

pursuant to the participation rates set forth above; and (ii) the remaining 60% (300 contracts) would be divided among the registered options traders based upon their generally known sizes with an attempt to completely fill the smallest size(s) first, which in this example would be 20 contracts for Trader D, 30 contracts for Trader C, and 100 contracts for Trader B. A total of 150 contracts would be deducted, leaving 150 contracts to be allocated to Trader A.

Third example. An off-floor order to sell 200 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% (80 contracts) of the 200 executed contracts pursuant to the participation rates set forth above; and (ii) the remaining 60% (120 contracts) would be divided among the registered options traders based upon their generally known sizes with an attempt to completely fill the smallest size(s) first and an equal distribution of any remainder. Thus, the smallest sizes would be filled first—20 contracts for Trader D and 30 contracts

for Trader C—and the remaining 110 contracts would be divided equally, with 55 contracts distributed each to Trader A and Trader B. Trader B would not receive 100 contracts (its generally known size) because such size would be more than an equal share of the remaining 110 contracts.

Fourth example. An off-floor order to sell 2,000 contracts is submitted for execution at the disseminated bid. Pursuant to the firm quote rule, the specialist and registered options traders, as the responsible broker or dealers, would be obligated to execute order(s) at the disseminated bid up to their disseminated size. The specialist and traders would be able to execute the first 1,000 contracts at the disseminated bid and execute the remaining contracts at a lower bid or bids. If, however, the specialist and registered options traders have determined, either individually or collectively (pursuant to Amex Rules 950(n), Commentary .02(b) and 958(h)(ii)), to execute the entire order at their disseminated bid, the executed contracts will be allocated as follows: (i) the specialist would receive 650 executed contracts representing his

portion of the aggregate quotation size, plus 40% of the remaining 1,000 executed contracts pursuant to the participation rates set forth above for a total of 1,050 executed contracts; and (ii) the remaining 950 contracts would be divided among the registered options traders proportionally based upon their generally known sizes, the aggregate of which, in this example is 350 contracts: Trader A would receive an allocation of approximately 542 contracts ($200/350=57\%$ of the 950); Trader B would receive an allocation of approximately 275 contracts ($100/350=29\%$ of the 950 contracts); Trader C would receive an allocation of approximately 81 contracts ($30/350=8.5\%$ of the 950 contracts); and Trader D would receive an allocation of approximately 52 contracts ($20/350=5.5\%$ of the 950 contracts).¹⁰

In addition, the proposed rule text sets forth a chart that illustrates how various numbers of executed contracts would be allocated to registered options traders after the specialist has allocated portions to the customer and to the specialist. In each example, the chart assumes the 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

The first column illustrates the situation when the number of executed contracts exceeded the registered options traders' aggregate stated size and each registered options trader had determined either individually or collectively to participate for a larger size. The rest of the columns illustrate situations when the number of executed contracts was less than the registered options traders' aggregate stated size: The second column illustrates the situation when two of the three registered options traders' smaller sizes would be filled first and the third registered options trader would be allocated the remainder; the third column illustrates the situation when only one registered options trader's smallest size would be filled and the remaining executed contracts would be allocated equally between the two

remaining registered options traders; and the fourth column illustrates the situation when all executed contracts would be allocated equally among the participating registered options traders.

The Exchange notes that the Commission staff has also asked whether a specialist or registered options trader can decline an allocation of executed contracts. As noted above, the firm quote rule requires specialists and registered options traders to be "firm" up to their disseminated size unless one of the exceptions set forth in the rule applies. If a specialist or registered options trader declined an allocation or "backed away" from his disseminated size in whole or in part, he would be in violation of the firm quote rule, investigated, and sanctioned accordingly. If the other participants to the disseminated quote size determined

to increase the size of their participation to cover for the declining specialist or registered options trader, the executed contracts would be allocated based upon the principles discussed above, that is, the specialist's participation would be based upon one less registered options trader participating and the allocation among the registered options traders would be increased proportionately. Moreover, if the size of the incoming order was greater than the disseminated size and one or more registered options traders were not willing to participate in a size larger than their disseminated size, then the additional executed contracts would be allocated to the remaining participants based upon their participation rights as set forth in proposed Rule 950(d), Commentary .06 and the principles set forth in proposed Rule 950(n),

¹⁰ The Commission notes that the allocation to each trader, calculated above as a percentage of 950 contracts, is essentially equivalent to the number of contracts each trader would receive by allocating the contracts as follows: First, each trader would receive his or her portion of the first 1000 contracts,

based on the size each trader was quoting. In addition to these contracts, each trader would receive a percentage of the 600 contracts that would remain out of the second 1000 contracts after the specialist's percentage of 40% was allocated. The percentage each trader would receive of those 600

contracts would be based on the percentage that that trader's quote had represented out of the 350 contracts that the traders were quoting in the aggregate originally.