

TOPAZ EXCHANGE

RULES

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CHAPTER 1

Definitions

Rule 100. Definitions

(a) The following terms, when used in these Rules, shall have the meanings specified in this Chapter 1, unless the context indicates otherwise. Any term defined in Article XIII of the Constitution of Topaz Exchange, LLC (the "Constitution") and not otherwise defined in this Chapter shall have the meaning assigned in Article XIII of the Constitution.

(1) The term "**aggregate exercise price**" means the exercise price of an options contract multiplied by the number of units of the underlying security covered by the options contract.

(2) The term "**American-style option**" means an options contract that, subject to the provisions of Rule 1100 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised on any business day prior to its expiration date and on its expiration date.

(3) The term "**associated person**" or "**person associated with a Member**" means any partner, officer, director, or branch manager of a Member (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with a Member or any employee of a Member.

(4) The term "**bid**" means a quote or limit order to buy one or more options contracts.

(5) The term "**board of directors**" or "**Board**" has the meaning set forth in Article I of the LLC Agreement.

(6) The term "**call**" means an options contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of shares of the underlying security covered by the options contract.

(7) The term "**class of options**" means all options contracts covering the same underlying security.

(8) The term "**Clearing Corporation**" means The Options Clearing Corporation.

(9) The term "**Clearing Member**" means a Member that is self-clearing or an Electronic Access Member that clears Exchange transactions for other Members of the Exchange.

(10) The term “**closing purchase transaction**” means an Exchange transaction that will reduce or eliminate a short position in an options contract.

(11) The term “**closing writing transaction**” means an Exchange transaction that will reduce or eliminate a long position in an options contract.

(12) The term “**CMM Rights**” has the meaning set forth in Article VI of the LLC Agreement.

(13) The term “**covered short position**” means (i) the obligation of a writer of a call option is secured by a “specific deposit” or an “escrow deposit” meeting the conditions of Rule 710(f) or 710(h), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an options contract of the same type and class of options where the exercise price of the options contract in such long position is equal to or less than the exercise price of the options contract in such short position; and (ii) the writer of a put option holds in the same account as the short position, on a share-for-share basis, a long position in an options contract of the same type and class of options where the exercise price of the options contract in such long position is equal to or greater than the exercise price of the options contract in such short position.

(14) The term “**discretion**” means the authority of a broker or dealer to determine for a customer the type of option, the class or series of options, the number of contracts, or whether options are to be bought or sold.

(15) The term “**EAM Rights**” has the meaning set forth in Article VI of the LLC Agreement.

(16) The term “**European-style option**” means an options contract that, subject to the provisions of Rule 1100 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on its expiration date.

(16) The term “**Exchange Act**” means the Securities Exchange Act of 1934 and the rules and regulations thereunder, as amended from time to time.

(17) The term “**Exchange Rights**” means the PMM Rights, CMM Rights and EAM Rights collectively.

(18) The term “**exercise price**” means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an options contract.

(19) The term “**Federal Reserve Board**” means the Board of Governors of the Federal Reserve System.

(20) The terms “**he**,” “**him**” or “**his**” shall be deemed to refer to persons of female as well as male gender, and to include organizations, as well as individuals, when the context so requires.

(21) The term “**ISE**” means the International Securities Exchange, LLC, a national securities exchange.

(22) The term “**long position**” means a person’s interest as the holder of one or more options contracts.

(22A) The term “**LLC Agreement**” means the Limited Liability Company Agreement of the Exchange, dated as of [], as amended from time to time.

(23) The term “**Member**” means an organization that has been approved to exercise trading rights associated with Exchange Rights.

(24) The term “**Membership**” refers to the trading privileges associated with Exchange Rights.

(25) The term “**market makers**” refers to “Competitive Market Makers” and “Primary Market Makers” collectively.

(26) The term “**Market Maker Rights**” refers to PMM Rights and CMM Rights collectively.

(27) The term “**Non-Customer**” means a person or entity that is a broker or dealer in securities.

(28) The term “**Non-Customer Order**” means an order for the account of a Non-Customer.

(29) The term “**offer**” means a quote or limit order to sell one or more options contracts.

(30) The term “**opening purchase transaction**” means an Exchange transaction that will create or increase a long position in an options contract.

(31) The term “**opening writing transaction**” means an Exchange transaction that will create or increase a short position in an options contract.

(31A) The term “**Voluntary Professional**” means any Public Customer that elects, in writing, to be treated in the same manner as a broker or dealer in securities for purposes of Rules 713, 716, 722, and 723, as well as the

Exchange's schedule of fees.

(32) The term "**options contract**" means a put or a call issued, or subject to issuance by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.

(33) The term "**OPRA**" means the Options Price Reporting Authority.

(34) The term "**order**" means a commitment to buy or sell securities, the permitted types of which are set forth in Rule 715.

(35) The term "**outstanding**" means an options contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.

(36) The term "**PMM Rights**" has the meaning set forth in Article VI of the LLC Agreement.

(37) The term "**primary market**" means the principal market in which an underlying security is traded.

(37A) The term "**Priority Customer**" means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

(37B) The term "**Priority Customer Order**" means an order for the account of a Priority Customer.

(37C) The term "**Professional Order**" means an order that is for the account of a person or entity that is not a Priority Customer.

(38) The term "**Public Customer**" means a person or entity that is not a broker or dealer in securities.

(39) The term "**Public Customer Order**" means an order for the account of a Public Customer.

(40) The term "**put**" means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the number of shares of the underlying security covered by the options contract.

(41) The term “**Quarterly Options Series**” means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

(42) The term “**quote**” or “**quotation**” means a bid or offer entered by a market maker that updates the market maker’s previous bid or offer, if any.

(43) The term “**Rules of the Clearing Corporation**” means the Certificate of Incorporation, the By-laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.

(44) The term “**SEC**” means the United States Securities and Exchange Commission.

(45) The term “**series of options**” means all options contracts of the same class having the same exercise price and expiration date.

(46) The term “**short position**” means a person’s interest as the writer of one or more options contracts.

(47) The term “**Short Term Option Series**” means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the following business week that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday.

(48) The term “**SRO**” means a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act.

(49) The term “**type of option**” means the classification of an options contract as either a put or a call.

(50) The term “**uncovered**” means a short position in an options contract that is not covered.

(51) The term “**underlying security**” means the security that the Clearing Corporation shall be obligated to sell (in the case of a call option) or purchase (in the case of a put option) upon the valid exercise of an options contract.

CHAPTER 2

Administration

Rule 200. Establishment of Committees

The Chief Executive Officer and President, with the approval of the Board, shall appoint any committee members that are not Directors to committees established upon delegated authority by the Board as set forth in the Constitution, or established by the Chief Executive Officer and President pursuant to authority delegated to him by the Board.

Rule 201. Removal of Committee Members

The Chief Executive Officer and President may, with the approval of the Board, remove any committee member for refusal, neglect, or inability to discharge such committee member's duties.

Rule 202. Committee Procedures

Except as otherwise provided in the Constitution, the Rules or resolution of the Board, each committee shall determine its own time and manner of conducting its meetings, and the vote of a majority of the members of a committee present at a meeting at which a quorum is present shall be the act of the committee. Committees may act informally by written consent of all of the members of the committee.

Rule 203. General Duties and Powers of Committees

Each committee shall administer the provisions of the Constitution and the Rules pertaining to matters within its jurisdiction. Each committee shall have such other powers and duties as may be delegated to it by the Board. Each committee is subject to the control and supervision of the Board.

Rule 204. Divisions of the Exchange

The divisions of the Exchange shall include the Regulatory Division and such other Divisions as the Chief Executive Officer and President, with the approval of the Board, may establish. The Chief Executive Officer and President shall appoint a head of every Division and may designate departments within each Division.

Rule 205. Participant Fees

The fees payable by Members shall be fixed from time to time by the Exchange. Fees shall be payable in full on the first day of each month on a nonrefundable basis and shall be applied to the month beginning on that day.

Rule 206. Liability for Payment of Fees

(a) A Member that does not pay any dues, fees, assessments, charges, fines or other amounts due to the Exchange within thirty (30) days after they have become payable shall be reported to the Chief Executive Officer and President, who may, after giving reasonable notice to the Member of such arrearages, suspend the Member's trading privileges until payment is made.

(b) A person associated with a Member who fails to pay any fine or other amounts due to the Exchange within thirty (30) days after such amount has become payable and after reasonable notice of such arrearages, may be suspended from association with a Member until payment is made.

Rule 207. Exchange's Costs of Defending Legal Proceedings

(a) Any Member or person associated with a Member who fails to prevail in a lawsuit or other legal proceeding instituted by such person against the Exchange or any of its Directors, officers, committee members, employees or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed fifty thousand dollars (\$50,000).

(b) Paragraph (a) of this Rule shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

Rule 208. Sales Value Fee

The Sales Value Fee is assessed by the Exchange to each Member for sales on the Exchange with respect to which the Exchange is obligated to pay a fee to the Commission under Section 31 of the Exchange Act. To the extent that there may be any excess monies collected under this rule, the Exchange may retain those monies to help fund its general operating expenses. The sales transactions to which the fee applies are sales of options (other than options on a security index) and the sales of securities resulting from the exercise of physical-delivery options. The fee is collected indirectly from Members through their clearing firms by the Clearing Corporation on behalf of Topaz with respect to options sales and options exercises. The Sales Value Fee is equal to (a) the Section 31 fee rate multiplied by (b) the Member's aggregate dollar amount of covered sales resulting from options transactions occurring on the Exchange during any computational period.

CHAPTER 3

Membership

Rule 300. Membership

(a) The Exchange shall issue Memberships that confer the ability to transact on the Exchange. There is no limit on the number of Memberships that may be issued by the Exchange. In addition, in no event shall the Exchange act in a manner under this paragraph that does not comply with the provisions of Section 6(c)(4) of the Exchange Act.

Rule 301. Qualification of Members

(a) A Member of the Exchange may be a corporation, partnership, or LLC. Each Member must:

(1) be a broker-dealer registered pursuant to Section 15 of the Exchange Act; and

(2) meet the qualifications for a Member in accordance with Exchange Rules applicable thereto.

(b) A Member that does not maintain an office in the United States responsible for preparing and maintaining financial and other reports required to be filed with the Commission and the Exchange must:

(1) prepare all such reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars;

(2) reimburse the Exchange for any expense incurred in connection with examinations of the Member to the extent that such expenses exceed the cost of examining a Member located within the continental United States; and

(3) ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations.

(c) Every Member shall have as the principal purpose of being a Member the conduct of a securities business. Such a purpose shall be deemed to exist if and so long as:

(1) the Member has qualified and acts in respect of its business on the Exchange in one or more of the following capacities: (i) an Electronic Access Member; (ii) a Primary Market Maker; or (iii) a Competitive Market Maker; and

(2) all transactions effected by the Member are in compliance with Section 11(a) of the Exchange Act and the rules and regulations adopted

thereunder.

Rule 302. Member Application Procedures

(a) *ISE Members.* An ISE Member in good standing is eligible to become a Topaz Member of the same category (i.e., an ISE PMM Member is eligible to become a Topaz PMM Member, an ISE CMM Member is eligible to become a Topaz CMM Member and an ISE EAM Member is eligible to become a Topaz EAM Member). ISE Member applicants are not required to complete and submit an Exchange application. Instead, only Exchange forms concerning electing to trade on the Exchange, submitting to the Exchange jurisdiction, and operational matters need to be completed and tendered.

(b) *Non-ISE Members.* All non-ISE Members seeking to become a Member of the Exchange must submit an application to the Exchange in accordance with such procedures as shall be established by the Exchange via regulatory circular including submission deadlines and payment of any applicable application fees. The Exchange shall provide non-ISE Members with at least sixty (60) days advance written notice of the date upon which the Exchange shall allocate options classes and appoint market makers pursuant to Exchange Rule 802 in order to ensure non-ISE Members have a reasonable opportunity to participate in those processes. A market participant must have completed a membership application to be eligible to participate in the processes set forth in Rule 802. In addition, the following shall apply:

(i) Applications must be accompanied by a non-refundable application fee.

(ii) Within a reasonable time following receipt of an application, the name of the applicant shall be posted by the Exchange.

(iii) An applicant must be approved by the Exchange to perform in at least one of the recognized capacities of a Member as stated in Rule 301(c).

(iv) Upon completion of the application process, the Exchange shall consider whether to approve the application, unless there is just cause for delay. Persons associated with the applicant are subject to investigation by the Exchange and may be required to appear in person before the Exchange. The Exchange may also require any person associated with a Member who may possess information relevant to the applicant's suitability to be a Member to provide information or testimony.

(v) The Exchange will determine whether to approve an application. Written notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefor, shall be provided to the applicant.

(vi) If the application process is not completed within six (6) months of the filing of the application form and payment of the appropriate fee, the application shall be deemed to be automatically withdrawn.

(vii) With respect to each Membership that becomes effective in accordance with this Rule, the Exchange shall promptly notify all Members thereof.

(c) *Rights of Members.* No rights shall be conferred upon a Member except those set forth in the LLC Agreement or Rules as amended from time to time. A Membership shall not convey any ownership interest in the Exchange. Memberships may not be leased and are not transferable except in the event of a change in control or corporate reorganization involving a Member. In such case, Member status may be transferred to a qualified affiliate or successor upon written notice to the Exchange.

(d) *Fees and Charges for Members.* Members shall be subject to such fees and charges as are established by the Exchange from time to time pursuant to Rule 205 and the Exchange Fee Schedule. The entire fee for a Member shall be due and payable in full on or before the first day on which the Membership is effective on a nonrefundable basis. An organization holding a Membership in its name shall be responsible for paying all fees and charges for that Membership.

(e) *Exchange Jurisdiction over Members.* Every Member shall be subject to the regulatory jurisdiction of the Exchange under the Exchange Act, the LLC Agreement and the Rules, including without limitation the Exchange's disciplinary jurisdiction under Chapter 16 of the Rules.

Rule 303. Denial of and Conditions to Becoming a Member

(a) An applicant to become a Member of the Exchange must seek approval in the form and manner prescribed by the Exchange.

(b) The Exchange may deny (or condition) approval of a Member, or may prevent a person from becoming associated (or condition an association) with a Member, for the same reasons that the SEC may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Exchange Act.

(c) The Exchange also may deny (or condition) approval of a Member, or may prevent a person from becoming associated with (or condition an association) with a Member, when the applicant, directly or indirectly:

(1) has a negative net worth, has financial difficulties involving an amount that is more than five percent (5%) of the applicant's net worth, or has a pattern of failure to pay just debts (whether or not such debts have been the subject of a bankruptcy action);

(2) is unable satisfactorily to demonstrate a capacity to adhere to all applicable Exchange, SEC, the Clearing Corporation and Federal Reserve Board policies, rules and regulations, including those concerning record-keeping, reporting, finance and trading procedures; or

(3) is unable satisfactorily to demonstrate reasonably adequate systems capability and capacity.

(d) When an applicant is a subject of an investigation conducted by any SRO or government agency involving its fitness for becoming a Member, the Exchange need not act on the application until the matter has been resolved.

(e) The Exchange may determine not to permit a Member or person associated with a Member to continue as a Member or associated therewith, if the Member or associated person:

(1) fails to meet any of the qualification requirements for becoming a Member or associated with a Member after approval thereof;

(2) fails to meet any condition placed by the Exchange on such Member or association with a Member;

(3) violates any agreement with the Exchange; or

(4) becomes subject to a statutory disqualification under the Exchange Act.

(f) If a Member or person associated with a Member that becomes subject to a statutory disqualification under the Exchange Act wants to continue as a Member of the Exchange or in association with a Member, the Member or associated person must, within thirty (30) days of becoming subject to a statutory disqualification, submit an application to the Exchange seeking to continue as a Member or in association with a Member notwithstanding the statutory disqualification. Failure to timely file such an application is a factor that may be taken into consideration by the Exchange in making determinations pursuant to paragraph (e) of this Rule.

(g) Subject to Chapter 15 (Summary Suspension) of the Rules, any applicant whose application to become a Member is denied Membership or conditioned, or any person whose association with a Member is denied or conditioned pursuant to paragraph (b) or (c) of this Rule, and any Member or person associated with a Member who is not permitted pursuant to paragraph (e) of this Rule to continue as a Member or to be associated with a Member or which continuance as a Member or association is conditioned, may appeal the Exchange's decision under Chapter 17 (Hearings and Review) of the Rules.

Rule 304. Approval to Operate Multiple Memberships

(a) An applicant to become a Member or an approved Member may seek approval to exercise trading privileges associated with more than one Membership in the form and manner prescribed by the Exchange.

(b) An applicant or approved Member will be denied approval with respect to a particular Membership if (together with any of its affiliates) approval would result in the applicant or approved Member being approved to exercise the trading privileges associated with more than 30% of the Exchange Rights issued and outstanding at any time. No Member shall exercise voting rights in excess of those permitted under the Exchange's LLC Agreement or Constitution.

Rule 305. Persons Associated with Members

(a) Persons associated with Members shall be bound by the Constitution and Rules of the Exchange and the rules of the Clearing Corporation. The Exchange may bar a person from becoming or continuing to be associated with a Member if such person does not agree in writing, on a form prescribed by the Exchange, to furnish the Exchange with information with respect to such person's relationship and dealings with the Member, and information reasonably related to such person's other securities business, as may be required by the Exchange, and to permit the examination of its books and records by the Exchange to verify the accuracy of any information so supplied.

(b) Each Member shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Member(s) who are its executive officers, directors, principal shareholders, and general partners. Such persons shall file with the Exchange a Uniform application for Securities Industry Registration or Transfer (Form U-4).

(c) A claim of any person associated with a Member described in the first sentence of paragraph (b) of this Rule against such organization shall be subordinate in right of payment of customers and other Members.

Rule 306. Registration Requirements

(a) Registration of Individual Associated Persons Engaged in the Securities Business.

(1) Individual associated persons engaged or to be engaged in the securities business of a Member shall be registered with the Exchange in the category of registration appropriate to the function to be performed as prescribed by the Exchange. Before the registration can become effective, the individual associated person shall submit the appropriate application for registration, pass a qualification examination appropriate to the category of registration as prescribed by the Exchange and submit any required registration and examination fees. A Member shall not maintain a registration with the Exchange for any person (1) who is no longer active in the Member's securities business; (2) who is no longer functioning in the registered capacity; or (3) where the sole purpose is to avoid an examination requirement. A Member shall not make application for the registration of any person where there is no intent to employ that person in the Member's securities business. A Member may, however, maintain or make application for the registration of an individual who performs legal, compliance,

internal audit, back-office operations, or similar responsibilities for the Member, or a person who performs administrative support functions for registered personnel, or a person engaged in the securities business of a foreign securities affiliate or subsidiary of the Member.

(2) *Persons Exempt from Registration.* The following individual associated persons of Members are exempt from the registration requirements set forth in paragraph (1):

(A) individual associated persons whose functions are solely and exclusively clerical or ministerial;

(B) individual associated persons who are not actively engaged in the securities business;

(C) individual associated persons whose functions are related solely and exclusively to the Member's need for nominal corporate officers or for capital participation;

(D) individual associated persons whose functions are related solely and exclusively to:

(i) transactions in commodities;

(ii) transactions in security futures; and/or

(iii) effecting transactions on the floor of another national securities exchange and who are registered as floor members with such exchange.

(b) *Financial/Operations Principal.* Each Member subject to Exchange Act Rule 15c3-1 shall designate a Financial/Operations Principal. The duties of a Financial/Operations Principal shall include taking appropriate actions to assure that the Member complies with applicable financial and operational requirements under the Rules and the Exchange Act, including but not limited to those requirements relating to the submission of financial reports and the maintenance of books and records. Each Financial/Operations Principal is required to have successfully completed the Financial and Operations Principal Examination (Series 27 Exam). Each Financial/Operations Principal designated by a Trading Member shall be registered in that capacity with the Exchange as prescribed by the Exchange. A Financial/Operations Principal of a Member may be a full-time employee, a part-time employee or independent contractor of the Member.

(c) *Chief Compliance Officer.* Each Member shall designate a Chief Compliance Officer on Schedule A of Form BD. An individual designated as a Chief Compliance Officer is required to register with the Exchange and pass the appropriate heightened qualification examination(s) as prescribed by the

Exchange. A person who has been designated as a Chief Compliance Officer on Schedule A of Form BD for at least two years immediately prior to January 1, 2002, and who has not been subject within the last ten years to any statutory disqualification as defined in Section 3(a)(39) of the Act; a suspension; or the imposition of a fine of \$5,000 or more for a violation of any provision of any securities law or regulation, or any agreement with, rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding shall be required to register in the category of registration appropriate to the function to be performed as prescribed by the Exchange, but shall be exempt from the requirement to pass the heightened qualification examination as prescribed by the Exchange.

(d) *Registration Required Under Chapter 6.* Individual associated persons of a Member that conduct a public customer business must also comply with the registration requirements set forth in Rule 601 and Rule 602. These additional registration categories include: (i) Registered Options Principal; and (ii) Registered Representative.

(e) *Requirement for Examination on Lapse of Registration.* Any person whose registration has been revoked by the Exchange as a disciplinary sanction or whose most recent registration has been terminated for two or more years immediately preceding the date of receipt by the Exchange of a new application shall be required to pass a qualification examination appropriate to the category of registration as prescribed by the Exchange.

Supplementary Material to Rule 306

.01 Each individual required to register under this Rule shall electronically file a Form U4 through the Central Registration Depository system (“Web CRD”) operated by the Financial Industry Regulatory Authority, Incorporated (“FINRA”).

.02 Each individual required to register under this Rule shall electronically submit to Web CRD any required amendments to Form U4.

.03 Any Member that discharges or terminates the employment or retention of an individual required to register under this Rule shall comply with the termination filing requirements set forth in Rule 601(c) and Rule 603, which include the filing of a Form U5.

.04 Each individual required to register under this Rule is required to satisfy the continuing education requirements set forth in Rule 604 and any other applicable continuing education requirements as prescribed by the Exchange.

.05 The Exchange may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced

age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a qualification examination. Experience in fields ancillary to the securities business may constitute sufficient grounds to waive a qualification examination.

.06 For purposes of paragraph (a)(1) above, the Exchange shall consider an individual associated person to be engaged in the securities business of a Member if:

(a) the individual associated person engages in one or more of the following activities on behalf of the Member:

(1) proprietary trading;

(2) market-making;

(3) effecting transactions on behalf of a broker-dealer;

(4) supervision or monitoring of proprietary trading, market-making, or brokerage activities;

(5) supervision or training of those engaged in proprietary trading, market-making, or brokerage activities with respect to those activities; or

(b) the individual associated person engages in the management of one or more of the activities enumerated in paragraphs (1) through (5) above as an officer, partner or a director.

.07 Each Member must register with the Exchange as a Principal each individual acting in any of the following capacities: (i) officer; (ii) partner; (iii) director; (iv) supervisor of proprietary trading, market-making or brokerage activities; and/or (v) supervisor of those engaged in proprietary trading, market-making or brokerage activities with respect to those activities. Each Member must register with the Exchange at least two individuals acting in one or more of the heightened capacities described in (i)-(v) above. The Exchange may waive this requirement if a Member demonstrates conclusively that only one individual acting in one or more of the heightened capacities described in (i) through (v) above should be required to register. A Member that conducts proprietary trading only and has 25 or fewer registered persons shall only be required to have one officer or partner who is registered in this capacity.

For purposes of this Rule, a Member shall be considered to conduct only proprietary trading if the Member has the following characteristics:

(a) The Member is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act;

(b) All funds used or proposed to be used by the Member are the Trading Member's own capital, traded through the Member's own accounts;

(c) The Member does not, and will not, have customers; and

(d) All persons registered on behalf of the Member acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the Member.

Rule 307. Documents Required of Applicants and Members

(a) Although the Exchange may request additional information, at a minimum, the partnership agreement and all amendments thereto, in the case of a partnership, the articles of incorporation, by-laws and all amendments thereto, in the case of a corporation, and in the case of a limited liability company, the articles of organization and operating agreement and all amendments thereto shall be filed with, and shall be subject to review by, the Exchange; however, no action or failure to act by the Exchange shall be construed to mean that the Exchange has in any way passed on the investment merits of or given approval to any such document.

(b) Every Member shall file with the Exchange and keep current an address where notices may be served.

(c) In a manner and form prescribed by the Exchange, every Member shall pledge to abide by the Constitution and Rules of the Exchange, as amended from time to time, and by all circulars, notices, directives or decisions adopted pursuant to or made in accordance with the Constitution and Rules.

(d) Members shall keep and maintain a current copy of the Constitution and Rules in a readily accessible place. Members that are approved to do business with the public pursuant to Rule 600 shall make the Constitution and Rules available for examination by customers.

Rule 308. Dissolution and Liquidation of Members

Every Member shall promptly notify the Exchange in writing upon the adoption of a plan of liquidation or dissolution. Upon receipt of such notice, the Member's trading privileges may be suspended in accordance with Chapter 15 (Summary Suspension) of these Rules.

Rule 309. Limitation on Affiliation between the Exchange and Members

Without prior SEC approval, the Exchange, or any facility of the Exchange, or any entity with which the Exchange or any facility of the Exchange is affiliated shall not, directly or indirectly through one or more intermediaries, acquire or maintain an ownership interest in a Member. In addition, a Member shall not be or become an affiliate of the Exchange, or any facility of the Exchange, or any entity with which the

Exchange or any facility of the Exchange is affiliated. Nothing in this rule shall prohibit a Member from acquiring or holding any equity interest in ISE Holdings, Inc. that is permitted by the Certificate of Incorporation of ISE Holdings, Inc. In addition, nothing in this Rule shall prohibit any Member from being or becoming an affiliate of the Exchange, or any facility of the Exchange, or an affiliate of any affiliate of the Exchange or any facility of the Exchange solely by reason of any officer, director or partner of such Member being or becoming an Exchange Director (as defined in the Constitution) pursuant to the Constitution.

CHAPTER 4

Business Conduct

The rules contained in ISE Chapter 4, as such rules may be in effect from time to time (the "Chapter 4 Rules"), are hereby incorporated by reference into this Topaz Chapter 4, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 4 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 4 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term "Exchange" in the Chapter 4 Rules shall be read to refer to the Topaz Exchange; the defined term "Rule" in the Chapter 4 Rules shall be read to refer to the Topaz Rule; the defined term "Chapter" in the Chapter 4 Rules shall be read to refer to the Topaz Chapter; and the defined term "Member" in the Chapter 4 Rules shall be read to refer to the Topaz Member. For the avoidance of doubt, the reference to "lessor" in Rule 408 shall not apply to Topaz, as Topaz memberships cannot be leased under Topaz Rules.

CHAPTER 5

Securities Traded on the Exchange

The rules contained in ISE Chapter 5, as such rules may be in effect from time to time (the “Chapter 5 Rules”), are hereby incorporated by reference into this Topaz Chapter 5, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 5 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 5 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 5 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 5 Rules shall be read to refer to the Topaz Rule; the defined term “Market Maker” in the Chapter 5 Rules shall be read to refer to the Topaz Market Maker; and the defined term “Member” in the Chapter 5 Rules shall be read to refer to the Topaz Member.

CHAPTER 6

Doing Business With the Public

The rules contained in ISE Chapter 6, as such rules may be in effect from time to time (the “Chapter 6 Rules”), are hereby incorporated by reference into this Topaz Chapter 6, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 6 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 6 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 6 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 6 Rules shall be read to refer to the Topaz Rule; the defined term “Options Principal” in the Chapter 6 Rules shall be read to refer to the Topaz Options Principal; and the defined term “Member” in the Chapter 6 Rules shall be read to refer to the Topaz Member.

CHAPTER 7

Doing Business On The Exchange

Rule 700. Days and Hours of Business

The Board shall determine the days the Exchange shall be open for business (referred to as “business days”) and the hours of such days during which transactions may be made on the Exchange. No Member shall make any bid, offer, or transaction on the Exchange before or after such hours.

(a) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on a narrow-based index, as defined in Rule 2001, and individual stocks may be made on the Exchange shall correspond to the normal business days and hours for business set forth in the rules of the primary market trading the stocks underlying Exchange options.

(b) Options on Exchange-Traded Fund Shares, as defined in Rule 502(h), may be traded on the Exchange until 4:15 p.m. each business day.

(c) Options on a broad-based index, as defined in Rule 2001, may be traded on the Exchange until 4:15 p.m. each business day.

(d) Options on Index-Linked Securities, as defined in Rule 502(k)(1), may be traded on the Exchange until 4:15 p.m. each business day.

(e) The Exchange shall not be open for business on the following holidays: New Year’s Day, Martin Luther King, Jr. Day, Presidents’ Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day or Christmas Day. When any holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday. When any holiday observed by the Exchange falls on a Sunday, the Exchange will not be open for business on the following Monday, unless unusual business conditions exist at the time.

Rule 701. Trading Rotations

(a) *General Rules.* A “trading rotation” is a process by which the Primary Market Maker initiates trading in a specified options class.

(1) The Exchange may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market.

(2) For each rotation so employed, except as the Exchange may direct, rotations shall be conducted in the order and manner the Primary Market Maker determines to be appropriate under the circumstances.

(3) The Primary Market Maker, with the approval of the Exchange, shall have the authority to determine the rotation order and manner or deviate from the rotation procedures. Such authority may be exercised before and during a trading rotation.

(4) Two (2) or more trading rotations may be employed simultaneously, if the Primary Market Maker, with the approval of the Exchange, so determines.

(b) *Opening Rotations.* Trading rotations shall be employed at the opening of the Exchange each business day.

(1) For each class of options contracts that has been approved for trading, the opening rotation shall be conducted by the Primary Market Maker appointed to such class of options.

(2) The opening rotation in each class of options shall be held promptly following the opening of the market for the underlying security. For purposes of this Rule, “market for the underlying security” shall be either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis and announced to the membership on the Exchange’ web site.

(3) In the event the underlying security has not opened within a reasonable time after 9:30 a.m. Eastern time, the Primary Market Maker shall report the delay to the Exchange and an inquiry shall be made to determine the cause of the delay. The opening rotation for options contracts in such security shall be delayed until the market for the underlying security has opened unless the Exchange determines that the interests of a fair and orderly market are best served by opening trading in the options contracts.

(4) The Exchange may delay the commencement of the opening rotation in any class of options in the interests of a fair and orderly market.

(c) *Rotations After Trading Hours.* Normally, the close of trading for options classes shall occur two (2) minutes after the primary market on which the underlying stock trades closes for trading. However, as provided below transactions may be effected in a class of options after the end of normal trading hours in connection with a trading rotation.

(1) A trading rotation may be employed whenever the Exchange concludes that such action is appropriate in the interests of a fair and orderly market. The factors that may be considered include, but are not limited to, whether there has been a recent opening or reopening of trading in the underlying security, a declaration of a “fast market” pursuant to Rule 704, or a need for a rotation in connection with expiring individual stock options or index

options, an end of the year rotation, or the restart of a rotation which is already in progress.

(2) The decisions to employ a trading rotation in non-expiring options shall be disseminated prior to the commencement of such rotation. In general, no more than one trading rotation will be commenced after the normal close of trading.

(3) If a trading rotation is in progress and the Exchange determines that a final trading rotation is needed to assure a fair and orderly market close, the rotation in progress shall be halted and a final rotation begun as promptly as possible.

(4) Any trading rotation in non-expiring options conducted after the normal close of trading may not begin until five (5) minutes after news of such rotation is disseminated by the Exchange.

Rule 702. Trading Halts

(a) *Halts.* An Exchange official designated by the Board may halt trading in any stock option in the interests of a fair and orderly market.

(1) The following are among the factors that may be considered in determining whether the trading in a stock option should be halted:

(i) trading in the underlying security has been halted or suspended in the primary market.

(ii) the opening of such underlying security has been delayed because of unusual circumstances.

(iii) other unusual conditions or circumstances are present.

(2) A designated Exchange official will halt trading (including a rotation) for a class or classes of options contracts whenever there is a halt of trading in an underlying security in the primary market. In such event, without the need for action by the Primary Market Maker, all trading in the effected class or classes of options shall be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol in respect of such class or classes of options indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors. No Member or person associated with a Member shall effect a trade on the Exchange in any options class in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect.

(b) *Resumptions.* Trading in a stock option that has been the subject of a halt under paragraph (a)(1) above may be resumed upon the determination by

an Exchange official designated by the Board that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading.

(c) *Trading Pauses.* Trading on the Exchange in any option contract shall be halted whenever trading in the underlying security has been paused by the primary listing market. Trading in such options contracts may be resumed upon a determination by the Exchange that the conditions that led to the pause are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading, which in no circumstances will be before the Exchange has received notification that the underlying security has resumed trading on at least one exchange.

Rule 703. Trading Halts Due To Extraordinary Market Volatility

The Exchange shall halt trading in all securities whenever a marketwide trading halt (commonly known as a circuit breaker) is initiated on the New York Stock Exchange in response to extraordinary market conditions.

Rule 704. Collection and Dissemination of Quotations

(a) Each market maker shall communicate to the Exchange its bid and offers in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act and the Rules of the Exchange.

(b) The Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available to Public Customer Orders, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act.

(c) *Unusual Market Conditions.*

(1) An Exchange official designated by the Board shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be "fast." When a market for an option is declared fast, the Exchange will provide notice that its quotations are not firm by appending an appropriate indicator to its quotations.

(2) If a market is declared fast, designated Exchange officials shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Rule 701; (ii) suspend the minimum size requirement of Rule 804(b); or (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(3) The Exchange will monitor the activity or conditions that caused a fast market to be declared, and a designated Exchange official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a designated Exchange official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations.

(4) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then a designated Exchange official shall halt trading in the class or classes so affected.

Rule 705. Limitation of Liability

(a) The Exchange, its Directors, officers, committee members, employees, contractors or agents shall not be liable to Members nor any persons associated with Members for any loss, expense, damages or claims arising out of the use of the facilities, systems or equipment afforded by the Exchange, nor any interruption in or failure or unavailability of any such facilities, systems or equipment, whether or not such loss, expense, damages or claims result or are alleged to result from negligence or other unintentional errors or omissions on the part of the Exchange, its Directors, officers, committee members, employees, contractors, agents or other persons acting on its behalf, or from systems failure, or from any other cause within or outside the control of the Exchange. Without limiting the generality of the foregoing, the Exchange shall have no liability to any person for any loss, expense, damages or claims with result from any error, omission or delay in calculating or disseminating any current or closing index value or any reports of transactions in or quotations for options or other securities, including underlying securities.

(b) The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of any data transmitted or disseminated by or on behalf of the Exchange or any reporting authority designated by the Exchange, including but not limited to, reports of transactions in or quotations for securities traded on the Exchange or underlying securities, or reports of interest rate measures or index values or related data, and the Exchange makes no express or implied warranties of merchantability or fitness for a particular purpose or use with respect to any such data.

(c) No Member or person associated with a Member shall institute a lawsuit or other legal proceeding against the Exchange or any Director, officer, employee, contractor, agent or other official of the Exchange or any subsidiary of the Exchange, for actions taken or omitted to be taken in connection with the official business of the Exchange or any subsidiary, except to the extent such actions or omissions constitute violations of the federal securities laws for which a private right of action exists. This provision shall not apply to appeals of disciplinary actions or other actions by the Exchange as provided for in the Rules.

(d) Notwithstanding paragraph (a) above, and subject to the express limits set forth below, the Exchange may compensate Members for losses resulting directly from the malfunction of the Exchange's physical equipment, devices and/or programming.

(1) For the aggregate of all claims made by all market participants related to the use of the Exchange on a single trading day, the Exchange's payments shall not exceed \$250,000.

(2) In the event that all of the claims arising out of the use of the Exchange cannot be fully satisfied because in the aggregate they exceed the limitations provided for in this Rule, then the maximum permitted amount will be proportionally allocated among all such claims arising on a single trading day.

(3) All claims for compensation pursuant to this Rule shall be in writing and must be submitted no later than the opening of trading on the next business day following the day on which the use of the Exchange gave rise to such claims. Once in receipt of a claim, the Exchange will verify that: (i) a valid order was accepted into the Exchange's systems; and (ii) an Exchange system failure occurred during the execution or handling of that order.

Rule 706. Access to and Conduct on the Exchange

(a) *Access to Exchange.* Unless otherwise provided in the Rules, no one but a Member or a person associated with a Member shall effect any Exchange transactions.

(b) *Exchange Conduct.* Members and persons employed by or associated with any Member, while using the facilities of the Exchange, shall not engage in conduct (i) inconsistent with the maintenance of a fair and orderly market; (ii) apt to impair public confidence in the operations of the Exchange; or (iii) inconsistent with the ordinary and efficient conduct of business. Activities that may violate the provisions of this paragraph (b) include, but are not limited to, the following:

(1) failure of a market maker to provide quotations in accordance with Rule 804;

(2) failure of a market maker to bid or offer within the ranges specified by Rule 803(b)(4);

(3) failure of a Member to supervise a person employed by or associated with such Member adequately to ensure that person's compliance with this paragraph (b);

(4) failure to abide by a determination of the Exchange;

(5) refusal to provide information requested by the Exchange; and

(6) failure to abide by the provisions of Rule 717.

Supplementary Material to Rule 706

.01 (a) General. The Exchange shall be available for entry and execution of orders by Sponsored Customers with authorized access. To obtain authorized access to the Exchange, each Sponsored Customer must enter into a Sponsored Customer Agreement with the Exchange in such form as the Exchange may provide.

.01 (b) Sponsored Customers. A Sponsored Customer may obtain authorized access to the Exchange only if such access is authorized in advance by one or more Sponsoring Members as follows:

(1) Sponsored Customers must enter into and maintain customer agreements with one or more Sponsoring Members establishing proper relationship(s) and account(s) through which the Sponsored Customers may trade on the Exchange. Such customer agreement(s) must incorporate the sponsorship provisions set forth in paragraph (2) below.

(2) For a Sponsored Customer to obtain and maintain authorized access to the Exchange, a Sponsored Customer and its Sponsoring Member must agree in writing to the following sponsorship provisions:

(i) Sponsoring Member must have entered into and maintained an Access Agreement with the Exchange. The Sponsoring Member must designate the Sponsored Customer by name in a Sponsored Customer Addendum to the Access Agreement as such.

(ii) Sponsoring Member acknowledges and agrees that

(A) All orders entered by the Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member, and

(B) Sponsoring Member is responsible for any and all actions taken by such Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer.

(iii) Sponsoring Member shall comply with the Exchange's Certificate of Formation, Constitution, Rules and procedures with regard to the Exchange and Sponsored Customer shall comply with Exchange's Certificate of Formation, Constitution, Rules and procedures with regard to the Exchange, as if Sponsored Customer were an Exchange Member.

(iv) Sponsored Customer shall maintain, keep current and provide to the Sponsoring Member a list of persons who have been granted access to the Exchange on behalf of the Sponsored Customer (“Authorized Traders”).

(v) Sponsored Customer shall familiarize its Authorized Traders with all of the Sponsored Customer's obligations under this Rule and will assure that they receive appropriate training prior to any use or access to the Exchange.

(vi) Sponsored Customer may not permit anyone other than Authorized Traders to use or obtain access to the Exchange.

(vii) Sponsored Customer shall take reasonable security precautions to prevent unauthorized use of access to the Exchange, including unauthorized entry of information into the Exchange's System, or the information and data made available therein. Sponsored Customer understands and agrees that Sponsored Customer is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of Authorized Traders, and for the trading and other consequences thereof.

(viii) Sponsored Customer acknowledges its responsibility to establish adequate procedures and controls that permit it to effectively monitor its employees, agents and customers' use and access to the Exchange for compliance with this rule.

(ix) Sponsored Customer shall pay when due all amounts, if any, payable to Sponsoring Member, the Exchange or any other third parties that arise from the Sponsored Customers access to and use of the Exchange. Such amounts include, but are not limited to applicable exchange and regulatory fees.

(3) The Sponsoring Member must provide the Exchange with a Sponsored Customer Addendum to its Access Agreement acknowledging its responsibility for the orders, executions and actions of its Sponsored Customer.

Rule 707. Clearing Member Give Up

A Member must give up the name of the Clearing Member through whom the transaction will be cleared. If there is a subsequent change in identity of the Clearing Member through whom a transaction will be cleared, the Member must, as promptly as possible, report such change to the Exchange.

Rule 708. Units of Trading

The unit of trading in each series of options traded on the Exchange shall be the unit of trading established for that series by the Clearing Corporation pursuant to the rules of the Clearing Corporation and the agreements of the Exchange with the Clearing Corporation.

Rule 709. Meaning of Premium Quotes and Orders

(a) *General.* Except as provided in paragraph (b), orders and quotations shall be expressed in terms of dollars per unit of the underlying security. For example, a bid of “5” shall represent a bid of \$500 for an options contract having a unit of trading consisting of 100 shares of an underlying security, or a bid of \$550 for an options contract having a unit of trading consisting of 110 shares of an underlying security.

(b) *Special Cases.* Orders and quotations for an options contract for which the Exchange has established an adjusted unit of trading in accordance with Rule 708 shall be expressed in terms of dollars per 1/100 part of the total securities and/or other property constituting such adjusted unit of trading. For example, an offer of “3” shall represent an offer of \$300 for an options contract having a unit of trading consisting of 100 shares of an underlying security plus ten (10) rights.

(c) *Mini Options.* Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of “.50” shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares.

Rule 710. Minimum Trading Increments

(a) The Board may establish minimum trading increments for options traded on the Exchange. Such changes by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Rule 710 within the meaning of paragraph (3)(A) of Section 19(b) of the Exchange Act and will be filed with the SEC as a rule change for effectiveness upon filing. Until such time as the Board makes a change in the increments, the following principles shall apply:

(1) if the options contract is trading at less than \$3.00 per option, \$.05; and

(2) if the options contract is trading at \$3.00 per option or higher, \$.10.

(b) Minimum trading increments for dealings in options contracts other than those specified in paragraph (a) may be fixed by the Exchange from time to time for options contracts of a particular series.

(c) Notwithstanding the above, the Exchange may trade in the minimum variation of the primary market in the underlying security.

Supplementary Material to Rule 710

.01 Notwithstanding any other provision of this Rule 710, the Exchange will operate a pilot program, scheduled to expire on June 30, 2013, to permit options classes to be quoted and traded in increments as low as \$.01. The Exchange will specify which options trade in such pilot, and in what increments, in Regulatory Information Circulars filed with the Commission pursuant to Rule 19b-4 under the Exchange Act and distributed to Members.

The Exchange may replace any penny pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the penny pilot, based on trading activity in the previous six months. The replacement issues may be added to the penny pilot on the second trading day following June 30, 2013.

.02 Notwithstanding any other provision of this Rule 710, the Exchange will permit foreign currency options to be quoted and traded in one-cent increments.

Rule 711. Acceptance of Quotes and Orders

(a) All bids or offers made and accepted on the Exchange in accordance with the Rules shall constitute binding contracts, subject to applicable requirements of the Constitution and the Rules and the rules of the Clearing Corporation.

(b) A trade may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA.

Rule 712. Submission of Orders and Clearance of Transactions

(a) *Order Identification.* When entering orders on the Exchange, each Member shall submit trade information in such form as may be prescribed by the Exchange in order to allow the Exchange to properly prioritize and match orders and quotations pursuant to Rule 713 and report resulting transactions to the Clearing Corporation.

(b) All transactions made on the Exchange shall be submitted for clearance to the Clearing Corporation, and all such transactions shall be subject to the rules of the Clearing Corporation. Every Clearing Member shall be responsible for the clearance of the Exchange transactions of such Clearing Member and of each Member who gives up such Clearing Member's name pursuant to a letter of authorization, letter of guarantee or other authorization given by such Clearing Member to such Member, which authorization must be submitted to the Exchange.

(c) On each business day at or prior to such time as may be prescribed by the Clearing Corporation, the Exchange shall furnish the Clearing Corporation a report of each Clearing Member's matched trades.

Rule 713. Priority of Quotes and Orders

(a) Definitions.

As provided in Rule 100(a)(4) and (a)(29), a "bid" is a quotation or limit order to buy options contracts and an "offer" is a quotation or limit order to sell options contracts. "Quotations," which are defined in Rule 100(a)(42), may only be entered on the Exchange by market makers in the options classes to which they are appointed under Rule 802. Limit orders may be entered by market makers in certain circumstances as provided in the Rules and by Electronic Access Members (either as agent or as principal). "Priority Customer Orders" and "Professional Orders" are defined in Rule 100(a)(37B) and (37C).

(b) Priority on the Exchange. The highest bid and lowest offer shall have priority on the Exchange.

(1) In the case where the lowest offer for any options contract is \$.05, no Member shall enter a market order to sell that series.

(2) Wherever this condition occurs, any such market order shall be considered a limit order to sell at a price of \$.05.

(c) Priority. Except as provided under Rule 715(g), Priority Customer Orders on the Exchange shall have priority over Professional Orders and market maker quotes at the same price in the same options series.

(d) Precedence of Priority Customer Orders. Except as provided under Rule 715(g), if there are two (2) or more Priority Customer Orders for the same options series at the same price on the Exchange, priority shall be afforded to such Priority Customer Orders in the sequences in which they are received by the Exchange (*i.e.*, in time priority).

(e) Precedence of Professional Orders and Market Maker Quotes. Except as provided under Rule 715(g), if there are two (2) or more Professional Orders or market maker quotes at the Exchange's best bid or offer, after all Priority Customer Orders (if any) at that price have been filled, executions at that price will be allocated between the Professional Orders and market maker quotes pursuant to an allocation procedure to be determined by the Exchange from time to time; provided, however, that if the Primary Market Maker is quoting at the Exchange's best bid or offer, it shall have precedence over Professional Orders and Competitive Market Maker quotes for execution of orders that are for a specified number of contracts or fewer, which number shall be determined by the Exchange from time to time.

(f) *Priority on Split Price Transactions.* If a Member purchases (sells) one (1) or more options contracts of a particular series at a particular price, it shall at the next lower (higher) price at which there are Professional Orders or market maker quotes, have priority over such Professional Orders and market maker quotes in purchasing (selling) up to the equivalent number of options contracts of the same series that it purchased (sold) at the higher (lower) price, but only if the purchase (sale) so effected represents the opposite side of a transaction with the same offer (bid) as the earlier purchase (sale).

Supplementary Material to Rule 713

.01 Rule 713(e) (Priority of Quotes and Orders) states that Priority Customer Orders have priority on the Exchange. That rule further provides that the Exchange will determine a procedure for allocating executions among Professional Orders and market maker quotes in cases where all Priority Customer Orders have been executed and there are two or more Professional Orders or market maker quotes at the best price. This procedure is as follows:

(a) Subject to the two limitations in paragraphs (b) and (c) below and subject to paragraph .03 (Preferred Orders), Professional Orders and market maker quotes at the best price receive allocations based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Order or quote;

(b) If the Primary Market Maker is quoting at the best price, it has participation rights equal to the greater of (i) the proportion of the total size at the best price represented by the size of its quote, or (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or market maker quotation at the best price, forty percent (40%) if there are two (2) other Professional Orders and/or market maker quotes at the best price, and thirty percent (30%) if there are more than two (2) other Professional Orders and/or market maker quotes at the best price; and

(c) Orders for five (5) contracts or fewer will be executed first by the Primary Market Maker; provided however, that on a quarterly basis the Exchange will evaluate what percentage of the volume executed on the Exchange (excluding volume resulting from the execution of orders in the Facilitation Mechanism (see Rule 716(d))) is comprised of orders for five (5) contracts or fewer executed by Primary Market Makers, and will reduce the size of the orders included in this provision if such percentage is over forty percent (40%).

This procedure only applies to the allocation of executions among Professional Orders and market maker quotes existing in the Exchange's central order book at the time the order is received by the Exchange. No market participant is allocated any portion of an execution unless it has an existing interest at the execution price. Moreover, no market participant can execute a greater number of contracts than is associated with the price of its existing interest. Accordingly,

the Primary Market Maker participation rights and the small order preference contained in this allocation procedure are not guarantees; the Primary Market Maker (i) must be quoting at the execution price to receive an allocation of any size, and (ii) cannot execute a greater number of contracts than the size that is associated with its quote.

.02 All-or-none orders, as defined in Rule 715(c), and minimum quantity orders, as defined in Rule 715(l), are contingency orders that have no priority on the book. Such orders are maintained in the system and remain available for execution after all other trading interest at the same price has been exhausted.

.03 Preferred Orders. An Electronic Access Member may designate a "Preferred Market Maker" on orders it enters into the System ("Preferred Orders").

(a) A Preferred Market Maker may be the Primary Market Maker appointed to the options class or any Competitive Market Maker appointed to the options class.

(b) If the Preferred Market Maker is not quoting at a price equal to the NBBO at the time the Preferred Order is received, the allocation procedure contained in paragraph .01 shall be applied to the execution of the Preferred Order.

(c) If the Preferred Market Maker is quoting at the NBBO at the time the Preferred Order is received, the allocation procedure contained in paragraph .01 shall be applied to the execution of the Preferred Order except that the Primary Market Maker will not receive the participation rights described in paragraphs .01(b) and (c), and instead the Preferred Market Maker shall have participation rights equal to the greater of:

(i) the proportion of the total size at the best price represented by the size of its quote, or

(ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or market maker quotation at the best price and forty percent (40%) if there are two (2) or more other Professional Orders and/or market maker quotes at the best price.

(d) Preferred Competitive Market Makers are subject to enhanced quoting requirements as provided in Rule 804(e)(2)(iii).

.04 Notification of Public Customer Interest on the Book. The Exchange shall make available to Members the quantity of Public Customer contracts included in the Exchange's highest bid and lowest offer.

Rule 714. Automatic Execution of Orders

(a) Incoming orders that are executable against orders and quotes in the System will be executed automatically by the System; provided that such orders will not be automatically executed by the System at prices inferior to the NBBO (as defined in Rule 1900(j)). Public Customer Orders that are not automatically executed will be handled by the Primary Market Maker pursuant to Rule 803(c) and Supplementary Material .02 to Rule 803. Non-Customer Orders that are not automatically executed will be handled pursuant to Supplementary Material .02 to Rule 803; provided that Members may specify that a Non-Customer order should instead be rejected automatically by the System at the time of receipt.

(b) Paragraph (a) shall not apply either when the quotations on the Exchange are Non-Firm (as defined in Rule 1900(k)) or with respect to any other market whose quotations are Non-Firm.

Rule 715. Types of Orders

(a) *Market Orders.* A market order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange.

(b) *Limit Orders.* A limit order is an order to buy or sell a stated number of options contracts at a specified price or better.

(1) *Marketable Limit Orders.* A marketable limit order is a limit order to buy (sell) at or above (below) the best offer (bid) on the Exchange.

(2) *Fill-or-Kill Orders.* A fill-or-kill order is a limit order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled.

(3) *Immediate-or-Cancel Orders.* An immediate-or-cancel order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled.

(4) *Non-displayed Penny Orders.* A non-displayed penny order is a limit order that specifies a one-cent price increment in a security that has a minimum trading increment pursuant to Rule 710 that is larger than one-cent. Non-displayed penny orders shall be available for execution at the stated limit price, but shall only be displayed to market participants and the public at the minimum trading increment for the security. The displayed price of a non-displayed penny order will be the closest minimum trading increment that does not violate the limit price. The Exchange shall designate which qualifying securities shall be eligible for non-displayed penny orders.

(5) *Intermarket Sweep Orders.* An Intermarket Sweep Order (ISO) is a limit order that meets the requirements of Rule 1900(h).

(6) *Stopped Order.* A stopped order is a limit order that meets the requirements of Rule 1901(b)(8). To execute stopped orders, Members must enter them into the Facilitation Mechanism or Solicited Order Mechanism pursuant to Rule 716.

(c) *All-Or-None Orders.* An all-or-none order is a limit or market order that is to be executed in its entirety or not at all.

(d) *Stop Orders.* A stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Exchange at, or below, the specified stop price.

(e) *Stop Limit Orders.* A stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Exchange at, or above, the specified stop price. A stop limit order to sell becomes a sell limit order when the option is offered or trades on the Exchange at, or below, the specified stop price.

(f) *Customer Participation Orders.* A Customer Participation Order (“CPO”) is a limit order on behalf of a Public Customer that, in addition to the limit order price in standard increments according to Rule 710, includes a price stated in one-cent increments (the “Participation Interest”) at which the Public Customer wishes to participate in trades executed in the same options series in penny increments through the Price Improvement Mechanism pursuant to Rule 723. The Participation Interest price must be higher than the limit order price in the case of a CPO to buy, and lower than the limit order price in the case of a CPO to sell. The size of the order will be automatically decremented when the Public Customer participates in the execution of an order at the Participation Interest price.

(g) *Reserve Orders.* A Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion.

1. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book.

2. The displayed portion of a Reserve Order shall be ranked at the specified limit price and the time of order entry.

3. The displayed portion of a Reserve Order will trade in accordance with Rule 713(c) and (d) for Priority Customer Orders, and Rule 713(e) and Supplementary Material .01, for Professional Orders.

4. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Rule 713(c) and (d) for Priority Customer Orders, and Rule 713(e) and Supplementary Material .01, for Professional Orders.

5. The initial non-displayed portion of a Reserve Order rests on the order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in paragraph 4 above. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order will trade in accordance with Rule 713(c) and (d) for Priority Customer Orders, and Rule 713(e) and Supplementary Material .01, for Professional Orders.

(h) *Attributable Order*. An Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange systems. The Exchange will issue a Regulatory Information Circular specifying the systems and the class of securities for which the Attributable Order type shall be available.

(i) *Customer Cross Orders*. A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity.

(j) *Qualified Contingent Cross Order*. A Qualified Contingent Cross Order is comprised of an order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order to buy or sell an equal number of contracts.

(k) Reserved

(l) *Minimum Quantity Orders*. A minimum quantity order is an order that is available for partial execution, but each partial execution must be for a specified number of contracts or greater. If the balance of the order after one or more partial executions is less than the minimum, such balance is treated as all-or-none.

(m) *Do-Not-Route Orders*. A do-not-route order is a market or limit order that is to be executed in whole or in part on the Exchange only. Due to prices available on another options exchange (as provided in Chapter 19 (Order Protection; Locked and Crossed Markets)), any balance of a do-not-route order that cannot be executed upon entry, or placed on the Exchange's limit order book, will be automatically cancelled.

(n) *Add Liquidity Order*. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Only order would lock or cross one or more non-displayed orders on the Exchange, the Add Liquidity Only order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Rule 713.

(o) *Opening Only Order*. An Opening Only order is a limit order that can be entered for the opening rotation only. Any portion of the order that is not executed during the opening rotation is cancelled.

(p) *Good-Till-Date Order*. A Good-Till-Date Order is a limit order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series.

(q) *Minimum Quantity Order*. A Minimum Quantity Order is an order that is initially available for partial execution only for a specified number of contracts or greater. A member may specify whether any subsequent executions of the order must also be for the specified number of contracts or greater, or if the balance may be executed as a regular order. If all executions are to be for the specified number of contracts or greater and the balance of the order after one or more partial execution[s] is less than the minimum, such balance is treated as all-or-none.

Supplementary Material to Rule 715

.01 A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where:

(a) At least one component is an NMS Stock, as defined in Rule

600 of Regulation NMS under the Exchange Act;

(b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(c) the execution of one component is contingent upon the execution of all other components at or near the same time;

(d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

Rule 716. Block Trades

(a) *Block-Size Orders.* Block-size orders are orders for fifty (50) contracts or more.

(b) For purposes of this Rule, a “broadcast message” means an electronic message that is sent by the Exchange to all Members, and a “Response” means an electronic message that is sent by Members in response to a broadcast message.

(c) *Block Order Mechanism.* The Block Order Mechanism is a process by which a Member can obtain liquidity for the execution of block-size orders.

(1) Upon the entry of an order into the Block Order Mechanism, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to trade with a block-size order.

(2) At the conclusion of the time given Members to enter Responses, either an execution will occur automatically, or the order will be cancelled.

(i) Bids (offers) on the Exchange at the time the block order is executed that are priced higher (lower) than the block execution

price, as well as Responses that are priced higher (lower) than the block execution price, will be executed at the block execution price.

(ii) Responses, quotes and Professional Orders at the block execution price will participate in the execution of the block-size order according to Rule 713(e).

(d) *Facilitation Mechanism.* The Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size order it represents as agent. Electronic Access Members must be willing to execute the entire size of orders entered into the Facilitation Mechanism.

(1) Upon the entry of an order into the Facilitation Mechanism, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they want to participate in the facilitation of the order.

(2) Responses may be priced at the price of the order to be facilitated or at a better price and must not exceed the size of the order to be facilitated.

(3) At the end of the period given for the entry of Responses, the facilitation order will be automatically executed.

(i) Unless there is sufficient size to execute the entire facilitation order at a better price, Priority Customer bids (offers) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Professional Orders and market maker quotes at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the order being facilitated a better price for the number of contracts associated with such higher bids (lower offers). The facilitation order will be cancelled at the end of the exposure period if an execution would take place at a price that is inferior to the best bid (offer) on Topaz.

(ii) The facilitating Electronic Access Member will execute at least forty percent (40%) of the original size of the facilitation order, but only after better-priced Responses, orders and quotes, as well as Priority Customer Orders at the facilitation price, are executed in full. Thereafter, Responses quotes and Professional Orders at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Response, Professional Order or quote.

(iii) Upon entry of an order into the Facilitation Mechanism, the facilitating Electronic Access Member can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the facilitating Electronic Access Member will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating member shall be allocated at least forty percent (40%) of the original size of the facilitation order, but only after Priority Customer interest at such price point. Thereafter, all other orders, Responses, and quotes at the price point will participate in the execution of the facilitation order based upon the the percentage of the total number of contracts available at the facilitation price that is represented by the size of the order, Response or quote. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(e) *Solicited Order Mechanism.* The Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute orders of 500 or more contracts it represents as agent (the "Agency Order") against contra orders that it solicited. Each order entered into the Solicited Order Mechanism shall be designated as all-or-none.

(1) Upon entry of both orders into the Solicited Order Mechanism at a proposed execution price, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to participate in the execution of the Agency Order.

(2) At the end of the period given Members to enter Responses, the Agency Order will be automatically executed in full or cancelled.

(i) If at the time of execution there is insufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed against the solicited order at the proposed execution price so long as, at the time of execution: (A) the execution price is equal to or better than the best bid or offer on the Exchange, and (B) there are no Priority Customer Orders on the Exchange that are priced equal to the proposed execution price. If there are Priority Customer Orders on the Exchange on the opposite side of the Agency Order at the proposed execution price and there is sufficient size to execute the entire size of the Agency Order, the Agency Order will be executed against the bid or offer, and the solicited order will be cancelled. The aggregate size of all orders, quotes and Responses at the bid or offer will be used to determine whether the entire Agency Order can be executed. Both the solicited order and Agency Order will be cancelled if an execution would take place at a price that is inferior to the best bid or offer on the Exchange, or if there is a Priority Customer on the book at the proposed

execution price but there is insufficient size on the Exchange to execute the entire Agency Order.

(ii) If at the time of execution there is sufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed at the improved price(s), subject to the condition in (i)(A), and the solicited order will be cancelled. The aggregate size of all orders, quotes and Responses at each price will be used to determine whether the entire agency order can be executed at an improved price (or prices).

(iii) When executing the Agency Order against the bid or offer in accordance with paragraph (i) above, or at an improved price in accordance with paragraph (ii) above, Priority Customer Orders will be executed first. Professional Orders and market maker quotes participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Order or market maker quote.

(3) Prior to entering Agency Orders into the Solicited Order Mechanism on behalf of a customer, EAMs must deliver to the customer a written notification informing the customer that its order may be executed using the Exchange's Solicited Order Mechanism. Such written notification must disclose the terms and conditions contained in this Rule and must be in a form approved by the Exchange.

Supplementary Material to Rule 716

.01 It will be a violation of a member's duty of best execution to its customer if it were to cancel a facilitation order to avoid execution of the order at a better price. The availability of the Facilitation Mechanism does not alter a Member's best execution duty to get the best price for its customer. Accordingly, while facilitation orders can be canceled during the time period given for the entry of Responses, if a Member were to cancel a facilitation order when there was a superior price available on the Exchange and subsequently re-enter the facilitation order at the same facilitation price after the better price was no longer available without attempting to obtain that better price for its customer, there would be a presumption that the Member did so to avoid execution of its customer order in whole or in part by other brokers at the better price.

.02 Responses represent non-firm interest that can be canceled at any time prior to execution. Responses are not displayed to any market participants.

.03 Reserved.

.04 The time given to Members to enter Responses under paragraphs (c)(1), (d)(1) and (e)(1) shall be one (1) second.

.05 Under paragraph (e) above, Members may enter contra orders that are solicited. The Solicited Order Mechanism provides a facility for Members that locate liquidity for their customer orders. Members may not use the Solicited Order Mechanism to circumvent Exchange Rule 717(d) limiting principal transactions. This may include, but is not limited to, Members entering contra orders that are solicited from (1) affiliated broker-dealers, or (2) broker-dealers with which the Member has an arrangement that allows the Member to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal. Additionally, any solicited contra orders entered by Members to trade against Agency Orders may not be for the account of an Exchange market maker that is assigned to the options class.

.06 Split Prices. Orders and Responses may be entered into the Facilitation and Solicitation Mechanisms and receive executions at the mid-price between the standard minimum trading increments for the options series ("Split Prices"). This means that orders and Responses for options with a minimum increment of 5 cents may be entered into the Facilitation and Solicitation Mechanisms and receive executions in 2.5 cent increments (e.g., \$1.025, \$1.05, \$1.075, etc.), and that orders and Responses for options with a minimum increment of 10 cents may be entered into the Facilitation and Solicitation Mechanism and receive executions at 5 cent increments (e.g., \$4.05, \$4.10, \$4.15, etc.). Orders and quotes in the market that receive the benefit of the facilitation price under paragraph (d) may also receive executions at Split Prices. Non-displayed penny orders and quotes will otherwise be executed only at the regular trading increment for the security (e.g., if the displayed market is \$2.00 by \$2.05 and there is a hidden penny order to buy at 2.03, the hidden penny order will participate in the execution algorithms applied by the Facilitation and Solicited Order Mechanisms at the split price of \$2.025; and if the hidden penny price in this example is \$2.02, the hidden penny order will participate in the execution algorithms at the regular trading increment of \$2.00).

.07 Reserved.

.08 Reserved.

.09 Penny Prices. Orders and Responses may be entered into the Block Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price under paragraph (c)(2)(i) may also receive executions at penny increments.

Rule 717. Limitations on Orders

(a) Reserved.

(b) Limit Orders.

Electronic Access Members shall not enter Priority Customer limit orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

(c) Reserved.

(d) Principal Transactions.

Electronic Access Members may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, (ii) the Electronic Access Member has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Member utilizes the Facilitation Mechanism pursuant to Rule 716(d), or (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Rule 723.

(e) Solicitation Orders.

Electronic Access Members may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-member broker-dealers to transact with such orders unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, (ii) the Member utilizes the Solicited Order Mechanism pursuant to Rule 716(e), (iii) the Member utilizes the Facilitation Mechanism pursuant to Rule 716(d) or (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Rule 723.

(f) Reserved.

(g) Orders for the Account of Another Member.

Electronic Access Members shall not cause the entry of orders for the account of an Exchange market maker that is exempt from the provisions of Regulation T of the Board of Governors of the Federal Reserve System pursuant to Section 7(c)(2) of the Exchange Act unless such orders are identified as orders for the account of an Exchange market maker in the manner prescribed by the Exchange.

Supplemental Material to Rule 717

.01 Rule 717(d) prevents an Electronic Access Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Electronic Access Member to establish a relationship with a customer or other person (including affiliates) to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of Rule 717(d) for an Electronic Access Member to be a party to any arrangement designed to circumvent Rule 717(d) by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the Electronic Access Member immediately upon their entry into the System.

.02 It will be a violation of Rule 717(e) for an Electronic Access Member to cause the execution of an order it represents as agent on the Exchange by orders it solicited from Members and non-member broker-dealers to transact with such orders, whether such solicited orders are entered into the System directly by the Electronic Access Member or by the solicited party (either directly or through another Member), if the Member fails to expose orders on the Exchange as required by Rule 717(e).

.03 The requirements of paragraphs (d) and (e) above apply, as well, to non-displayed penny orders entered on the Exchange. For the purposes of these paragraphs, agency orders priced in penny increments are deemed "exposed" and member proprietary orders priced in penny increments are deemed bids or offers.

.04 Non-marketable all-or-none limit orders and non-marketable minimum quantity orders shall be deemed "exposed" for the purposes of paragraphs (d) and (e) one second following a broadcast notifying market participants that such an order to buy or sell a specified number of contracts at a specified price either as all-or-none or with a specified minimum quantity has been received in the options series. For non-marketable minimum quantity orders, the broadcast will specify the minimum quantity that can be executed.

.05 With respect to the non-displayed reserve portion of a reserve order, the exposure requirement of paragraphs (d) and (e) are satisfied if the displayable portion of the reserve order is displayed at its displayable price for one second.

Rule 718. Reserved**Rule 719. Transaction Price Binding**

The price at which an order is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report shall not be binding if an order was not actually executed but was reported to have been executed in error.

Rule 720. Obvious and Catastrophic Errors

The Exchange shall either bust a transaction or adjust the execution price of a transaction that results from an Obvious Error or Catastrophic Error (collectively "Errors") as provided in this Rule. In limited circumstances, the Exchange may nullify transactions, pursuant to Supplementary Material .08 below.

(a) Definitions

(1) *Obvious Error.* For purposes of this Rule only, an Obvious Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

Theoretical Price	Minimum Amount
Below \$2	.25
\$2 to \$5	.40
Above \$5 to \$10	.50
Above \$10 to \$20	.80
Above \$20	1.00

(2) *Catastrophic Error.* For purposes of this Rule only, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

Theoretical Price	Minimum Amount
Below \$2	\$1
\$2 to \$5	\$2
Above \$5 to \$10	\$5
Above \$10 to \$50	\$10
Above \$50 to \$100	\$20
Above \$100	\$30

(3) *Theoretical Price.* For purposes of this Rule only, the Theoretical Price of an options series is:

(i) if the series is traded on at least one other options exchange, the National Best Bid price with respect to an erroneous sell transaction, and National Best Offer price with respect to an erroneous buy transaction, just prior to the trade in question; or

(ii) if there are no quotes for comparison purposes, as determined by designated personnel in the Exchange's market control center ("Market Control").

(b) *Obvious Error Procedure.* Market Control shall administer the application of this Rule as follows.

(1) Notification. If a market maker on the Exchange believes that it participated in a transaction that was the result of an Obvious Error, it must notify Market Control within five (5) minutes of the execution. If an Electronic Access Member believes an order it executed on the Exchange was the result of an Obvious Error, it must notify Market Control within twenty (20) minutes of the execution. Absent unusual circumstances, Market Control will not grant relief under this Rule unless notification is made within the prescribed time periods.

(2) Adjust or Bust. Market Control will determine whether there was an Obvious Error as defined above. If it is determined that an Obvious Error has occurred, Market Control shall take one of the actions listed below. Upon taking final action, Market Control shall promptly notify both parties to the trade.

(i) Where each party to the transaction is a market maker on the Exchange, the execution price of the transaction will be adjusted by Market Control to the prices provided in paragraphs (A) and (B) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by Market Control of the Obvious Error.

(A) Erroneous buy transactions will be adjusted to their Theoretical Price (1) plus \$.15 if the Theoretical Price is under \$3, and (2) plus \$.30 if the Theoretical Price is at or above \$3.

(B) Erroneous sell transactions will be adjusted to their Theoretical Price (1) minus \$.15 if the Theoretical Price is under \$3, and (2) minus \$.30 if the Theoretical Price is at or above \$3.

(ii) Where at least one party to the Obvious Error is not a market maker on the Exchange, the trade will be busted by Market Control unless both parties agree to an adjustment price for the transaction within

thirty (30) minutes of being notified by Market Control of the Obvious Error.

(c) *Obvious Error Panel.*

(1) Composition. An Obvious Error Panel will be comprised of representatives from four (4) Members. Two (2) of the representatives must be directly engaged in market making activity and two (2) of the representatives must be employed by an Electronic Access Member.

(2) Scope of Panel's Review. If a party affected by a determination made under this Rule so requests within the time permitted in paragraph (3) below, the Obvious Error Panel will review decisions made by Market Control under this Rule, including whether an Obvious Error occurred, whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price. A party may also request that the Obvious Error Panel provide relief as provided in this Rule in cases where the party failed to provide the notification required in paragraph (b)(1) and Market Control declined to grant an extension, but unusual circumstances must merit special consideration.

(3) Procedure for Requesting Review. A request for review must be made in writing within thirty (30) minutes after a party receives verbal notification of a final determination by Market Control under this Rule, except that if notification is made after 3:30 p.m. Eastern Time, either party has until 9:30 a.m. Eastern Time the next trading day to request review. The Obvious Error Panel shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made after 3:30 on the day of the transaction or where the request is properly made the next trade day.

(4) Panel Decision. The Obvious Error Panel may overturn or modify an action taken by Market Control under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Obvious Error Panel shall constitute final Exchange action on the matter at issue.

(d) *Catastrophic Error Procedure.* Market Control shall administer the application of this Rule as follows.

(1) Notification. If a Member believes that it participated in a transaction that qualifies as a Catastrophic Error pursuant to paragraph (a)(2) above, it must notify Market Control by 8:30 am Eastern Time on the first trading day following the date the Catastrophic Error occurred. For transactions in an expiring options series that take place on expiration Friday, a Member must notify Market Control by 5:00 pm Eastern Time that same day. Relief will not be granted under this paragraph: (i) unless notification is made within the prescribed time period; and (ii) if an Obvious Error Panel has previously rendered a decision with respect to the transaction(s) in question.

(2) **Catastrophic Error Determination.** A Catastrophic Error Tribunal, comprised of two (2) representatives of Members directly engaged in market making activity and two (2) representatives employed by Electronic Access Members, will determine whether the transaction(s) qualifies as a Catastrophic Error. If it is determined that a Catastrophic Error has occurred, the Tribunal will instruct Market Control to adjust the execution price of the transaction(s) according to paragraph (3) below. If it is determined that a Catastrophic Error has not occurred, the Member will be subject to a charge of \$5,000. All determinations by the Catastrophic Error Tribunal shall constitute final Exchange action on the matter at issue.

(3) **Adjustment.** If it is determined that a Catastrophic Error has occurred, unless both parties agree to adjust the transaction(s) to a different price, the execution price of the transaction(s) will be adjusted to the theoretical price (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided below for erroneous sell transactions:

Theoretical Price	Adjustment Value
Below \$2	\$1
\$2 to \$5	\$2
Above \$5 to \$10	\$3
Above \$10 to \$50	\$5
Above \$50 to \$100	\$7
Above \$100	\$10

Supplementary Material to Rule 720

.01 When Market Control determines that an Error has occurred and action is warranted under paragraphs (b) or (d) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.

.02 To qualify as a representative of an Electronic Access Member on an Obvious Error Panel or Catastrophic Error Tribunal, a person must (i) be employed by a Member whose revenues from options market making activity do not exceed ten percent (10%) of its total revenues; or (ii) have as his or her primary responsibility the handling of Public Customer orders or supervisory responsibility over persons with such responsibility, and not have any responsibilities with respect to market making activities.

.03 The Exchange shall designate at least ten (10) market maker representatives and at least ten (10) Electronic Access representatives to be called upon to serve on Obvious Error Panels and Catastrophic Error Tribunals as needed. In no case shall an Obvious Error Panel or Catastrophic Error Tribunal include a person related to a party to the trade in question. To the extent reasonably possible, the Exchange shall call upon the designated representatives to participate on an Obvious Error Panel on an equally frequent basis.

.04 All determinations made by the Exchange, Market Control, an Obvious Error Panel or Catastrophic Error Tribunal under this Rule shall be rendered without prejudice as to the rights of the parties to the transaction to submit a dispute to arbitration.

.05 No Bid Series. Trades in series quoted no bid on the Exchange will be nullified provided: (i) the bid in that series immediately preceding the execution was, and for five seconds, prior to the execution remained, zero; and (ii) at least one strike below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution. For purposes of Supplementary Material .05(i) and .05(ii), bids and offers of the parties to the subject trade that are in any of the series in the same options class shall not be considered. In addition, each group of series in an options class with a non-standard deliverable will be treated as a separate option class. Such buyers must follow the procedures of paragraph (b)(1) above.

.06 Reserved.

.07 For purposes of Rule 720, an “erroneous sell transaction” is one in which the price received by the person selling the option is erroneously low, and an “erroneous buy transaction” is one in which the price paid by the person purchasing the option is erroneously high.

.08 Unless all parties to a trade agree otherwise, Market Control may nullify a trade if all parties to a trade fail to receive a trade execution report due to a verifiable system outage.

Rule 721. Crossing Orders

(a) Customer Cross Orders are automatically executed upon entry provided that the execution is at or between the best bid and offer on the Exchange and (i) is not at the same price as a Priority Customer Order on the Exchange’s limit order book and (ii) will not trade through the NBBO.

(1) Customer Cross Orders will be automatically canceled if they cannot be executed.

(2) Customer Cross Orders may only be entered in the regular

trading increments applicable to the options class under Rule 710.

(3) Supplemental Material .01 to Rule 717 applies to the entry and execution of Customer Cross Orders.

(b) Qualified Contingent Cross Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the NBBO.

(1) Qualified Contingent Cross Orders will be automatically canceled if they cannot be executed.

(2) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under in Rule 710.

Rule 722. Reserved.

Rule 723. Price Improvement Mechanism for Crossing Transactions

(a) The Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate an order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against an order it represents as agent (a "Crossing Transaction").

(b) Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

(1) Except as provided in Supplementary Material .08 below, a Crossing Transaction must be entered only at a price that is better than the Exchange's best bid or offer ("Topaz BBO") and equal to or better than the national best bid or offer ("NBBO").

(2) The Crossing Transaction may be priced in one-cent increments.

(3) The Crossing Transaction may not be canceled, but the price of the Counter-Side Order may be improved during the exposure period.

(c) Exposure Period. Upon entry of a Crossing Transaction into the Price Improvement Mechanism, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent to all Members. This

broadcast message will not be included in the Exchange's disseminated best bid or offer and will not be disseminated through OPRA.

(1) Members will be given one second to indicate the size and price at which they want to participate in the execution of the Agency Order ("Improvement Orders").

(2) Improvement Orders may be entered by all Members for their own account or for the account of a Public Customer in one-cent increments at the same price as the Crossing Transaction or at an improved price for the Agency Order, and for any size up to the size of the Agency Order.

(3) During the exposure period, Improvement Orders may not be canceled, but may be modified to (1) increase the size at the same price, or (2) improve the price of the Improvement Order for any size up to the size of the Agency Order.

(4) During the exposure period, the aggregate size of the best prices (including the Counter-Side Order, Improvement Orders, and any changes to either) will continually be updated and broadcast to all Members.

(5) The exposure period will automatically terminate (i) at the end of the one second period, (ii) upon the receipt of a market or marketable limit order on the Exchange in the same series, or (iii) upon the receipt of a non-marketable limit order in the same series on the same side of the market as the Agency Order that would cause the price of the Crossing Transaction to be outside of the best bid or offer on the Exchange.

(d) Execution. At the end of the exposure period the Agency Order will be executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, Customer Participation Orders (see Supplementary Material .06 below) and the Counter-Side Order. The Agency Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

(1) At a given price, Priority Customer interest is executed in full before Professional Orders and market maker quotes.

(2) After Priority Customer interest at a given price, non-Member Professional Orders will be executed in full before any proprietary interest of Members (i.e., proprietary interest from Electronic Access Members and Exchange market makers).

(3) After Priority Customer interest and non-Member Professional Orders, Member proprietary interest will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Member's interest.

(4) In the case where the Counter-Side Order is at the same price as Member interest in (d)(3), the Counter-Side order will be allocated the greater of one (1) contract or forty percent (40%) of the initial size of the Agency Order before other Member interest is executed. Upon entry of Counter-Side orders, Members can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the Counter-Side order will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side order shall be allocated the greater of one contract or forty percent (40%) of the original size of the Agency Order, but only after Priority Customer Orders and non-Member Professional Orders at such price point are executed in full. Thereafter, all other orders, Responses, and quotes at the price point will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the order, Response or quote. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(5) When a market order or marketable limit order on the opposite side of the market from the Agency Order ends the exposure period, it will participate in the execution of the Agency Order at the price that is mid-way between the best counter-side interest and the NBBO, so that both the market or marketable limit order and the Agency Order receive price improvement. Transactions will be rounded, when necessary, to the \$.01 increment that favors the Agency Order.

Supplementary Material to Rule 723

.01 It shall be considered conduct inconsistent with just and equitable principles of trade for any Member to enter orders, quotes, Agency Orders, Counter-Side Orders or Improvement Orders for the purpose of disrupting or manipulating the Price Improvement Mechanism. Such conduct includes, but is not limited to, engaging in a pattern of conduct where the Member submitting the Agency Order into the PIM breaks-up the Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Member would have otherwise received in accordance with the allocation procedures contained in paragraph (d) above.

.02 The Price Improvement Mechanism may only be used to execute bona fide Crossing Transactions.

.03 Initially, and for at least a Pilot Period expiring on July 18, 2013, there will be no minimum size requirements for orders to be eligible for the Price Improvement Mechanism. During the Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting

evidence that, among other things, there is meaningful competition for all size orders within the Price Improvement Mechanism, that there is significant price improvement for all orders executed through the Price Improvement Mechanism, and that there is an active and liquid market functioning on the Exchange outside of the Price Improvement Mechanism. Any data which is submitted to the Commission will be provided on a confidential basis.

.04 Only one PIM may be ongoing at any given time in a series. PIMs will not queue or overlap in any manner.

.05 Paragraphs (c)(5) and (d)(5) will be effective for a Pilot Period expiring on July 18, 2013. During the Pilot Period, the Exchange will submit certain data relating to the frequency with which the exposure period is terminated by unrelated orders. Any data which is submitted to the Commission will be provided on a confidential basis.

.06 Pursuant to Rule 723(c)(2), Electronic Access Members may enter Improvement Orders for the account of Public Customers. Without limiting the foregoing, Electronic Access Members may enter Improvement Orders with respect to CPOs (as defined in Rule 715(f)). An Improvement Order can be entered with respect to a CPO if: (1) the limit order price of the CPO is equal to the best bid or offer on the Exchange at the time the PIM is initiated; and (2) the CPO is on the same side of the market as the Counter-Side Order. The Improvement Order must be entered for the existing size of the limit order up to the size of the Agency Order and for the price of the Participation Interest.

.07 Any solicited Counter-Side Orders submitted by an Electronic Access Member to trade against Agency Orders may not be for the account of an Exchange market maker assigned to the options class.

.08 When the Topaz BBO is equal to the NBBO, a Crossing Transaction may be entered where the price of the Crossing Transaction is equal to the Topaz BBO if the Agency Order is on the opposite side of the market from the Topaz BBO. In this case, the Agency Order will be automatically executed against the Topaz BBO. If the Agency Order is not fully executed after the Topaz BBO is fully exhausted and is no longer at a price equal to the Crossing Transaction, the Price Improvement Mechanism will be initiated for the balance of the order as provided in Rule 723. With respect to any portion of an Agency Order that is automatically executed against the Topaz BBO pursuant to this paragraph .08, the exposure requirements contained in Rule 717(d) and (e) will not be satisfied for the fact that the member utilized the Price Improvement Mechanism.

.09 Counter-Side Orders and Improvement Orders entered into the Price Improvement Mechanism only will execute against the Agency Order, and any unexecuted interest will be automatically cancelled.

CHAPTER 8

Market Makers

Rule 800. Registration of Market Makers

(a) A market maker is a Member with Designated Trading Representatives registered pursuant to Rule 801. Market makers are registered with the Exchange for the purpose of making transactions as dealer-specialists in accordance with the provisions of this Chapter. Registered market makers are designated as specialists on the Exchange for all purposes under the Exchange Act and the rules and regulations thereunder.

(b) To register as a Competitive or Primary Market Maker, a Member shall file an application in writing on such forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's market making ability and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Competitive or Primary Market Maker.

(c) The registration of any Member as a Competitive or Primary Market Maker may be suspended or terminated by the Exchange upon a determination that such Member has failed to properly perform as a market maker.

Rule 801. Designated Trading Representatives

(a) Market maker quotations and orders may be submitted to the Exchange's System only by Designated Trading Representatives ("DTRs"). A DTR is permitted to enter quotes and orders only for the account of the market maker with which he is associated.

(b) *Registration of Designated Trading Representatives.* The Exchange may, upon receiving an application in writing from a market maker on a form prescribed by the Exchange, approve a person as a DTR.

(1) DTRs may be:

(i) individual Members registered with the Exchange as market makers, or

(ii) officers, partners, employees or associated persons of Members that are registered with the Exchange as market makers.

(2) The Exchange may require a market maker to provide additional information the Exchange considers necessary to establish whether a person should be approved.

(3) A person may be conditionally approved as a DTR subject to any conditions the Chief Regulatory Officer considers appropriate in the interests of maintaining a fair and orderly market.

(c) Suspension or Withdrawal of Registration.

(1) The Exchange may suspend or withdraw the registration previously given to a person to be a DTR if the Exchange determines that:

(i) the person has caused the market maker to fail to comply with the Rules of the Exchange;

(ii) the person is not properly performing the responsibilities of a DTR;

(iii) the person has failed to meet the conditions set forth under paragraph (b) above; or

(iv) the Exchange believes it is in the best interest of fair and orderly markets.

(2) If the Exchange suspends the registration of a person as a DTR, the market maker must not allow the person to submit quotes and orders into the Exchange's System.

(3) The registration of a DTR will be withdrawn upon the written request of the Member for which the DTR is registered. Such written request shall be submitted on the form prescribed by the Exchange.

Rule 802. Appointment of Market Makers

(a) In the manner prescribed by the Exchange, a market maker may seek appointment to one or more options classes traded on the Exchange. The Board or a committee designated by the Board shall appoint classes of options contracts traded on the Exchange to market makers taking into consideration: (i) the financial resources available to the market maker, (ii) the market maker's experience and expertise in market making or options trading, and (iii) the maintenance and enhancement of competition among market makers in each class of options contracts to which they are appointed. The Board or designated committee shall make appointments in the best interest of the Exchange to provide competitive markets. No appointment of a market maker shall be without the market maker's consent to such appointment, provided that refusal to accept an appointment may be deemed sufficient cause for termination or suspension of a market maker's registration.

(b) Appointments to Primary Market Makers. A Primary Market Maker shall be appointed to each options class traded on the Exchange.

(1) A Primary Market Maker seeking appointment to options on equity indexes, foreign currency indexes, foreign currency options and Exchange-Traded Fund Shares (collectively “ Index-Based Products”) shall provide, at the discretion of the Exchange, and upon its request, specific performance commitments, which shall include, at a minimum, commitments regarding (i) the average quotation size it will disseminate in the Index-Based Product, and (ii) the maximum quotation spread it will disseminate in such product at least ninety percent of the time.

(c) Appointments to Competitive Market Makers. Competitive market makers may request appointments to options classes traded on the Exchange, subject to the trading licensing requirements of Rule 2013 with respect to index options and Rule 2213 with respect to foreign currency options.

(1) On a quarterly basis, the Exchange shall assign points to each options class equal to its percentage of overall industry volume (not including exclusively traded index options), rounded down to the nearest one hundredth of a percentage with a maximum of 15 points. New listings will be assigned a point value of zero for the remainder of the quarter in which it was listed.

(2) A Competitive Market Maker may seek appointments to options classes that total: (A) 20 points for the first CMM Right it holds; and (B) 10 points for the second and each subsequent CMM Right it holds.

(3) A Competitive Market Maker may request changes to its appointments at any time upon advance notification to the Exchange in a form and manner prescribed by the Exchange.

(d) The Exchange may suspend or terminate any appointment of a market maker under this Rule and may make additional appointments whenever, in the Exchange’s judgment, the interests of a fair and orderly market are best served by such action. In the case of an Index-Based Product, during the term of that appointment, the Exchange may also base a decision to suspend or terminate a Primary Market Maker’s appointment on the failure of the Primary Market Maker to meet the terms of its commitments under paragraph (b)(1) above.

(e) Market Maker Performance. In making appointments to market makers, the Exchange may evaluate the performance of market makers relating to, among other things, quality of markets, competition among market makers, observance of ethical standards, and administrative factors. The Exchange may consider any relevant information, including but not limited to the results of a market maker evaluation questionnaire, trading data, a market maker’s regulatory history and such other factors and data as may be pertinent in the circumstances. Moreover, failure by a market maker to meet minimum performance standards may result in, among other things: (1) suspension, termination or restriction of an appointment to one or more of the options classes appointed to the market maker; (2) restriction of appointments to additional options classes; or (3) suspension, termination, or restriction of the market maker’s registration.

Supplementary Material to Rule 802

.01 Index-Based Options. Pursuant to paragraph (b)(1) of Rule 802, a Primary Market Maker shall specify the average size and maximum quotation spread to which it will commit on a quarterly basis for four successive calendar quarters. The Primary Market Maker may specify differing size and quotation commitments for different series of an options class, such as by committing to a larger size and narrower quotations for the at-the-money series or series nearer to expiration. A Primary Market Maker also may, but is not required to, provide commitments regarding marketing or other support with respect to the Index-Based Product. In addition, a Primary Market Maker may, but is not required to, provide information regarding order flow arrangements with order flow providers. When an Index-Based Product is allocated to a Primary Market Maker, that Primary Market Maker's size and spread quotations for the fourth quarter following listing shall remain in effect thereafter on a quarter-to-quarter basis unless the Primary Market Maker has requested, and the Exchange or designated committee has approved, a change in such commitments. Any other commitments that a Primary Market Maker has made also shall remain in effect until modified by the Exchange or designated committee upon the request of the Primary Market Maker.

.02 A Member that is approved to act in the capacity of a Competitive Market Maker with respect to one or more CMM Rights may voluntarily be appointed to act as an "Alternative Primary Market Maker," so long as the Exchange has determined that such Member has the appropriate systems and procedures in place to undertake the responsibilities of a Primary Market Maker.

(a) The Exchange may appoint an Alternative Primary Market Maker to an options class only in the event that no Primary Market Makers seek allocation of the security.

(b) If no Primary Market Makers seek allocation of an options class, all eligible Competitive Market Makers will be given notice and an opportunity to seek allocation of the security as an Alternative Primary Market Maker. Such allocations will be made by the Allocation Committee according to the guidelines contained in Rule 802.

(c) An Alternative Primary Market Maker shall have all of the responsibilities and privileges of a Primary Market Maker under the Rules with respect to all appointed options classes.

(d) If an Alternative Primary Market Maker ceases trading of an options class, the class will be reallocated by the Exchange to a Primary Market Maker or another Alternative Primary Market Maker, as appropriate.

.03 There is no restriction on a Competitive Market Maker seeking appointment to options classes in which it or an affiliated market-maker holds a

Competitive Market Maker or Primary Market Maker appointment, provided that such Member has sufficient Competitive Market Maker points for each such appointment.

Rule 803. Obligations of Market Makers

(a) *General.* Transactions of a market maker should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and market makers should not make bids or offers or enter into transactions that are inconsistent with such a course of dealings. Ordinarily, market makers are expected to:

(1) Refrain from purchasing a call option or a put option at a price more than \$0.25 below parity, although a larger amount may be appropriate considering the particular market conditions. In the case of calls, parity is measured by the bid in the underlying security, and in the case of puts, parity is measured by the offer in the underlying security.

(2) The \$0.25 amount above may be increased, or the provisions of this Rule may be waived, by the Exchange on a series-by-series basis.

(b) *Appointment.* With respect to each options class to which a market maker is appointed under Rule 802, the market maker has a continuous obligation to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular options contract, or a temporary distortion of the price relationships between options contracts of the same class. Without limiting the foregoing, a market maker is expected to perform the following activities in the course of maintaining a fair and orderly market:

(1) To compete with other market makers to improve the market in all series of options classes to which the market maker is appointed.

(2) To make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange's System in all series of options classes to which the market maker is appointed.

(3) To update market quotations in response to changed market conditions in all series of options classes to which the market maker is appointed.

(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. Prior to the opening rotation, spread differentials shall be no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2, no more than \$.40 where the bid is at least \$2 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 where the bid is \$20 or greater, provided that the Exchange may establish differences other than the above for one or more options series.

(i) The bid/offer differentials stated in paragraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the quotation on the primary market of the underlying security.

(ii) The Exchange or its authorized agent may calculate bids and asks for various indices for the sole purpose of determining permissible bid/ask differentials on options on these indices. These values will be calculated by determining the weighted average of the bids and asks for the components of the corresponding index. These bids and asks will be disseminated by the Exchange at least every fifteen (15) seconds during the trading day solely for the purpose of determining the permissible bid/ask differential that market-makers may quote on an in-the-money option on the indices. For in-the-money series in index options where the calculated bid/ask differential is wider than the applicable differential set out in paragraph (b)(4) of this Rule, the bid/ask differential in the index options series may be as wide as the calculated bid/ask differential in the underlying index. The Exchange will not make a market in the basket of stock comprising the indices and is not guaranteeing the accuracy or the availability of the bid/ask values.

(c) *Primary Market Makers.* In addition to the obligations contained in this Rule for market makers generally, for options classes to which a market maker is the appointed Primary Market Maker, it shall have the responsibility to:

(1) Reserved.

(2) As soon as practical, address Public Customer Orders that are not automatically executed because there is a displayed bid or offer on another exchange trading the same options contract that is better than the best bid or offer on the Exchange, either (i) by executing the Public Customer Order at a price that at least matches the best price displayed or (ii) by sending ISO(s) as agent for the Public Customer Order to any other exchange(s) displaying a superior price and, with respect to any remaining portion of the Public Customer Order, either (a) releasing such remaining portion of the order for execution in the Exchange's auction market or (b) executing such remaining portion of the order at a price superior to the best price in the Exchange's auction market.

(3) Initiate trading in each series pursuant to Rule 701.

(d) *Classes of Options To Which Not Appointed.* With respect to classes of options to which a market maker is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (b) above with respect to those classes of options to which it is appointed. Market makers should not:

(1) Individually or as a group, intentionally or unintentionally, dominate the market in options contracts of a particular class, or

(2) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

Supplementary Material To Rule 803

.01 A Primary Market Maker must act with due diligence in handling orders of Public Customers and must accord priority to such orders addressed pursuant to paragraph (c) of this Rule over the Primary Market Maker's principal orders.

.02 Before the Primary Market Maker sends an Intermarket Sweep Order (as defined in Rule 1900(h)) to another exchange on behalf of a Public Customer Order to comply with Rule 714 and paragraph (c)(2)(ii) of this Rule, or a Non-Customer Order is rejected pursuant to Rule 714, the order shall be exposed at the current NBBO price to all Exchange Members for a time period established by the Exchange not to exceed one (1) second. During the exposure period, Exchange Members may enter responses up to the size of the order being exposed in the regular trading increment applicable to the option.

(a) If at the end of the exposure period, the order is executable at the then-current NBBO and the Exchange is not at the then-current NBBO, responses that equal or better the NBBO will be executed in price priority, and at the same price, allocated pro-rata based on size (i.e., the percentage of the total number of contracts available at the same price that is represented by the size of a Member's response).

(b) If during the exposure period, the order becomes executable on the Exchange at the prevailing NBBO, the exposure period is terminated, and the order is executed against orders and quotes on the book and responses received during the exposure period. Such interest will be executed in price priority. At the same price, Priority Customer Orders will be executed first in time priority and then all other interest (orders, quotes and responses) will be allocated pro-rata based on size.

(c) If during the exposure period the Exchange receives an unrelated order on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price, the exposure period will be terminated and the orders will be executed pursuant to (b) above.

(d) If after a Public Customer Order is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better (i) the Primary Market Maker will proceed to take action to comply with Rule 803(c)(2)(ii) if it is marketable against the then-current NBBO, or (ii) the balance of the order will be placed on the Exchange book if it is not marketable against the then-current NBBO.

(e) If after a Non-Customer Order is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better (i) the balance of the order will be placed on the ISE book if it is not marketable against the then-current NBBO, or (ii) the balance of the order will be rejected.

(f) A pattern or practice of submitting unrelated orders that cause an exposure period to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 400 and other Exchange Rules.

.03 Any Member that is approved to act in the capacity of a Primary Market Maker may voluntarily act as a "Back-Up Primary Market Maker" in options series in which it is quoting as a Competitive Market Maker.

(a) A Back-Up Primary Market Maker assumes all of the responsibilities and privileges of a Primary Market Maker under the Rules with respect to any series in which the appointed Primary Market Maker fails to have a quote in the System.

(b) If more than one Competitive Market Maker that has volunteered to be a Back-Up Primary Market Maker is quoting in an options series at the time that a Primary Market Maker ceases quoting, the Competitive Market Maker with the largest offer at the lowest price in the series at that time will be chosen to be the Back-Up Primary Market Maker. In the event of a tie based on price and size, the Competitive Market Maker with time priority will be automatically chosen.

(c) The Back-Up Primary Market Maker is automatically restored to Competitive Market Maker status when the appointed Primary Market Maker initiates quoting in the series, provided however that the Back-Up Primary Market Maker will continue to have responsibility for any outstanding unexecuted orders it is handling pursuant to Rule 803(c)(2) until such orders are executed.

.04 In addressing Public Customer Orders that are not automatically executed because there is a displayed bid or offer on another exchange trading the same options contract that is better than the best bid or offer on the Exchange pursuant to paragraph (c)(2) of this Rule, the Exchange will act in compliance with these Rules and with the provisions of the Exchange Act and the rules thereunder, including, but not limited to, the requirements in Section (6)(b)(4) and (5) of the Exchange Act that the rules of national securities

exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

.05 All orders entered on the Exchange and routed to another exchange via an ISO pursuant to paragraph (c)(2) of this Rule that result in an execution shall be binding on the member that entered such orders.

Rule 804. Market Maker Quotations

(a) *Options Classes.* A quotation only may be entered by a market maker, and only in the options classes to which the market maker is appointed under Rule 802.

(b) *Price and Size Associated with Quotes.* A market maker's bid and offer for a series of options contracts shall state a price accompanied by the number of contracts at that price the market maker is willing to buy or sell upon receipt of an order or upon interaction with a quotation entered by another market maker on the Exchange.

(1) *Price.* The price of market maker quotes shall be in the minimum trading increments applicable to the security under Rule 710; provided that, with respect to any security designated by the Exchange as available for non-displayed penny orders under Rule 715(b)(4), market maker quotes may be in one-cent increments. In such designated securities, quotes entered in one-cent increments will be firm as provided in paragraph (d) below, but shall only be displayed to market participants and the public at the minimum trading increment for the security. The displayed price of such quotes will be the closest minimum trading increment that is higher for offers and the closest minimum trading increment that is lower for bids.

(2) *Size.* Unless the Exchange has declared a fast market pursuant to Rule 704, the initial size of a market maker's opening quote must be for the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract.

(c) *Two-Sided Quotes.* A market maker that enters a bid (offer) on the Exchange must enter an offer (bid) within the spread allowable under Rule 803(b)(4).

(d) *Firm Quotes.* (1) Market maker bids and offers are firm for orders and Exchange market maker quotations both under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602 of Reg NMS") for the number of contracts specified according to the requirements of paragraph (b) above. Market maker bids and offers are not firm under this Rule and Rule 602 of Reg NMS if:

(i) a system malfunction or other circumstance impairs the Exchange's ability to disseminate or update market quotes in a timely and accurate manner;

(ii) the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange, and as a result, the market in the option is declared to be "fast" pursuant to Rule 704;

(iii) during trading rotations; or

(iv) any of the circumstances provided in paragraph (c)(3) of Rule 602 of Reg NMS exist.

(2) Notwithstanding paragraph (1) above, if a market maker's bid (offer) can trade with the offer (bid) of another market maker, the Exchange shall have the authority to implement a delay so that no execution shall occur between such quotations for a period of no more than one second. During such period, the System will update quotations that may be received; provided however, that during such period all quotations shall otherwise remain firm and the System shall automatically execute all incoming orders against such quotations.

(3) Within thirty seconds of receipt of an order to buy or sell an option in an amount greater than the order execution size, or within thirty seconds of another Exchange market maker entering a quotation at a price executable against the market maker's quotation, that portion of the order equal to the order execution size, or the quotation execution size, as the case may be, will be executed and the bid or offer price will be revised.

(e) *Continuous Quotes.* A market maker must enter continuous quotations for the options classes to which it is appointed pursuant to the following:

(1) **Primary Market Makers.** Primary Market Makers must enter continuous quotations and enter into any resulting transactions in all of the series listed on the Exchange of the options classes to which it is appointed on a daily basis.

(2) **Competitive Market Makers.** (i) On any given day, a Competitive Market Maker is not required to enter quotations in the options classes to which it is appointed.

(ii) A Competitive Market Maker may initiate quoting in options classes to which it is appointed intraday, up to the number of appointed options classes for which they participated in the opening rotation on that day.

(iii) Whenever a Competitive Market Maker enters a quote in an options class to which it is appointed, it must maintain continuous quotations for that series and at least 60% of the series of the options class listed on the Exchange until the close of trading that day; provided, however, that a Competitive Market Maker shall be required to maintain continuous quotations for that series and at least 90% of the series of any options class in which it receives Preferred Orders (see Supplementary Material .03 to Rule 713 regarding Preferred Orders).

(iv) A Competitive Market Maker may be called upon by an Exchange official designated by the Board to submit a single quote or maintain continuous quotes in one or more of the series of an options class to which the Competitive Market Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of fair and orderly markets.

(f) *Temporary Withdrawal of Quotations by Primary Market Makers.* A Primary Market Maker may apply to the Exchange to withdraw temporarily from its Primary Market Maker status in an options class. The Primary Market Maker must base its request on demonstrated legal or regulatory requirements that necessitate its temporary withdrawal, or provide the Exchange an opinion of counsel certifying that such legal or regulatory basis exists. The Exchange will act promptly on such a request, and, if the request is granted, the Exchange will temporarily reassign the options class to another Primary Market Maker.

(g) Automated Quotation Adjustments. A market maker may establish parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class if the market maker trades, in the aggregate across all series of an options class during a specified time period: (i) a specified number of contracts (established by the market maker), within a time frame specified by the market maker, (ii) a specified percentage of the total size of the market maker's quotes in the class, (iii) a specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the absolute value of the net between (a) calls purchased plus puts sold, and (b) calls sold plus puts purchased.

Supplementary Material To Rule 804

.01 Automated Quotation Adjustments. A market maker may establish parameters by which the Exchange will automatically remove a market maker's quotations in all series of an options class if the market maker trades, in the aggregate across all series of an options class during a specified time period: (i) a specified number of contracts (established by the market maker), within a time frame specified by the market maker, (ii) a specified percentage of the total size of the market maker's quotes in the class, (iii) a specified absolute value of the net between contracts bought and contracts sold in the class, or (iv) the absolute

value of the net between (a) calls purchased plus puts sold, and (b) calls sold plus puts purchased.

Rule 805. Market Maker Orders

(a) *Options Classes to Which Appointed.* Market makers may not place principal orders to buy or sell options in the options classes to which they are appointed under Rule 802, other than immediate-or-cancel orders, market orders, fill-or-kill orders, block-size orders executed through the Block Order Mechanism pursuant to Rule 716(c), and non-displayed penny orders (in securities designated by the Exchange pursuant to Rule 715(b)(4)). Competitive Market Makers shall comply with the provisions of Rule 804(e)(2)(iii) upon the entry of such orders if they were not previously quoting in the series.

(b) *Options Classes Other Than Those to Which Appointed.*

(1) A market maker may enter all order types permitted to be entered by non-customer participants under the Rules to buy or sell options in classes of options listed on the Exchange to which the market maker is not appointed under Rule 802, provided that:

(i) the spread between a limit order to buy and a limit order to sell the same options contract complies with the parameters contained in Rule 803(b)(4); and

(ii) the market maker does not enter orders in options classes to which it is otherwise appointed, either as a Competitive or Primary Market Maker.

(2) Competitive Market Makers. The total number of contracts executed during a quarter by a Competitive Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded by such Competitive Market Maker in classes to which it is appointed and with respect to which it was quoting pursuant to Rule 804(e)(2).

(3) Primary Market Makers. The total number of contracts executed during a quarter by a Primary Market Maker in options classes to which it is not appointed may not exceed ten percent (10%) of the total number of contracts traded per each Primary Market Maker Membership.

Rule 806. Trade Reporting and Comparison

The details of each trade executed on the Exchange are automatically reported at the time of execution. Members need not separately report their transactions for trade comparison purposes.

Rule 807. Securities Accounts and Orders of Market Makers

(a) *Identification of Accounts.* A Primary Market Maker in Exchange-Traded Fund Shares, as defined in Rule 502(h), is obligated to conduct all trading in Exchange-Traded Fund Shares in account(s) that have been reported to the Exchange. In addition, in a manner prescribed by the Exchange, each market maker shall file with the Exchange and keep current a list identifying all accounts for stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and related securities trading in which the market maker may, directly or indirectly, engage in trading activities or over which it exercises investment direction. No market maker shall engage in stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity or any other derivatives based on such currency or related securities trading in an account which has not been reported pursuant to this Rule.

(b) *Reports of Orders.* Each market maker shall, upon the request of the Exchange and in the prescribed form, report to the Exchange every order entered by the market maker for the purchase or sale of (i) a security underlying options traded on the Exchange, or (ii) a security convertible into or exchangeable for such underlying security, as well as opening and closing positions in all such securities held in each account reported pursuant to paragraph (a) of this Rule. The report pertaining to orders must include the terms of each order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times report of execution were received and, if all or part of the order was executed, the quantity and execution price.

(c) *Joint Accounts.* No market maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any options contract unless each participant in such joint account is a Member and unless such account is reported to and not disapproved by the Exchange. Such reports in a form prescribed by the Exchange shall be filed with the Exchange before any transaction is effected on the Exchange for such joint account. A participant in a joint account must:

- (1) Be either a market maker or a Clearing Member that carries the joint account.
- (2) File and keep current a completed application on such form as is prescribed by the Exchange.
- (3) Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.

(4) Not be a market maker appointed to the same options classes to which the joint account holder is also appointed as a market maker.

Rule 808. Letters of Guarantee

(a) *Required of Each Market Maker.* No market maker shall make any transactions on the Exchange unless a Letter of Guarantee has been issued for such Member by a Clearing Member and filed with the Exchange, and unless such Letter of Guarantee has not been revoked pursuant to paragraph (c) of this Rule.

(b) *Terms of Letter of Guarantee.* A Letter of Guarantee shall provide that the issuing Clearing Member accepts financial responsibilities for all Exchange transactions made by the guaranteed Member.

(c) *Revocation of Letter of Guarantee.* A Letter of Guarantee filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange. A revocation shall in no way relieve a Clearing Member of responsibility for transactions guaranteed prior to the effective date of such revocation.

Rule 809. Financial Requirements for Market Makers

(a) *Primary Market Makers.* Every Primary Market Maker shall maintain net liquidating equity of not less than \$3,250,000 plus \$25,000 excess equity for each underlying security upon which appointed options are open for trading in excess of the initial ten (10) underlying securities.

(b) *Competitive Market Makers.* Every Competitive Market Maker shall maintain net liquidating equity of not less than \$1,000,000.

(c) Each market maker that makes an arrangement to finance his transactions as a market maker must identify to the Exchange the source of the financing and its terms. The Exchange must be informed immediately of the intention of any party to terminate or change any such arrangement.

Supplemental Material to Rule 809

.01 For purposes of Rule 809, the term “net liquidating equity” means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

Rule 810. Limitations on Dealings

(a) *General Rule.* A market maker on the Exchange may engage in Other Business Activities, or it may be affiliated with a broker-dealer that engages in Other Business Activities, only if there is an Information Barrier between the market making activities and the Other Business Activities. “Other Business Activities” means:

(1) conducting an investment or banking or public securities business;

(2) making markets in the stocks underlying the options in which it makes markets; or

(3) handling listed options orders as agent on behalf of Public Customers or broker-dealers;

(4) conducting non-market making proprietary listed options trading activities.

(b) *Information Barrier*. For the purposes of this rule, an Information Barrier is an organizational structure in which:

(1) The market making functions are conducted in a physical location separate from the locations in which the Other Business Activities are conducted, in a manner that effectively impedes the free flow of communications between DTRs and persons conducting the Other Business Activities. However, upon request and not on his own initiative, a DTR performing the function of a market maker may furnish to a person performing the function of an Electronic Access Member or other persons at the same firm or an affiliated firm ("affiliated persons"), the same sort of market information that the DTR would make available in the normal course of its market making activity to any other person. The DTR must provide such information to affiliated persons in the same manner that he would make such information available to a non-affiliated person.

(2) There are procedures implemented to prevent the use of material non-public corporate or market information in the possession of persons on one side of the barrier from influencing the conduct of persons on the other side of the barrier. These procedures, at a minimum, must provide that:

(i) the DTR performing the function of a market maker does not take advantage of knowledge of pending transactions, order flow information, corporate information or recommendations arising from the Other Business Activities; and

(ii) all information pertaining to the market maker's positions and trading activities is kept confidential and not made available to persons on the other side of the Information Barrier.

(3) Persons on one side of the barrier may not exercise influence or control over persons on the other side of the barrier, provided that:

(i) the market making function and the Other Business Activities may be under common management as long as any general management oversight does not conflict with or compromise the market maker's responsibilities under the Rules of the Exchange; and

(ii) the same person or persons (the “Supervisor”) may be responsible for the supervision of the market making and Electronic Access Member functions of the same firm or affiliated firms in order to monitor the overall risk exposure of the firm or affiliated firms. While the Supervisor may establish general trading parameters with respect to both market making and other proprietary trading other than on an order-specific basis, the Supervisor may not:

(A) actually perform the function either of market maker or Electronic Access Member;

(B) provide to any person performing the function of an Electronic Access Member any information relating to market making activity beyond the information that a DTR performing the function of a Primary Market Maker may provide under paragraph (b)(1), above; nor

(C) provide a DTR performing the function of market maker with specific information regarding the firm’s pending transactions or order flow arising out of its Electronic Access Member activities.

(c) *Documenting and Reporting of Information Barrier Procedures.* A Member implementing an Information Barrier pursuant to this Rule shall submit to the Exchange a written statement setting forth:

(1) The manner in which it intends to satisfy the conditions in paragraph (b) of this Rule, and the compliance and audit procedures it proposes to implement to ensure that the Information Barrier is maintained;

(2) The names and titles of the person or persons responsible for maintenance and surveillance of the procedures;

(3) A commitment to provide the Exchange with such information and reports as the Exchange may request relating to its transactions;

(4) A commitment to take appropriate remedial action against any person violating this Rule or the Member’s internal compliance and audit procedures adopted pursuant to paragraph (c)(1) of this Rule, and that it recognizes that the Exchange may take appropriate remedial action, including (without limitation) reallocation of securities in which it serves as a market maker, in the event of such a violation;

(5) Whether the Member or an affiliate intends to clear its proprietary trades and, if so, the procedures established to ensure that information with respect to such clearing activities will not be used to compromise the Member’s Information Barrier, which procedures, at a minimum, must be the

same as those used by the Member or the affiliate to clear for unaffiliated third parties; and

(6) That it recognizes that any trading by a person while in possession of material, non-public information received as a result of the breach of the internal controls required under this Rule may be a violation of Rules 10b-5 and 14e-3 under the Exchange Act or one or more other provisions of the Exchange Act, the rules thereunder or the Rules of the Exchange, and that the Exchange intends to review carefully any such trading of which it becomes aware to determine whether a violation has occurred.

(d) *Exchange Approval of Information Barrier Procedures.* The written statement required by paragraph (c) of this Rule must detail the internal controls that the Member will implement to satisfy each of the conditions stated in that Rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If the Exchange determines that the organizational structure and the compliance and audit procedures proposed by the Member are acceptable under this Rule, the Exchange shall so inform the Member, in writing. Absent the Exchange finding a Member's Information Barrier procedures acceptable, a market maker may not conduct Other Business Activities.

(e) *Clearing Arrangements.* Paragraph (c)(5) permits a Member or an affiliate of the Member to clear the Member's market maker transactions if it establishes procedures to ensure that information with respect to such clearing activities will not be used to compromise the Information Barrier. In this regard:

(1) The procedures must provide that any information pertaining to market maker securities positions and trading activities, and information derived from any clearing and margin financing arrangements, may be made available only to those employees (other than employees actually performing clearing and margin functions) specifically authorized under this Rule to have access to such information or to other employees in senior management positions who are involved in exercising general managerial oversight with respect to the market making activity.

(2) Any margin financing arrangements must be sufficiently flexible so as not to limit the ability of any market maker to meet market making or other obligations under the Exchange's Rules.

(f) *Exceptions to the Information Barrier Requirement.*

(1) A market maker shall be exempt from paragraph (a)(3) of this Rule to the extent the market maker complies with the following conditions:

(A) such Member handles orders as agent only for the account of entities that are affiliated with the Member and solely in options classes to which the Member is not appointed as a market maker pursuant

to Rule 802 or in which the Member is prohibited from acting as a market maker pursuant to regulatory requirements; or

(B) such market maker handles orders as agent solely with respect to a Directed Order Program, as defined in Supplementary Material .01 below or

(C) a Primary Market Maker handles orders of Public Customers as agent solely to comply with the obligations under Rules 803(c)(2) and 1901 to address such orders when there is a better market on another exchange.

(2) A market maker shall be exempt from paragraph (a)(4) of this Rule to the extent the Member, or a broker-dealer with which such Member is affiliated:

(A) engages solely in proprietary trading and does not, under any circumstances, maintain customer accounts or solicit or accept orders or funds from or on behalf of Public Customers or broker-dealers; and

(B) does not participate in any Directed Order Programs, as defined in Supplementary Material .01 below, or utilize any other order types which call for the participation of, or interaction with, Public Customers or broker-dealers.

Supplemental Material to Rule 810

.01 For purposes of paragraph (f)(1)(B) and (f)(2)(B) of Rule 810 only, a Directed Order Program means rules of an options exchange that (1) permit an options market maker to handle orders directed to it anonymously through an exchange system; (2) require the market maker to accept directed orders from all sources eligible to direct orders using such exchange system; and (3) require the options market maker to execute such directed orders on such exchange under specified order handling procedures. A Directed Order Program shall not include any rules of an exchange that permit a market maker to accept orders directly, without being routed through an exchange system, from customers or another broker-dealer, nor any rules or system that allows a market maker to handle orders on a disclosed or discretionary basis.

Rule 811. Directed Orders

(a) Definitions.

(1) A "Directed Order" is an order routed from an Electronic Access Member to an Exchange market maker through the Exchange's System.

(2) A “Directed Market Maker” is a market maker that receives a Directed Order.

(3) The “NBBO” is defined in Rule 1900.

(b) Other than with respect to discharging their obligations pursuant to Rule 803(c)(2), Exchange market makers may only receive and handle orders on an agency basis if they are Directed Orders and only in the manner prescribed in this Rule 811. A market maker can elect whether or not to accept Directed Orders on a daily basis. If a market maker elects to be a Directed Market Maker, it must accept Directed Orders from all Electronic Access Members and cannot reject a Directed Order. The identity of the Electronic Access Member that entered the Directed Order will be made available to the Directed Market Maker.

(c) Obligations of Directed Market Makers.

(1) Directed Market Makers must hold the interests of orders entrusted to them above their own interests and fulfill in a professional manner all other duties of an agent, including, but not limited to, ensuring that each such order, regardless of its size or source, receives proper representation and timely, best possible execution in accordance with the terms of the order and the rules and policies of the Exchange.

(2) Directed Market Makers must ensure that their acceptance and execution of Directed Orders as agent are in compliance with applicable Federal and Exchange rules and policies.

(3) Within one (1) second of receipt of a Directed Order, Directed Market Makers must either enter the Directed Order into the PIM pursuant to Rule 723 or release the Directed Order to the Exchange’s limit order book pursuant to paragraph (e) of this Rule.

(i) If the Directed Market Maker is quoting at the NBBO on the opposite side of the Directed Order, the Directed Market Maker is prohibited from adjusting the price of its quote to a price that is less favorable than the price available at the NBBO or reducing the size of its quote prior to submitting the Directed Order to the PIM, unless such quote change is the result of an automated quotation system that operates independently from the existence or non-existence of a pending Directed Order. Otherwise changing a quote on the opposite side of the Directed Order except as specifically permitted herein will be a violation of Rule 400 (Just and Equitable Principles of Trade).

(ii) If a Directed Market Maker fails to either enter a Directed Order into the PIM or release the order within one (1) second of its receipt,

the Directed Order will be automatically released by the System and processed according to paragraph (e) of this Rule.

(d) Directed Market Maker Guarantee. If the Directed Market Maker is quoting at the NBBO on the opposite side of the market from a Directed Order at the time the Directed Order is received by the Directed Market Maker, and the Directed Order is marketable, the System will automatically guarantee execution of the Directed Order against the Directed Market Maker at the price and the size of its quote (the "Guarantee"). The Directed Market Maker cannot alter the Guarantee.

(e) Except as provided in this paragraph (e), when a Directed Order is released, the System processes the order in the same manner as any other order received by the Exchange. Directed Orders will not be automatically executed at a price that is inferior to the NBBO and, except as provided in paragraph (e)(3), will be handled pursuant to Rule 803(c)(2) when the Exchange best bid or offer is inferior to the NBBO.

(1) A marketable Directed Order that is released, or entered into the PIM pursuant to Supplemental Material .08 to Rule 723, will be matched against orders and quotes according to Rule 713 except that, at any given price level, the Directed Market Maker will be last in priority.

(i) If, after all other interest at the NBBO is executed in full, there is any remaining unexecuted quantity of the Directed Order and the Directed Market Maker is quoting at the NBBO or a Guarantee exists, a broadcast message will be sent to all Members. After one (1) second, any additional interest at the same or better price will be executed according to Rule 713.

(ii) If there continues to be any remaining unexecuted quantity of the Directed Order, it will be executed against any interest at the same price from the Directed Market Maker. If a Guarantee exists at that price, an execution will occur for at least the size of the Guarantee.

(iii) If there continues to be any remaining unexecuted quantity of the Directed Order and the Directed Order is marketable at the next price level without trading through the NBBO, the Directed Order will be allocated according to Rule 713 except that the Directed Market Maker will be last in priority. If an execution at any given price level would cause the Directed Order to be executed at a price inferior to the NBBO, the order will be presented to the PMM for handling according to Rule 803(c)(2).

(iv) Paragraph (e)(1)(iii) will be repeated until the Directed Order is (A) fully executed, (B) presented to the Primary Market Maker for

handling according to Rule 803(c)(2), or (C) no longer marketable, in which case it will be placed on the limit order book.

(2) If a Directed Order is not marketable at the time it is released:

(i) If a Guarantee exists, a broadcast message will be sent to all Members. After one (1) second, the Directed Order will be executed against any contra interest at the Guarantee price or better according to Rule 713. Thereafter, the Directed Order will be executed against the Directed Market Maker for at least the size of the Guarantee. If there is any remaining unexecuted quantity of the Directed Order, it will be placed on the Exchange's limit order book.

(ii) If no Guarantee exists, the Directed Order will be placed on the Exchange's limit order book. In this case, the Directed Market Maker may not enter a proprietary order to execute against the Directed Order during the one (1) second following the release of the Directed Order.

(3) If, at the time a Directed Order is released by the Directed Market Maker, the Directed Order is marketable but the Exchange best bid or offer is inferior to the NBBO, and the Directed Market Maker is the Primary Market Maker in the option class for the Directed Order, then a broadcast message shall be sent to all Members displaying the Directed Order. After one (1) second, the Directed Order will be executed against any contra interest at the NBBO price or better according to Rule 713, except that the Directed Market Maker will be last in priority. Thereafter, if there is any remaining unexecuted quantity of the Directed Order, it will be presented to the Primary Market Maker for handling according to Rule 803(c)(2).

CHAPTER 9

[Reserved]

CHAPTER 10

Closing Transactions

The rules contained in ISE Chapter 10, as such rules may be in effect from time to time (the “Chapter 10 Rules”), are hereby incorporated by reference into this Topaz Chapter 10, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 10 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 10 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 10 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 10 Rules shall be read to refer to the Topaz Rule; the defined term “Clearing Member” in the Chapter 10 Rules shall be read to refer to the Topaz Clearing Member; and the defined term “Member” in the Chapter 10 Rules shall be read to refer to the Topaz Member.

CHAPTER 11

Exercises and Deliveries

The rules contained in ISE Chapter 11, as such rules may be in effect from time to time (the “Chapter 11 Rules”), are hereby incorporated by reference into this Topaz Chapter 11, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 11 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 11 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 11 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 11 Rules shall be read to refer to the Topaz Rule; the defined term “Clearing Member” in the Chapter 11 Rules shall be read to refer to the Topaz Clearing Member; and the defined term “Member” in the Chapter 11 Rules shall be read to refer to the Topaz Member.

CHAPTER 12

Margins

The rules contained in ISE Chapter 12, as such rules may be in effect from time to time (the “Chapter 12 Rules”), are hereby incorporated by reference into this Topaz Chapter 12, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 12 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 12 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 12 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 12 Rules shall be read to refer to the Topaz Rule; and the defined term “Member” in the Chapter 12 Rules shall be read to refer to the Topaz Member.

CHAPTER 13

Net Capital Requirements

The rules contained in ISE Chapter 13, as such rules may be in effect from time to time (the “Chapter 13 Rules”), are hereby incorporated by reference into this Topaz Chapter 13, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 13 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 13 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 13 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 13 Rules shall be read to refer to the Topaz Rule; the defined term “President” in the Chapter 13 Rules shall be read to refer to the Topaz President; and the defined term “Member” in the Chapter 13 Rules shall be read to refer to the Topaz Member.

CHAPTER 14

Records, Reports and Audits

The rules contained in ISE Chapter 14, as such rules may be in effect from time to time (the “Chapter 14 Rules”), are hereby incorporated by reference into this Topaz Chapter 14, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 14 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 14 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 14 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 14 Rules shall be read to refer to the Topaz Rule; the defined term “Market Maker” in the Chapter 14 Rules shall be read to refer to the Topaz Market Maker; and the defined term “Member” in the Chapter 14 Rules shall be read to refer to the Topaz Member.

CHAPTER 15

Summary Suspension

The rules contained in ISE Chapter 15, as such rules may be in effect from time to time (the “Chapter 15 Rules”), are hereby incorporated by reference into this Topaz Chapter 15, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 15 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 15 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 15 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 15 Rules shall be read to refer to the Topaz Rule; the defined term “Board” in the Chapter 15 Rules shall be read to refer to the Topaz Board; and the defined term “Member” in the Chapter 15 Rules shall be read to refer to the Topaz Member. For the avoidance of doubt, the reference to “leases” in Rule 1503 shall not apply to Topaz, since Topaz memberships can’t be leased.

CHAPTER 16

Discipline

The rules contained in ISE Chapter 16, as such rules may be in effect from time to time (the “Chapter 16 Rules”), are hereby incorporated by reference into this Topaz Chapter 16, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 16 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 16 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 16 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 16 Rules shall be read to refer to the Topaz Rule; the defined term “Affiliate” in the Chapter 16 Rules shall be read to refer to the Topaz Affiliate; and the defined term “Member” in the Chapter 16 Rules shall be read to refer to the Topaz Member. In addition, for the avoidance of doubt, the contract with FINRA that is referred to in Rule 1615 also covers Topaz.

CHAPTER 17

Hearings and Review

The rules contained in ISE Chapter 17, as such rules may be in effect from time to time (the “Chapter 17 Rules”), are hereby incorporated by reference into this Topaz Chapter 17, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 17 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 17 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 17 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 17 Rules shall be read to refer to the Topaz Rule; the defined term “Business Conduct Committee” in the Chapter 17 Rules shall be read to refer to the Topaz Business Conduct Committee; and the defined term “Member” in the Chapter 17 Rules shall be read to refer to the Topaz Member.

CHAPTER 18

Arbitration

The rules contained in ISE Chapter 18, as such rules may be in effect from time to time (the “Chapter 18 Rules”), are hereby incorporated by reference into this Topaz Chapter 18, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 18 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 18 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 18 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 18 Rules shall be read to refer to the Topaz Rule; and the defined term “Member” in the Chapter 18 Rules shall be read to refer to the Topaz Member.

CHAPTER 19

Intermarket Linkage

The rules contained in ISE Chapter 19, as such rules may be in effect from time to time (the “Chapter 19 Rules”), are hereby incorporated by reference into this Topaz Chapter 19, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 19 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 19 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 19 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 19 Rules shall be read to refer to the Topaz Rule; the defined term “Bid” in the Chapter 19 Rules shall be read to refer to the Topaz Bid; and the defined term “Member” in the Chapter 19 Rules shall be read to refer to the Topaz Member.

CHAPTER 20

Index Rules

The rules contained in ISE Chapter 20, as such rules may be in effect from time to time (the “Chapter 20 Rules”), are hereby incorporated by reference into this Topaz Chapter 20, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 20 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 20 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 20 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 20 Rules shall be read to refer to the Topaz Rule; the defined term “Exchange Official” in the Chapter 20 Rules shall be read to refer to the Topaz Exchange Official; and the defined term “Member” in the Chapter 20 Rules shall be read to refer to the Topaz Member.

CHAPTER 21

[Reserved]

CHAPTER 22

Rate-Modified Foreign Currency Options Rules

The rules contained in ISE Chapter 22, as such rules may be in effect from time to time (the “Chapter 22 Rules”), are hereby incorporated by reference into this Topaz Chapter 22, and are thus Topaz Rules and thereby applicable to Topaz Members. Topaz Members shall comply with the Chapter 22 Rules as though such rules were fully-set forth herein. All defined terms, including any variations thereof, contained in the Chapter 22 Rules shall be read to refer to the Topaz-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined term “Exchange” in the Chapter 22 Rules shall be read to refer to the Topaz Exchange; the defined term “Rule” in the Chapter 22 Rules shall be read to refer to the Topaz Rule; and the defined term “Member” in the Chapter 22 Rules shall be read to refer to the Topaz Member.