Sec. 17.

Procedures for Competing Specialists

Sec. 18. Any specialist can apply to the Exchange to function as a competing specialist pursuant to these procedures:

- 1. Applications to compete must be directed to the Market Performance Committee in writing and must list in order of preference the stock(s) in which the applicant intends to compete. The Market Performance Committee will use the following guidelines in reviewing an application:
- overall performance evaluation results of the applicant
 - financial capability
- adequacy of manpower on the floorobjection by the regular specialist in
- a stock, with or without cause
- 2. Any objection ¹ by the regular specialist to permit competition in one or more of such specialist's stocks must be in writing and filed with the Exchange within 48 hours ² of notice ³ of the competing specialist's application. The objection will be considered by the Market Performance Committee in reviewing the application, and its decision may be appealed to the Executive Committee.
- 3. All applicants must be registered with the Exchange as specialists and must meet the current minimum requirements for specialists set forth in Chapter XV, the minimum capital and equity requirements as set forth in Chapters VIII and XXII of the Rules of the Exchange, and conform to all other performance requirements and standards set forth in the Rules of the Exchange. A competing specialist will be subject to all of the rules and policies applicable to a regular specialist.
- 4. All applicant organizations, existing or newly created, must satisfy the Market Performance Committee that they have sufficient manpower to fulfill the functions of a specialist as set forth in Chapter XV in all of the stocks in which the applicant will be registered either as a regular or a competing
- 5. The regular specialist will receive all orderflow not specifically directed to a competitor.
- 6. The receiving specialist is responsible for all orders directed to him/her.
- 7. In any competitive situation, if either the regular specialist to whom a

 $^{\mathrm{1}}$ Only the regular specialist can object to

competition in his/her stocks.

² Unless the regular specialist is unavailable, in which case within 48 hours of becoming available.

stock was originally assigned or the specialist organization which subsequently received approval to compete with the regular specialist desires to terminate the competition by requesting that it be relieved of the stock that is the subject of competition, it should so notify the Market Performance Committee at least 3 business days prior to the desired effective date of such withdrawal. When the regular specialist requests to be relieved of a stock, the stock shall be posted for reallocation by the Stock Allocation Committee. In the interim, if the Market Performance Committee is satisfied that the competing specialist can continue to maintain a fair and orderly market in such stock, the competing specialist shall serve as the regular specialist until the stock has been reallocated.4 Where there is more than one competing specialist in the stock, Exchange staff shall place the stock with a caretaker until reallocation.

8. Any competing specialist who withdraws his/her registration in a stock will be barred from applying to compete in that same stock for a period of ninety (90) days following the effective date of withdrawal.

9. Notwithstanding the existence of competing specialist situations, there is only one Exchange market in a security subject to competition. Due to the ease of communications on the Floor via the Stentofon System, it will not be necessary to locate competing specialists adjacent to each other. However, the regular specialist will be responsible for updating quotations; thus all competitors must communicate their markets to the regular specialist and be responsible for their portion of the published bid and/or offer. Also, competitors must cooperate with the regular specialist regarding openings and reopenings to ensure that they are

10. Limit orders entrusted to each competing specialist are to be represented and executed strictly according to time priority as to receipt of the order in the BEACON System.

11. Competing specialists must keep each other informed and communicate to inquiring Floor brokers the full size of any executable "all-or-none" orders in their possession since all-or-none orders cannot be represented in the published quote. The competing specialists are expected to represent such orders on a "best efforts" basis to ensure the execution of the entire order at a single price or prices, or not at all.

12. The registration of any competing specialist may be suspended or terminated by the Market Performance Committee upon a determination of any substantial or continued failure by such competing specialist to engage in dealings in accordance with the Constitution and Rules of the Exchange.

13. Competing Specialists shall be allowed to execute their customer orderflow which is related to index arbitrage only on plus or zero plus ticks when the Dow Jones Industrial Average ("DJIA") declines by fifty points or more from the previous day's closing value. Such requirement shall remain in effect for the remainder of the trading day once it has been activated, except that the requirement shall no longer apply where the DJIA moves back to a value which is twenty-five points or less from the previous day's closing value. "Index arbitrage" is defined as an arbitrage trading strategy involving the purchase or sale of a group of stocks in conjunction with the purchase or sale, or intended purchase or sale, of one or more cash-settled options or futures contracts on index stock groups or options on any such futures contracts, in an attempt to profit from the price difference between the group of stocks and the derivative index products.

The Specialist's Book

Sec. 6. The Specialist's book is the book, file or record in which all orders entrusted to the Specialist in a particular issue must be kept. It shall be closed at all times and the information therein contained shall not be divulged or permitted to come to the knowledge of anyone except the Specialist or relief Specialist for that book, or to the Board of Governors, a committee of the Exchange, or the Chairman or Officer designated by him, except that a Specialist may disclose information contained in his/her book [;]:

(i) for the purpose of demonstrating the methods of trading to visitors to the Floor; [or]

(ii) to other market centers in order to facilitate the operation of ITS or any other Application of the System provided, in either case, that at the same time he makes the information disclosed available to all members [.]; or

(iii) to competing specialists in his/her stocks on a summary basis as provided for in the "Procedures for Competing Specialists".

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 self-regulatory organization included

³ Once an application is received by the Exchange, a written notification will be issued to the regular specialist(s) in whose stocks competition is being sought.

⁴ Once the stock has been reallocated to a regular specialist, that specialist shall not be permitted to object to competition in such stock.