

communicated to the Exchange as required by Rule 958A(c)(i).

(iii) As transactions occur the specialist shall allocate to the extent mathematically possible (A) the portion of the executed contracts that the customer is entitled to and the portion of the executed contracts to those on parity with the customer on an equal basis subject to subparagraph (v) of this paragraph (a); (B) the portion of the executed contracts that the specialist is entitled to pursuant to the participation percentages set forth in Rule 950(d), Commentary .06; and then (C) the portion of the executed contracts participating registered options traders are entitled to individually. The

allocation pursuant to (C) is subject to the following provisions:

1. where all participants have equal stated sizes, their participations shall be equal;

2. where participants' stated sizes are not equal, their participations will depend upon whether the number of executed contracts left to be allocated exceeds the participants' aggregate stated sizes;

3. if the number of executed contracts left to be allocated does not exceed the participants' aggregate stated sizes, the specialist will allocate the executed contracts equally, unless a participant's stated size is for an amount less than an equal allocation, then the smallest sizes

will be allocated first, until the number of executed contracts remaining to be allocated requires an equal allocation.

4. if the number of executed contracts left to be allocated does exceed the participants' aggregate stated sizes, the specialist will allocate the executed contracts by first allocating to each participant the number of executed contracts equal to each participant's stated size with the remainder being allocated based on the percentage a participant's stated size is of the participants' aggregate stated size.

5. The following chart illustrates how different numbers of executed contracts will be allocated to participants whose aggregate stated size is 100 contracts:

NUMBER OF EXECUTED CONTRACTS TO BE ALLOCATED

Each participant's stated size	200	90	70	50
50	100	40	25	17
30	60	30	25	17
20	40	20	20	16

(iv) In the event a specialist or registered options trader declines to accept any portion of the available contracts, any remaining contracts shall be apportioned among the remaining participants who bid or offered at the best price at the time the market was established in accordance paragraph (iii) above, until all contracts have been allocated.

(v) Specialists may direct some or all of their participation amount to competing public orders in the trading crowd.

(b) Notwithstanding the foregoing, when the transaction occurs without the participation of the specialist (either as principal or agent), the floor broker representing the contra-side of the trade shall distribute the executed contracts equally among the participating registered options traders, unless a registered options trader's portion of the disseminated size is less than an equal distribution. That registered options trader will be given a less than equal distribution and the remaining contracts will be allocated equally among the remaining participants to the trade. In addition, if neither the specialist nor a floor broker representing a customer is participating in the trade, the participating registered options traders shall allocate the executed contracts among themselves in accordance with subparagraph (a)(iii) above.

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, as amended, 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 Exchange 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

Since the inception of options trading at the Exchange in 1975, both specialists and registered options traders ("traders") have had the responsibility of making markets in options. Exchange rules require that both specialists' and traders' transactions constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market and they should not enter into transactions or make bids or offers that are inconsistent with such a course of dealings. Specialists and traders shall engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists a lack of price continuity, a temporary disparity

between the supply of and demand for option contracts of a particular series, or a temporary distortion of the price relationships between option contracts of the same class. As the Commission stated in its Order announcing the effectiveness of the Exchange's plan to list and trade options, the Amex's " * * * registered floor traders will be expected to trade in a way that assists the specialist in maintaining a fair and orderly market * * * " ⁵ (emphasis supplied). Specialists do, however, have additional obligations which include, among other things, the obligation to (1) assure that disseminated market quotations are accurate; (2) assure that each disseminated market quotation in appointed options classes is honored up to the disseminated size; (3) determine any formula for generating the automatically updated market quotations and disclosing the elements of that formula to the members of the trading crowd; (4) be present at the trading post throughout every business day; (5) participate at all times in the automated execution system for each assigned option class; and (6) resolve trading disputes, subject to Floor Official review upon the request of any party to the dispute.

In the course of making markets, specialists are often on parity with registered options traders, that is, bidding and offering simultaneously to provide liquidity. Generally, Exchange Rule 126 (made applicable to options

⁵ See Securities Exchange Act Release No. 11144 (December 19, 1974), 40 FR 3258 (January 20, 1975).