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PACIFIC EXCHANGE, INC
301 Pine Street
San Francisco, California 94104

In The Matter Of The Arbitration Between:

Garrett D Goggin,
CLAIMANT
v
Group One Trading, L P,
RESPONDENT

PCX CASE #: 99-S008
DECISION

RECEIVED
AUG 21 2000
PCX ARBITRATION

The undersigned Arbitrator, having read and considered the Claim submitted by Claimant on March 1, 2000 and the Answer of Respondent, hereby renders the following Decision pursuant to Rules 12.2 and 12.29(a) of the Rules of the Board of Governors of the Pacific Exchange:

REPRESENTATION OF PARTIES

This controversy was submitted in writing to the Arbitrator by the parties.

SUMMARY OF FACTS

The following is a summary of each party's position. On February 18, 2000 at 9:50 a.m. (EST), Claimant Goggin placed a limit order of 3 1/4 to purchase 10 contracts of the Ciena Feb. 115 call option. At that time, Respondent, Group One Trading, offered the option at 3 1/4. The order was executed and confirmed by Respondent (the "original trade").

Within an hour of the original trade, Claimant Goggin sold his long position in Ciena. About an hour after the original trade was made and after he had sold out of his Ciena position, Claimant was informed by his broker, Interactive Brokers, that the original trade had been canceled by Respondent. This left Claimant 10 contracts short, which he then covered at 10:49 a.m. (EST) at the market price of 7 3/8.

Respondent's cancellation of the original trade was due to an error which distorted the quote. Respondent states that it is uncertain whether the original error which caused the cancellation was caused by its own employee or an employee of the Pacific Exchange. When the error was discovered, the Order Book Official ("OBO"), an employee of the Pacific Exchange, was summoned in accordance with PCX Rule 6.54.

PCX Rule 6.87(f) addresses the issue of incorrect quotes resulting in an auto-ex trade at an incorrect price. The Rule states that if an incorrect quote results "in an Auto-Ex trade at an incorrect price ... (t)he price ... should be adjusted to reflect accurately the market quote ...". The OBO chose to cancel the trade since it was a limit order and the limit order price was not reached.

Claimant states it was improper to cancel an executed order and asserts that Respondent owes Claimant his out-of-pocket damages. Respondent states that the OBO independently made the decision to cancel the original trade and the decision to cancel was out of Respondent's control. Additionally, Respondent states that it is not responsible if Interactive Brokers and/or Pacific Exchange did not give timely notification of the cancellation.

ISSUES PRESENTED

- 1 Was Respondent's employee responsible for the cancellation of the original trade?
- 2 Did the OBO act correctly in canceling an executed limit order?
- 3 Did the Pacific Exchange fail to give timely notice to Interactive Brokers of the cancellation of the order?
- 4 Did Interactive Brokers unduly delay notifying Claimant that his trade had been canceled?
- 5 If the ensuing damages were caused by the compounding actions of Interactive Brokers, Group One Trading, and the Pacific Exchange, must Claimant proceed against all three or may he select one to hold accountable and leave it to that party to seek contribution from the others who may have contributed to Claimant's damages?

There is no counterclaim

RELIEF REQUESTED

Claimant seeks \$4,125.00 to compensate him for the difference between the prices of 3 ¼ and 7 3/8
Respondent seeks dismissal of the claim.

FINDINGS AND DECISION

A. Findings of Fact:

After considering the arguments and evidence of both the claimant and respondent in this matter, the undersigned Arbitrator makes the following findings:

1. Claimant Goggin placed a limit order of 3 ¼ to purchase 10 contracts of the Ciena Feb 115 call option.
2. The order was executed and confirmed by Respondent Group One Trading.
3. Group One Trading or the Pacific Exchange made an error which resulted in an incorrect quote which, in turn, resulted in an auto-ex trade at an incorrect price.
4. The OBO made the decision to cancel the trade due to the incorrect price since the correct price was not at the limit order price.

B. Decision:

Respondent concedes that its employee may have been responsible for the original error which triggered the unfortunate sequence of events. If Respondent had had evidence that the error had been caused by a Pacific Exchange employee, then it would have had a more effective argument that Claimant was simply seeking damages from the wrong party

Claimant is an individual customer who uses his brokerage house to activate a chain of responsibility to execute his order. While Claimant could have sought damages against all three parties – Interactive Brokers, Group One Trading, and the Pacific Exchange, there is no requirement for him to do so. The remedy in such an instance is for the named respondent to seek contribution from the unnamed parties who Respondent feels have contributed to the difficulty. In this instance, it would be (1) Interactive Brokers, if Respondent can prove the broker unduly delayed in reporting the trade cancellation to Mr. Goggin and timely reporting would have prevented Mr. Goggin from selling a long position, and (2) Pacific Exchange, if Respondent can prove that its employee made the original error and/or if the OBO exceeded his authority in canceling an executed limit order when it was foreseeable that his action might cause the very kind of damages that ensued and/or Pacific Exchange unduly delayed in reporting the trade cancellation to Interactive Brokers.

C Award

After considering the arguments and evidence of both the Claimant and Respondent in this matter, the undersigned Arbitrator makes the final determination and decision on the issues presented, as set forth below:

1. Claimant Goggin is awarded \$4,125.00 to be paid by Respondent Group One Trading.
2. Respondent shall reimburse Claimant's non-refundable filing fee in the amount of \$50 plus Claimant's hearing session deposit in the amount of \$75.00.

Dated August 18, 2000

Michelle Brant
Michelle Brant, Arbitrator