

UTP Specialist's registration as a specialist for a specific period of time, or (6) prohibit a UTP Specialist from receiving allocations in a particular situation or for a specified period of time.

(c) No change.

(d) The Market Quality Committee may meet with a UTP Specialist that may have failed to meet minimum performance standards with respect to UTP Securities, *capital requirements*, or the "early warning level" set forth in *Commentary .06 to rule 171*. In such an event, the UTP Specialist shall be notified in writing of the grounds to be considered by the Market Quality Committee and afforded an opportunity to make a presentation of relevant information. Such UTP Specialist shall be given access to all written material to be reviewed by the Market Quality Committee, and all persons appearing before the Market Quality Committee may be represented by counsel. However, formal rules of evidence shall not apply in meetings of the Market Quality Committee. A failure to meet minimum standards relating to: (1) Quality of markets, (2) competition with other market centers, (3) administrative matters, [or] (4) willingness to promote the Exchange as a marketplace, or (5) *capital requirements*, or *early warning level* may form the basis for remedial action by the Market Quality Committee against a UTP Specialist. Any UTP Specialist affected by a decision of the Market Quality Committee shall be informed in writing of the decision, which decision shall include the findings, conclusions, and any remedial action to be taken (hereinafter "written notification").

(e) through end. No change.

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Specialist Financial Requirements

Rule 171. Every registered specialist shall maintain [a cash or liquid asset position] *tentative net capital* in the amount of [\$600,000] *\$1,000,000* or in an amount sufficient to assume a position of sixty trading units of each security in which such specialist is registered, whichever amount is greater. In the event that two or more specialists are associated with each other and deal for the same specialists account, the above requirement of this rule shall apply to such specialists as one unit, rather than to each specialist individually.

Commentary

.01 through .03. No change.

.04 For each security in which a specialist is registered which is principally traded or priced in a U.S.

marketplace other than the Exchange, such specialist shall maintain [a cash or net liquid asset position] *tentative net capital* sufficient to assume a position of twenty trading units of such security.

.05 The term "tentative net capital" means net capital, computed in accordance with Securities Exchange Act rule 15c3-1 before application of haircuts and undue concentration charges.

.06 Each specialist or specialist unit subject to this rule, shall promptly notify the Exchange in writing if the tentative net capital of such specialist or specialist unit after deduction of all capital withdrawals including maturities, if any, scheduled during the next six months, falls below 125% of the minimum dollar amount required hereby (the "early warning level").

.07 In the event the tentative net capital of any specialist or specialist unit subject to this rule falls below the early warning level, such specialist or specialist unit shall attempt to reach a written agreement with the Exchange's Financial Regulatory Services Department (FRSD) on a plan for raising the specialist or specialist unit's capital to an appropriate level or taking other appropriate action. In the event of the failure to reach such agreement within five business days following the initial response or involvement of FRSD, FRSD may refer such matter to the Committee on Floor Member Performance or the Market Quality Committee as appropriate to take such action as it shall decide is appropriate.

.08 For purposes of rule 171, the amount sufficient to assume a position of sixty trading units shall be equal to 15% of the current market value of the position.

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Rules of General Applicability

Rule 950. (a) through (g). No change.

(h) The provisions of rule 171 and Commentary thereto shall apply to the trading of option contracts, however, the option specialist financial requirement shall be equal to a minimum of [\$600,000] *\$1,000,000* plus \$25,000 for each option issue in excess of the initial [ten] *twenty-five* issues in which such specialist is registered.

.01 For an option specialist that is also an equity security specialist subject to the requirements of rule 171, the minimum [\$600,000] *\$1,000,000* referred to in rule 171 shall apply to the entirety of the specialist's business, in both equities and options. For example, a specialist maintaining a book in both equity securities and options that is allocated only one equity security and one option (assuming the cost to carry

60 units of the equity stock does not exceed [\$600,000] *\$1,000,000*) would be required to satisfy the minimum financial requirement of [\$600,000] *\$1,000,000*.

(i) through end. No change.

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II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Amex included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in item IV below. The Amex has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Change in Specialist Capital Requirements. Amex rule 171 currently requires specialist units to maintain a cash or "liquid asset position" in the greater of \$600,000 or an amount sufficient to assume a position of sixty trading units of each security in which such specialist unit is registered. In the case of options specialists, the requirements of Amex rule 171 are superceded by Amex rule 950(h), which requires option specialist units to maintain a cash or "liquid asset position" in the amount of \$600,000 plus \$25,000 for each option issue in excess of the initial ten issues in which the specialist unit is registered. The proposal would amend Amex rule 171 and Amex rule 950(h) to raise the minimum capital requirement for both equity and option specialists to \$1,000,000.

For specialists whose position requirement already exceeds \$1,000,000, this increase would be offset by reductions in the position requirements. Specifically, the proposal would reduce the position requirement for equity specialists from 25% of sixty trading units of each security in which such specialist is registered to 15% of such amount. In the case of option specialists, the proposal would reduce the position requirement from an additional \$25,000 for each option issue in excess of the initial ten issues in which such specialist is registered to an additional \$25,000 for each issue in excess of the initial 25.