

MEMORANDUM

TO: Members Member Organizations, Participants and Participant Organizations

FROM: Edward Deitzel, Vice President  
Options Surveillance

DATE: October 9, 2007

RE: Procedures for Crossing, Facilitation and Solicited Orders in Open Outcry

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As a reminder, the following procedures are to be followed pursuant to Exchange Rule 1064 concerning crossing, facilitation and solicited orders.

**Crossing Orders**

An Options Floor Broker who holds **orders to buy and sell the same option series** may cross such orders, provided that he proceeds in the following manner:

- The Floor Broker must request bids and offers for such options series and make all persons in the trading crowd aware of his request.
- After providing an opportunity for such bids and offers to be made, he must bid and offer at prices differing by the minimum increment and must improve the market by bidding above the highest bid or offering below the lowest offer.
- If such higher bid or lower offer is not taken, he may cross the orders at such higher bid or lower offer by announcing that he is crossing and giving the quantity and price.

**Facilitation Orders**

A Floor Broker holding an options order for a **public customer and a contra-side order** may cross such orders as described above, or may execute such orders as a facilitation cross in the following manner:

- The Floor Broker or his employees must enter the appropriate notation onto the Options Floor Broker Management System for the public customer's order, together with all of the terms of the order, including any contingency involving other options or the underlying or related securities.

- The Floor Broker must request markets for the execution of all options components of the order. After providing an opportunity for such markets to be made, the Floor Broker must announce that he holds an order subject to facilitation and must bid (or offer) in between the market for each options component and disclose all terms and conditions of the order including all securities which are components of the order.
- After all market participants in the crowd are given a reasonable opportunity to accept all terms and conditions made on behalf of the public customer whose order is subject to facilitation, the Floor Broker may immediately thereafter cross all or any remaining part of such order and the facilitation order at each customer's bid or offer by announcing by public outcry that he is crossing and by stating the quantity and price(s).

**Once a Floor Broker has announced an order as subject to facilitation and has established a bid (or offer) in between the market for the option(s) to be facilitated, the order cannot be broken up by a subsequent superior bid or offer for just one component to the facilitated order.**

### **Solicited Orders**

A solicitation occurs whenever an **order, other than a cross**, is presented for execution in the trading crowd **resulting from an away-from-the-crowd expression of interests** to trade by one broker dealer to another.

- If a member appears in the trading crowd in response to a solicitation, other trading crowd participants must be given a reasonable opportunity to respond to the order which prompted the solicitation before the solicited member may respond to the order. Prior to a bid (or offer) being made on behalf of any such order the solicitor or his representative must identify the solicited party to the trading crowd and give all information to the trading crowd which was given to the solicited member.
- A member or member organization representing an order in options (“originating order”) may solicit another member, member organization or non-member broker-dealer outside the trading crowd (“solicited party”) to participate in the transaction on a proprietary basis provided that the member or member organization representing the originating order, upon entering the trading crowd to execute the transaction, must:
  - (1) announce to the trading crowd the same terms of the originating order that have been disclosed to the solicited party;

(2) bid at the price he/she is prepared to buy from the solicited party or offer at the solicited price he/she is prepared to sell to the solicited party; and

(3) give the trading crowd a reasonable opportunity to accept the bid or offer.

- The Floor Broker or his employees must note on the Options Floor Broker Management System that the trade involves a solicited order.

### **Firm Participation Guarantees**

When a Floor Broker holds an equity or index option order of 500 contracts or greater, the Floor Broker is entitled to cross a certain percentage of the original order with other orders that he is holding or in the case of a public customer order, with a facilitation order of the originating firm (i.e., the firm from which the original customer order originated).

- The percentage of the order which a Floor Broker is entitled to cross, after all public customer orders that were (1) on the limit order book and then (2) represented in the trading crowd at the time the market was established have been satisfied, is determined as follows:

(1) With respect to orders for **equity options, 40%** of the remaining contracts in the order if the order is traded at or between the best bid or offer given by the crowd in response to the Floor Broker's initial request for a market.

(2) With respect to orders for **index options, 20%** of the remaining contracts in the order.

- The specialist is **not entitled to receive the Enhanced Specialist Participation** after customer orders have been executed for orders crossed pursuant to this paragraph, **unless** the Floor Broker has chosen to cross less than its entitlement, in which case the Enhanced Specialist Participation will be a percentage that combined with the percentage the firm crossed is no more than 40% of the original order.

Questions concerning these procedures may be addressed to Ed Deitzel at (215) 496-5298.