

Regulatory Circular RG95-86

Date: October 18, 1995

To: Market Makers

From: The Market Performance and Equity Floor Procedure Committees

Re: RAES Participation Requirements Respecting Non-OEX Option Classes

The Market Performance and Equity Floor Procedures Committees (the "Committees") are once again issuing this Regulatory Circular to remind all Market Makers and DPMS of their obligations under the RAES Rules. Additionally, the Committees would like to remind all Market Makers and DPMS that it is their responsibility to either adjust or disengage their respective Auto-Quote systems in order to reflect accurate market quotes at all times, including times of volatile market conditions. The Market Performance Committee will not accept mitigation based upon the dissemination of inaccurate market quotes, including quotes disseminated by Auto-Quote, when reviewing violations of these RAES Rules. Please contact Mitch Sadus at extension 7152 with any questions regarding the operation of Auto-Quote.

In 1994, the Committees reviewed Exchange Rules 8.16 and 24.16 as they relate to Market Makers' responsibilities to participate on RAES in classes of options other than OEX. This review was undertaken to clarify the Committee's enforcement powers under existing Exchange rules in respect of Market Makers' participation duties. The review focused on (a) the "log-off" requirement for Market Makers who sign onto RAES on a given trading day and subsequently leave the trading station during trading hours, (b) the expiration month "log-on" requirement, and (c) the remedies available for Market Maker failures to observe the log-off and log-on requirements. As a result of that review, the Market Performance Committee now enforces Exchange Rules 8.16 and 24.16 according to the following:

The Log-off Requirement: Exchange Rules require any Market Maker who has logged onto RAES at a trading station on any given trading day to log off RAES whenever the Market Maker leaves the trading crowd for more than "a brief interval."² The phrase "a brief interval" means five minutes. Accordingly, any Market Maker who has logged onto RAES during a trading session must log off the system prior to leaving the trading crowd for more than five consecutive minutes. Fines may be imposed and remedial actions may be taken for violation of this log-off requirement.³ Members may also be assessed fees in accordance with the following fee schedule:

²Rules 8.16(a)(iii) and 24.16(a)(iii).

³Rules 8.16(d) and 24.16(d)

<i>Number of Failures in a Twelve Month Period</i>					<i>Fee Amount</i>
1-3	.	.	.	.	. \$100
4-6	.	.	.	.	. \$250
7+	.	.	.	.	. \$500 (over)

Although fee assessments may be appealed under Chapter XIX of Exchange Rules, the fee assessments will not constitute disciplinary action reportable to the Securities and Exchange Commission.

The Log-on Requirement: Exchange Rules provide that any Market Maker who has logged onto RAES at any time during an expiration cycle for a given class of options must log onto RAES in that class whenever the Market Maker is present at that trading station until expiration.⁴ The Committee has determined that the foregoing RAES log-on requirement is applicable to those individual classes of options in which a Market Maker has previously participated on RAES during that expiration cycle and for which RAES is available. (RAES log-on responsibilities in respect of OEX options are governed separately.) Under Exchange Rules, the Committee may suspend Market Makers who fail to meet that log-on requirement.⁵ The Committee has accordingly decided as a matter of general enforcement policy that any Market Maker who fails to meet the log-on requirement at a particular trading station may be suspended from participation on RAES in all options classes traded at that station for a period extending to twenty-one consecutive business days. (This enforcement policy is not applicable to Market Makers who are required by Floor Officials to log onto RAES on an intra-day basis pursuant to Rules 8.16(c) and 24.16(c).)

Violations of Exchange Rules as outlined in this circular should be reported to Market Performance Committee members. Any questions regarding the foregoing RAES enforcement policies may be directed to Market Performance Committee Members or Daniel Hustad at (312) 786-7715.

⁴Rules 8.16(b) and 24.16(b)