

Review of Enhanced Size Pilot Requirements

The pilot requires that PMMs initially enter quotes with a size of at least 100 contracts for customer orders, and 50 contracts for non-customer orders. CMMs must initially enter quotes with a size of 50 contracts for customer orders, and 25 contracts for non-customer orders. PMMs and CMMs are not required to requote when the size of their quotes are decremented by trade executions to a size that is below the minimum. No other default sizes (i.e., FARMM and ISE market maker) are affected. These enhanced size requirements apply only to the options series in the three months closest to expiration. Moreover, the pilot does not apply to deep-in-the-money options, or an option in the last three days of that option's trading. (See RIC 2002-05 (April 25, 2002)).

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Any questions regarding the foregoing may be directed to the attention of Jim Sampson, Vice President Market Supervision, at 212-897-0235.

Attachment: Text of Rule

Underlining highlights changes effective July 22, 2002.

Rule 804. Market Maker Quotations

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Supplementary Material to Rule 804

.01 Notwithstanding the provisions of paragraph (b), for the "Enhanced Size Pilot" described in .02 below, a Primary Market Maker may not initially enter a bid or offer for a Public Customer of less than 100 contracts, and a bid or offer for Non-Customers (except for other market makers on the Exchange) of less than 50 contracts. Also for the purposes of the Enhanced Size Pilot, a Competitive Market Maker may not initially enter a bid or offer for a Public Customer of less than 50 contracts, and a bid or offer for Non-Customers (except for other market makers) of less than 25 contracts. Where the size associated with a market maker's bid or offer falls below such specified size, the market maker shall enter a new bid or offer for at least the specified size, either at the same or a different price.

.02 The Enhanced Size Pilot shall operate as follows:

(1) The Enhanced Size Pilot shall operate until October 31, 2002;

(2) Securities included in the Enhanced Size Pilot are options on: Nasdaq 100 Trust; Sun Microsystems; EMC Corp.; Qualcomm; Wells Fargo & Co.; Oracle; Lucent; Juniper Networks; Intel; AOL Time Warner; Tyco; Citigroup; Cisco; Applied Materials; Microsoft; General Electric; Broadcom; Nokia; Siebel Systems; Banc of America; Ciena; Dell; Fannie Mae; Motorola; Merrill Lynch; Nvidia; Xilinx; Amazon.com; Halliburton; Nextel Communications; J.P. Morgan Chase; ADC Telecommunication; Best Buy; Calpine; General Motors; and Hewlett Packard; and

(3) The size requirements in the Enhanced Size Pilot will not apply:

(a) To options that expire beyond the nearest three expiration months;

(b) To "Deep-in-the-Money" options; or

(c) On an option's last three trading days prior to expiration.

.03. For the purpose of this Rule, "Deep-in-the-Money" means all options with strike prices that are in the money by 12 percent or more in relation to the at-the-money strike price.