a Market-Maker shall be limited to the options classes trading at no more than five trading stations on the Exchange trading floor.

Exchange Rule 8.7, Interpretation .03 and .03(A) read as follows:

.03 For purposes of Rule 8.7, the following percentage requirements apply to Market-Maker trading activity for each quarter of a calendar year, except for unusual circumstances as determined by the Market Performance Committee. The Market Performance Committee may assign a weighting factor based on volume to one or more classes or series of option contracts in connection with these requirements.

(Weighting Factors are discussed on Page 3, under the heading "General Information with Regard to Both Requirements".)

.03(A) Respecting distribution of trading activity, at least 75% percent of a Market-Maker's total contract volume must be in option classes to which he has been appointed pursuant to Rule 8.3. Trading in nonappointed classes of options at the request of a Floor Official, Order Book Official or Board Broker shall be deemed to be trading in appointed classes for purposes of this Interpretation.

Committee Policy Regarding Blanket Appointments

In addition to the five station appointment, the Committee has the authority to include an option class in every market-maker's appointment.

Committee Policy Regarding Appointment Changes

Market-Makers will be allowed to change their appointment once each month during the quarter. This change will be made retroactively to the first day of the month that the change is made. It should be noted that if a market-maker does not have a full complement of option classes in his appointment (i.e., he has appointments in less than five stations), he may make additions to his appointment retroactively to the first day of the month and such addition will not count as the monthly change.

Committee Policy Regarding Index Appointments

For purposes of this rule, when a market-maker selects either OEX or SPX as an appointed station, both OEX and SPX will be included in that appointment and considered as one trading station.

MARKET-MAKER IN-PERSON TRADING REQUIREMENT

Exchange Rule 8.7, Interpretation .03(B) reads as follows:

.03(B)Respecting the manner in which Market-Maker transactions may be executed, a Market-Maker must execute in-person, and not through the use of orders, at least 25 percent of his total transactions. The Market Performance Committee may exempt one or more options classes from this calculation.

Committee Policy Regarding Exemptions from the In-Person Requirement to In-Crowd Floor Brokers

The Committee has determined that in-crowd floor brokers who meet the below criteria could be exempted from meeting the in-person requirement with regard to their market-maker activity. The criteria are as follows:

--the submission of an affidavit to the Committee stating that the floor broker is trading in his market-maker account solely for his own benefit and does not share the profits or losses with any other person.

Submission of this affidavit must be made prior to the quarter the floor broker is seeking an exemption. These exemptions will be granted for each quarter the floor broker meets the above noted criteria. The floor broker must notify the Committee at any time his profits/losses are shared with another party.

GENERAL INFORMATION WITH REGARD TO BOTH REQUIREMENTS

For purposes of both the 75% Distribution Requirement and the 25% In-Person Requirement, the Market Performance Committee has and will continue to give triple weighting to the option classes on the Exchange which are ranked in the lower one-half of all classes in terms of contract volume level. A current list of these classes and an explanation of the triple weighting procedure can be obtained from the Trading Procedures Office on the fourth floor.

Compliance With Requirements

Compliance with both the trading distribution and the in-person requirements will be monitored and enforced by the Market Performance Committee. Failure to comply with these requirements may result in sanctions being imposed by the Committee. Members who repeatedly fail to meet the requirements will be subject to sanctions which may include suspension of a market-maker's registration for a period of time to be determined by the Committee. It should be noted that, in appropriate cases, violations of these rules, like all Exchange rules, may be the subject of disciplinary proceedings under Chapter XVII of the Exchange rules.