

DATE: October 22, 1999
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. However, please be advised that this memorandum is not intended to be a comprehensive description of all the rules and requirements relating to the appointment and general obligations of Market-Makers and is merely intended to summarize certain of these rules and requirements.

MARKET-MAKER TRADING DISTRIBUTION REQUIREMENTS

Exchange Rule 8.3 reads as follows:

- (c) Absent an exemption by the appropriate Market Performance Committee, an appointment of a Market-Maker shall be limited to the options classes trading at no more than ten 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 appropriate Market Performance Committee. The appropriate 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.

.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, Board Broker or DPM shall be deemed to be trading in appointed classes for purposes of this Interpretation.

Committee Policy Regarding Blanket Appointments

In addition to the ten station appointment, the appropriate Market Performance Committee has the authority to include an option class(es) 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 ten 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, provided, however, that for any calendar quarter in which a Market-Maker receives Market-Maker treatment for off-floor orders in accordance with Rule 8.1, in addition to satisfying the requirements of paragraph A of this Interpretation .03, the Market-Maker must execute in person, and not through the use of orders, at least 80 percent of his total transactions. The off-floor orders for which a Market-Maker receives Market-Maker treatment shall be subject to the obligations of Rule 8.7(a) and in general shall be effected for the purpose of hedging, reducing risk of, rebalancing or liquidating open positions of the Market-Maker. The appropriate Market Performance Committee may exempt one or more options classes from this calculation.

COMPLIANCE INFORMATION WITH REGARD TO BOTH REQUIREMENTS

Compliance with both the trading distribution and the in-person requirements will be monitored and enforced by the appropriate 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.

Questions regarding the general obligations of Market-Makers under Rules 8.3 and 8.7 should be directed to Cynthia Mullen at (312)786-7725.

(Replaces Regulatory Circular RG95-42)