

6.37(b)(1) and 6.82(c)(1); (3) trading either before the opening or after closing of market pursuant to PCX Rule 4.2; (4) entering two-sided quotations in options issues that are not included in a Remote Market Maker's ("RMM") primary appointment pursuant to PCX Rule 6.37(h)(5); and (5) failure to maintain an accurate record of orders pursuant to PCX Rule 6.68. The Exchange is also proposing three minor amendments to the MRP and RFS. The text of the proposed rule change is below. Proposed new language is *italicized*; proposed deletions are in brackets.

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Minor Rule Plan

Rule 10.13(a)-(g)—No change.

(h) Minor Rule Plan: Options Floor Decorum and Minor Trading Rule Violations

(1)-(24)—No change.

(25) Failure to meet 75% Primary Appointment [Zone] Requirement. (Rules 6.35, Com. .03 and 6.37(h)(5))

(26)-(32)—No change.

(33) Dividing up an order to make its parts eligible for entry into Auto-Ex or PCX Plus. (Rules 6.87(2)(c)) and 6.90(e)(1)).

(34)-(39)—No change.

(40) Member failed to honor the priority of bids and offers. (Rules 6.75 and 6.76)

(41) Market Maker failed to quote markets within the maximum quote spread differentials or failed to disseminate quotes accurately. (Rules 6.37(b)(1) and 6.82(c)(1))

(42) Member traded either before the opening or after the close of market. (Rule 4.2)

(43) Remote Market Maker entered two-sided quotations in options issues that are not included in their primary appointments. (Rule 6.37(h)(5))

(44) Member failed to maintain an accurate record of orders. (Rule 6.68)

(i)—No change.

(j)—No change.

(k) Minor Rule Plan: Recommended Fine Schedule

(i) Options Floor Decorum and Minor Trading Rule Violation

1.-24.—No change.

1. Failure to meet 75% Primary Appointment [Zone] Requirement. (Rules 6.35, Com. .03 and 6.37(h)(5))

26-32.—No change.

33. Dividing up an order to make its parts eligible for entry into Auto-Ex or PCX Plus. (Rules 6.87(d)(2)(c)) and 6.90(e)(1))

34.-38.—No change.

1. Failure to meet 60% Quoting Requirement. (Rule 6.37(g)(2))

1st Violation, \$500.

2nd Violation, \$1,000.

3rd Violation, \$2,500.

2. Member failed to honor the priority of bids and offers. (Rules 6.75 and 6.76)

1st Violation, \$500.

2nd Violation, \$1,000.

3rd Violation, \$2,000.

3. Market Maker failed to quote markets within the maximum quote spread differentials or failed to disseminate quotes accurately. (Rules 6.37(b)(1) and 6.82(c)(1))

1st Violation, \$500.

2nd Violation, \$1,000.

3rd Violation, \$2,000.

4. Member traded either before the opening of Market or after the close of market. (Rule 4.2)

1st Violation, \$1,000.

2nd Violation, \$2,500.

3rd Violation, \$3,500.

43. Remote Market Maker entered two-sided quotations in options issues that are not included in their primary appointments. (Rule 6.37(h)(5))

1st Violation, \$500.

2nd Violation, \$1,000.

3rd Violation, \$2,500.

44. Member failed to maintain accurate record of orders. (Rule 6.68)

1st Violation, \$500.

2nd Violation, \$1,000.

3rd Violation, \$2,500.

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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 PCX 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 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

I. Purpose

The Exchange proposes to adopt new PCX Rules 10.13(h)(40)-(44) and 10.13(k)(i)(40)-(44) in order to incorporate existing PCX Rules 6.75 and 6.76, 6.37(b)(1) and 6.82(c)(1), 4.2, 6.37(h)(5), and 6.68 into the MRP and RFS.

First, the Exchange proposes to adopt new PCX Rules 10.13(h)(40) and 10.13(k)(i)(40) into the MRP and RFS for failure to honor the priority of bids and offers pursuant to PCX Rules 6.75 and

6.76.³ PCX Rule 6.75 states that the highest bid/offer shall have priority, but where two or more bids/offers for the same option contract represent the highest price and one bid/offer is displayed by the Order Book Official, such bid/offer shall have priority over any other bid/offer at the post. Similarly, under PCX Rule 6.76, multiple bids or offers are afforded priority based on account types and other principles. The proposed fines are \$500 for a first violation, \$1,000 for a second, and \$2,000 for a third.

Second, the Exchange proposes to adopt new PCX Rules 10.13(h)(41) and 10.13(k)(i)(41) into the MRP and RFS for failure to quote markets within the maximum quote spread differentials pursuant to PCX Rule 6.37(b)(1) or failure to disseminate quotations accurately pursuant to 6.82(c)(1). PCX Rule 6.37(b)(1) states that a Market Maker is expected to bid/offer so as to create differences of no more than: .25 between the bid and the offer for each option contract for which the bid is less than \$2, no more than .40 where the bid is \$2 or more but does not exceed \$5, no more than .50 where the bid is more than \$5 but does not exceed \$10, no more than .80 where the bid is more than \$10 but does not exceed \$20, and, no more than \$1 when the last bid is \$20.10 or more, provided that the Options Floor Trading Committee may establish differences other than the above for one or more series or classes of options. PCX Rule 6.82(c)(1) states that Lead Market Makers are required to disseminate market quotations accurately. A member who fails to quote markets within the maximum quote spread differentials or fails to disseminate market quotations accurately will be subject to disciplinary action pursuant to PCX Rule 10.13(h)(41). The proposed fines are \$500 for a first violation, \$1,000 for a second, and \$2,000 for a third.

Third, the Exchange proposes to adopt new PCX Rules 10.13(h)(42) and 10.13(k)(i)(42) for trading either before the opening or after the close of market pursuant to PCX Rule 4.2. PCX Rule 4.2 states that trading shall be limited to the hours during which the Exchange is open for the transaction of business. No member shall make any bid, offer or transaction upon the Floor before the official opening of the Exchange or after the closing of the market. Under the proposed rule, a member that trades either before the opening or after the close of market will be subject to disciplinary action pursuant to PCX

³ PCX Rule 6.76 is the priority rule applicable to PCX Plus.