

(ii) Would foster competition among specialist organizations; [and]

(iii) Would enhance the performance of the constituent specialist organization and the quality of the markets in the stocks involved; [and]

(iv) Demonstrate that, if approved, the proposed combination is otherwise in the public interest.

(d) The Committee may condition any approval under either paragraph 2 or paragraph 3 upon compliance by the resulting specialist organization with any steps the Committee may specify to address any concerns it may have in regard to considerations 2 (a)–(d).

[With respect to proposed combinations which involve or would result in specialist units accounting for more than five percent, but less than or equal to 10%, of a concentration measure, the Committee shall not grant approval unless the proponents of the combination agree to maintain 1.5 times the capital requirement specified in Rule 104.20 with respect to each of the combined entity's stocks that are component stocks of the Standard and Poor's Stock Price Index.]

In addition, with respect to proposed combinations which involve or would result in specialist units accounting for more than ten percent of a concentration measure, the Committee shall not grant approval unless the proponents of the combination[:](i) submit an acceptable risk management plan with respect to any line of business in which they engage[:], and [(ii)] submit an operational certification prepared by an independent, nationally recognized management consulting organization with respect to all aspects of the firm's management and operations.[:]

[(iii)] agree to maintain a minimum of 1.5 times (2 times, in the case of a 15 percent combination) the total capital requirement specified in Rule 104.20 with respect to the combined entity's stocks;

(iv) agree to maintain 2 times (2.5 times, in the case of a 15 percent combination) the capital requirement specified in Rule 104.20 with respect to each of the combined entity's stocks that are component stocks of the Standard and Poor's 500 Stock Price Index; and

(v) agree that all capital required to be dedicated to specialist operations be accounted for separate and apart from any other capital of the combined entity, and that such specialist capital may not be used for any other aspect of the combined entity's operations;]

(e)(1) *In all situations involving a proposed combination of specialist units, the Market Performance Committee shall assess the impact of the proposal upon specialist performance*

*and market quality with respect to the subject securities. In making such assessment, the Market Performance Committee shall:*

(a) *review the individual unit's overall performance in various measures of specialist performance, such as ratings on the Specialist Performance Evaluation Questionnaire, SuperDOT turnaround performance and administrative response times, capital utilization, dealer participation rates, stabilization rates, continuity, depth, quote spreads, as well as recent regulatory and disciplinary history; and*

(b) *review performance specifically with respect to each component stock of the Dow Jones Industrial Average, if applicable, if the combination is a Tier 1 combination (more than five percent, but not more than 10 percent of any concentration measure), and, in addition, performance with respect to each component stock of the S&P 100 Stock Price Index, if applicable, if the combination is a Tier 2 or Tier 3 combination.*

(2) *Proponents of a specialist unit combination must make a written submission to the Quality of Markets Committee or the Market Performance Committee, as appropriate, discussing all factors relevant under this policy to that Committee's review of the proposal. In addition to addressing the specialist performance and market quality considerations noted above, the proponents of the combination must discuss:*

(a) *performance in any stocks received through previous combinations or transfers of registrations during the preceding two years; and*

(b) *whether existing levels of clerical support will be maintained or increased.*

(3) *Proponents of any combination subject to a Tier 2 or Tier 3 review by the Quality of Markets Committee must demonstrate that:*

(a) *the combined unit will have a separate corporate relations department fully staffed to maintain appropriate relations with each of its listed companies, and that it is capable of keeping listed company officials apprised of market developments on a daily basis. Each unit involved in the combination must demonstrate full compliance with Rule 106, or must submit to the Committee a plan providing specific, tangible steps to come into full compliance; and*

(b) *the combined units will have a real-time surveillance system that monitors specialist trading and uses exception alerts to detect unusual trades or trading patterns.*

(4) *In addition, the proponents of a Tier 2 or Tier 3 review must discuss*

*whether it has disaster recovery facilities for its computer network and software, whether it has designated specific individuals to handle unusual situations on the Floor (if so, the names of the individuals), whether the combined unit will employ a "zone" or other management system on the Floor (with identification of the names of the individuals and their specific responsibilities, as applicable), and whether the combined unit will designate a senior specialist to be responsible for reviewing specialist performance data, with specific procedures for correcting any deficiencies identified.*

(f) *Proponents of a specialist unit combination subject to review by either the Quality of Markets Committee or the Market Performance Committee under this policy must agree that:*

(i) *the total amount of capital which each unit had separately prior to the proposed combination shall not be reduced, regardless of whether it would exceed the combined unit's new capital requirement; and*

(ii) *all required specialist capital be accounted for separately from any other capital, and be used solely for the specialist business.*

[(e)](g) *For purposes of this policy, a "proposed combination" includes:*

(1) *A merger of specialist organizations or an acquisition of one organization by another;*

(2) *The formation of a joint account involving two or more existing organizations;*

(3) *The "split-up" of an existing organization (including an organization operating under a joint account) and recombination with another organization;*

(4) *An individual specialist leaving an existing organization and proposing to take stocks with him to join another existing organization; and*

(5) *Any other arrangement that would result in previously separate organizations operating under common control.*

[(f)](h) *For purposes of this policy, the "concentration measures" are:*

(1) *The common stocks listed on the Exchange;*

(2) *The 250 most active common stocks listed on the Exchange;*

(3) *The total share volume of trading in common stocks on the Exchange; and*

(1) *The total dollar value of trading in common stocks on the Exchange.*

Supplementary Material:

.10 Guidelines for Applying Consideration (b)(3)

Consideration (b)(3) entails the Committee's review of the constituent