

announce his size to the trading crowd, his size could be determined from the disseminated quote size.

The Exchange states that over the years, it, as well as registered options traders and specialists, have recognized that, given their role, specialists should be entitled to a greater than equal share when on parity with registered options traders. As a result, a practice has developed in Amex trading crowds for many option classes to give the specialist a greater than equal share when on parity with registered options traders. The Exchange now seeks to codify this practice.

The Exchange believes that it is appropriate to provide a greater participation to specialists because they have responsibilities that registered options traders do not have. For example, they have a continuous obligation to the market; to update and disseminate quotes in all securities; to reflect all market interest in the displayed quotes; and to act as contra-party on Auto-Ex at all times.⁸ In addition, specialists incur costs that registered options traders do not, such as the fixed staffing costs committed to market making in a particular option whether it is actively traded or not, and the costs associated with participating in educational and marketing functions to attract order flow. In order to attract to the Exchange specialist units that are willing to accept these responsibilities, the Amex believes that it is necessary to provide specialists with an enhanced participation. The Exchange also believes that it must provide these enhanced participations in order to be competitive with other options exchanges that currently offer enhanced participation to their specialists and primary market makers.⁹ In the Exchange's view, the enhanced participation would also give specialists the ability to attract order flow to the Exchange and its customers with tighter, more competitive markets. The Exchange states that, as a result, it would be able to attract new specialist units and retain the services of existing units.

The adoption of Commentary .06 to Rule 950(d) would provide that a specialist's participation in the number of option contracts executed varies depending upon the number of traders on parity. The proposed distribution of option contracts between the specialist and the traders on parity is as follows:

Number of traders on parity	Approximate number of option contracts allocated to the specialist (percent)	Approximate number of option contracts allocated to the traders (as a group) (percent)
1	60	40
2-4	40	60
5-7	30	70
8-15	25	75
16 or more	20	80

It should be emphasized that the above percentages would apply only when the specialist and/or registered options traders are on parity and would not include situations where a customer order is also on parity with the specialist and registered options traders. It should be noted, however, that a specialist cannot be on parity with an order for which he is acting as agent, and registered options traders (who never act as agents and trade only for their own accounts) cannot be on parity with a customer when either establishing or increasing their position in the option. In such situations, as provided in proposed subparagraph (a)(iii)(A) of Commentary .03 to Rule 950(n), the specialist would first allocate executed contracts to the customer and to the specialist and/or those registered options traders on parity with the customer. Any contracts that remain would be allocated among the specialist and registered options traders in accordance with proposed subparagraph (a)(iii)(B) of Commentary .03 to Rule 950(n), which would provide that the specialist would receive a participation in the remaining contracts in accordance with the table set forth above and in proposed Commentary .06(i) to Rule 950(d).

In addition, as specified in Commentary .06(i) to Rule 950(d), neither the specialist nor a registered options trader would be allocated more executed contracts than the number of contracts representing the specialist's or registered options trader's portion of the aggregate quotation size that the responsible broker or dealer would be obligated to communicate to the Exchange pursuant to Exchange Rule 958A(c), except when the number of executed contracts to be allocated exceeded the aggregate quotation size disseminated for that options series. Thus, for the following two examples, assume that the aggregate quotation size is 100 contracts, the specialist's portion is 25 contracts and the registered options trader's portion is 75 contracts.

First example. An off-floor to sell 80 contracts is submitted for execution at the disseminated bid. Pursuant to the

chart set forth above, the specialist would be entitled to 60% of the executed contracts. The specialist, however, would only be allocated 25 executed contracts and the registered options trader would be allocated 55 executed contracts.

Second example. An off-floor order to sell 200 contracts is submitted for execution at the disseminated bid. The specialist and registered options trader would first be allocated 25 contracts and 75 contracts respectively, plus the specialist would receive 60% of the remaining 100 contracts for a total of 85 contracts, and the registered options trader would receive 40% for a total of 115 contracts.

Once the specialist determined his portion of the trade depending upon the number of traders on parity, he would deduct his portion and allocate the remaining contracts to the registered options traders based upon: (i) An equal distribution, as described in the first example below; (ii) filling the smallest size(s) first, as described in the second example below; (iii) a combination based on filling the smallest size first and equal distribution, as described in the third example below; or (iv) prorated based on the registered options traders' generally known sizes and the percentage those sizes represent of their aggregate disseminated size, as described in the fourth example below. The number of contracts in the incoming order would determine which of the methods would be used in the allocation.

Assume the following information for each of the following four examples: The disseminated bid for a particular option series has an aggregate size of 1,000 contracts. The specialist is bidding for 650 contracts, and four registered options traders' generally known sizes are as follows: Trader A—200 contracts; Trader B—100 contracts; Trader C—30 contracts; and Trader D—20 contracts. There are no customer orders participating in the bid.

First example. An off-floor order to sell 100 contracts is submitted for execution at the disseminated bid. The specialist would allocate the executed contracts as follows: The specialist would receive 40 contracts (or 40%), and would allocate the remaining executed contracts equally to each of the four traders 15 contracts (or 25% of the remaining 60 contracts).

Second example. An off-floor order to sell 500 contracts is submitted for execution at the disseminated bid. The executed contracts would be allocated by the specialist as follows: (i) The specialist would receive 40% (200 contracts) of the 500 executed contracts

⁸ See also Amex Rule 26.

⁹ See Chicago Board Options Exchange Rule 8.80; Pacific Exchange Rule 6.82, and Philadelphia Stock Exchange Rule 1014(g).