Martha Redding
Associate General Counsel
Assistant Secretary

New York Stock Exchange
11 Wall Street
New York, NY 10005
T + 1 [redacted]
F + 1 [redacted]

September 28, 2016

<u>VIA E-MAIL</u>

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: <u>Securities Exchange Act 34-78348 (SR-NYSEMKT-2016-48)</u>

Dear Mr. Fields:

NYSE MKT, LLC. filed the attached Partial Amendment No. 2 to the above-referenced filing on September 27, 2016.

Sincerely,

Encl. (Partial Amendment No. 2 to SR-NYSEMKT-2016-48)

OMB APPROVAL
OMB Number: 3235-0045 Estimated average burden hours per response............38

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 19b-4

File No.* SR - 2016 - * 48
Amendment No. (req. for Amendments *) 2

Filing by NYSE MKT LLC.

Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial *	Amendment *	Withdrawal	Section 19(b)(2) *	Section 19(b)(3)(A) *	Section 19(b)(3)(B) *
☐	☑	☐	☑	☐	☐

Pilot	Extension of Time Period for Commission Action *	Date Expires *
☐	☐	

Rule

☐ 19b-4(f)(1) ☐ 19b-4(f)(4)
☐ 19b-4(f)(2) ☐ 19b-4(f)(5)
☐ 19b-4(f)(3) ☐ 19b-4(f)(6)

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010

Section 806(e)(1) ☐ Section 806(e)(2) ☐

Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934

Section 3C(b)(2) ☐

Exhibit 2 Sent As Paper Document ☐ Exhibit 3 Sent As Paper Document ☐

Description

Provide a brief description of the action (limit 250 characters, required when Initial is checked *).

Proposal to amend certain rules related to Flexible Exchange Options

Contact Information

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Kathleen Last Name * Murphy
Title * Counsel NYSE Group Inc
E-mail * [redacted]
Telephone * [redacted] Fax [redacted]

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

Date 09/27/2016
By David De Gregorio
(Name *)

(Title *)
Senior Counsel

NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

David DeGregorio,

Required fields are shown with yellow backgrounds and asterisks.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information * Add Remove View	The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.
Exhibit 1 - Notice of Proposed Rule Change * Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies Add Remove View	The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO] -xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)
Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications Add Remove View Exhibit Sent As Paper Document ☐	Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.
Exhibit 3 - Form, Report, or Questionnaire Add Remove View Exhibit Sent As Paper Document ☐	Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.
Exhibit 4 - Marked Copies Add Remove View	The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.
Exhibit 5 - Proposed Rule Text Add Remove View	The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.
Partial Amendment Add Remove View	If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

SR-NYSEMKT-2016-48, Partial Amendment No. 2

NYSE MKT, LLC (the "Exchange") hereby submits this Partial Amendment No. 2, which supersedes and replaces Amendment No. 1, of the above-referenced filing (the "Filing") in connection with the proposed modifications to rules regarding Flexible ("FLEX") Options. The Exchange proposes the following amendments to the Filing:

1. **Insert the underlined text before the last sentence of the first paragraph under the heading "FLEX Options for Binary Return Derivatives contracts ('ByRDs')" on page 4 of the Filing (including adding the underlined text to footnote 4) and pages 20-21 of the Exhibit 1 (including adding the underlined text to footnote 5) and delete the bracketed text on page 4, in footnote 7, of the Filing and on page 21, in footnote 8, of the Exhibit 1:**

   The Exchange proposes to modify its rules to enable market participants to trade customized – or FLEX – options contracts in ByRDs.[4/5] Specifically, the Exchange proposes to add a new definition of "FLEX ByRDs," which would be a "Binary Return Derivatives contract on any ByRDs-eligible underlying security that is subject to the rules in this Section."[5/6] The Exchange also proposes to revise Rule 900G(b)(16) to include FLEX ByRDs in the definition of "Series of FLEX Options."[6/7] <u>Because FLEX ByRDs would have to be settled in cash, based on the Volume-Weighted Average Price (or VWAP) of the underlying security, market participants could not modify these terms. However, market participants may trade FLEX ByRDs with non-standard strike prices and/or non-standard expiration dates. Regarding position limits, the Exchange proposes to add paragraph (b)(ii) to Rule 906G to provide that positions in FLEX ByRDs shall be the same as Non-FLEX ByRDs, as set forth in Rule 904ByRDs(a), except that positions in FLEX ByRDs shall be aggregated with positions in Non-FLEX ByRDs on the same or similar underlying for the purpose of calculating position limits. The Exchange also proposes to include in proposed Rule 906G(b)(ii) that "[f]or purposes of the position limits established under this Rule, long positions in 'Finish Low' and short positions in 'Finish High' Binary Return Derivatives shall be considered to be on the same side of the market; and short positions in 'Finish Low' and long positions in 'Finish High' Binary Return Derivatives shall be considered to be on the same side of the market." Consistent with these changes, the Exchange also proposes to define Non-FLEX ByRDs as "a Non-FLEX Option that is a Binary Return Derivatives contract," in new paragraph (b)(22) to Rule 900G.</u> The Exchange believes that FLEX ByRDs would enable market participants to negotiate terms that differ from standardized ByRDs, which would, in turn, provide greater opportunities for investors to manage risk through the use of FLEX Options.[7/8]

* * * * *

[4/5] ByRDs are European-style option contracts on individual stocks, exchange-traded funds ("ETFs") and Section 107 Securities that have a fixed return in cash based on a set strike price; satisfy specified listing criteria; and may only be exercised at expiration pursuant to the Rules of the Options Clearing Corporation (the "OCC"). See Rules 900ByRDs(b), 915ByRDs.

[5/6] See proposed Rule 900G(b)(17).

[6/7] See proposed Rule 900G(b)(16) (proposing to add that a "Series of FLEX Options" would include, in the case of FLEX ByRDs, all such option contracts of the same class having the same expiration date, strike price, and exercise settlement amount).

[7/8] The Exchange also proposes to modify Rule 903G(c)(3)(ii[i]) to provide that FLEX ByRDs must be settled the same as non-FLEX ByRDs. See proposed Rule 903G(c)(3)(ii[i]) (discussed herein under "Additional Updates to Reflect Trading in FLEX Options"); see also Rule 910ByRDs (Determination of the Settlement Price of ByRDs). As ByRDs are settled based on the Volume-Weighted Average Price of the underlying security (see id.), the Exchange proposes to add new paragraphs (b)(20) of Rule 900G and (c)(5) of Rule 903G to permit parties to a FLEX Option to designate a VWAP Settlement (discussed below under "Additional Settlement Styles for FLEX Options: Asian, Cliquet and VWAP Style").

* * * * *

2. Insert the underlined text in the first and second paragraphs under the heading "Additional Settlement Styles for FLEX Options: Asian, Cliquet and VWAP Style" on page 5 of the Filing and on page 21-22 of the Exhibit 1:

In addition, the Exchange proposes to permit parties to designate additional settlement styles for FLEX Options.[8/9] Specifically, the Exchange proposes to permit parties to FLEX Index Options on broad stock index groups to designate Asian style settlement and Cliquet style settlement, both of which are currently offered on another options exchange.[9/10]

As proposed in new paragraph (b)(4) of Rule 903G and new paragraph (b)(18) of Rule 900G, FLEX Index Options on broad stock index groups with Asian style settlement would be cash-settled call[10/11] option contracts for which the final payout would be based on an arithmetic average of specified closing prices of an underlying [broad-based index]broad stock index group taken on twelve predetermined monthly observation dates, including the expiration date ("Asian option").

* * * * *

[8/9] Unless otherwise specified herein, the proposed settlement styles would be subject to the same rules as FLEX Options, including for hours of trading and margin requirements.

[9/10] See e.g., Chicago Board Options Exchange, Inc. ("CBOE") Rules 24A.1 (Definitions), 24A.4 (Terms of FLEX Options), 24B.1 (Definitions) and 24B.4

(Terms of FLEX Options). FLEX ByRDs could not be settled using Asian or Cliquet settlement. See, e.g., supra n. 7/8.

[10/11] Puts would not be permitted.

* * * * *

3. **Insert the underlined text in the first sentence of the second full paragraph on page 6 of the Filing, and in the first sentence of the first paragraph on page 24 of the Exhibit 1:**

   As proposed in new paragraph (b)(5) of Rule 903G and new paragraph (b)(19) of Rule 900G, FLEX Index Options on broad stock index groups with Cliquet style settlement would be cash-settled call option contracts for which the final payout would be based on the sum of monthly returns (i.e., percent changes in the closing value of the underlying [broad-based index]broad stock index group from one month to the next), subject to a monthly return “cap” (e.g., 3%) , applied over twelve monthly observation dates (“Cliquet option”).

* * * * *

4. **Insert the underlined text in the last paragraph on pages 9-10 of the Filing and pages 28-29 of the Exhibit 1, and delete the bracketed text on page 10, in footnote 14, of the Filing and on page 29, footnote 15, of the Exhibit 1:**

   Finally, the Exchange proposes to permit parties to a FLEX Equity Option or a FLEX ByRD to designate a “VWAP Settlement,” wherein the settlement value of a FLEX Option would be determined by the Volume-Weighted Average Price (or VWAP) of the underlying on the expiration day of the contract. Specifically, as proposed in new paragraphs (b)(20) of Rule 900G and (c)(5) of Rule 903G,parties to FLEX Equity Options may designate VWAP settlement with call or put options and the settlement price would be calculated as the amount in which the VWAP of all reported transactions in the underlying security (rounded to $0.01) on the expiration date exceed the agreed upon “exercise (strike) price” of the option. Because the settlement value is not determined until the date of expiration, FLEX Equity Options with a VWAP Settlement have European-style exercise. The Exchange notes that VWAP transactions are becoming increasingly popular in the equities (and options) markets as a means to reduce risks associated with the timing of entering an order during a volatile period, especially with orders for large positions that would disrupt trading if exposed all at once.[13/14] A VWAP Settlement may also reduce or offset risk at expiration because of volatility on the expiration day. The Exchange believes that by using a VWAP a trader may “smooth” the average price paid or realized for a large position. Thus, as proposed, VWAP Settlement for FLEX Equity Options would provide market participants with a method to offset risk for a large position, regardless of whether the position in the underlying security was established using a VWAP methodology.[14/15]

* * * * *

[13/14] The Exchange notes that the settlement price of ByRDs are based on the VWAP, which for a given underlying security means the sum of the dollar value of trades reported to the Consolidated Tape (price multiplied by number of shares traded) divided by the total number of shares traded during the entire last day of trading on the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day prior to expiration. See Rule 910ByRDs (Determination of the Settlement Price of ByRDs).

[14/15] While VWAP Settlement would be available for FLEX Equity Options, as noted herein, FLEX ByRDs would be required to be settled using VWAP Settlement. See, e.g., supra n. 7/8 and proposed Rule 903G(c)(3)(ii)[(iii)].

5. **Delete the bracketed text and insert the underlined text in the last paragraph on pages 14-15 of the Filing (including deleting the bracketed text and adding the underlined text to footnote 34) and the second paragraph on page 36 of the Exhibit 1 (including deleting the bracketed text and adding the underlined text to footnote 35):**

   The Exchange is proposing to modify Rule 903G(c)(3) to address exercise settlement of FLEX Options that are FLEX ByRDs[cash-settled], as the current rule only addresses exercise settlement by physical delivery.[33/34] Specifically, the Exchange proposes to designate the current description of exercise settlement by physical delivery as paragraph (3)(i) and to make clear this provisions applies solely to FLEX Equity Options other than FLEX ByRDs.[add a description of cash-settlement in paragraph (3)(ii). Finally, t]The Exchange also proposes paragraph (3)(ii[i]) to state that exercise settlement and style of FLEX ByRDs would be the same as N[n]on-FLEX ByRDs, pursuant to the VWAP settlement provision set forth in Rule 910ByRDs and pursuant to the European exercise style set forth in Rule 900ByRDs(b)(1).[34/35]

* * * * *

[33/34] Rule 903G(c)(3) currently provides that "[e]xercise settlement shall be by physical delivery of the underlying security."

[34/35] See proposed Rule 903G(c)(3)(i)-(ii)[(iii)].

* * * * *

Additionally, the Exchange requests the Commission to find good cause to grant accelerated approval of NYSEMKT-2016-48, as amended, pursuant to Section 19(b)(2) of the Act. Accelerated approval would allow the Exchange to implement, without delay, the proposed modifications at the same time that the Filing goes into effect, which would provide additional clarity and reduce any potential ambiguity in the Exchange's rule regarding FLEX Options.

EXHIBIT 4

Text of the Proposed Rule Change:[1]

NYSE MKT RULES

* * * * *

TRADING OF OPTION CONTRACTS

* * * * *

Section 15. Flexible Exchange (“FLEX”) Options

Rule 900G. Applicability and Definitions

* * * * *

(b) Definitions. The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified.

* * * * *

(18) The term "Asian style settlement" is a settlement style that may be designated for FLEX Index Options ***on broad stock index groups*** and results in the contract settling to an exercise settlement value that is based on an arithmetic average of the specified closing prices of an underlying ~~broad-based index~~ ***broad stock index group*** taken on 12 predetermined monthly observation dates (including on the expiration date). FLEX Index Options ***on broad stock index groups*** with Asian style settlement have "preceding business day convention," meaning that if a monthly observation date falls on a non NYSE MKT business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day. FLEX Index Options ***on broad stock index groups*** with Asian style settlement have European-style exercise.

(19) The term "Cliquet style settlement" is a settlement style that may be designated for FLEX Index Options ***on broad stock index groups*** and results in the contract settling to an exercise settlement value that is equal to the greater of $0 or the sum of capped monthly returns (i.e., percent changes in the closing value of the underlying ~~broad-based index~~ ***broad stock index group*** from one month to the next month) applied over 12 predetermined monthly observation dates (including on the expiration date). FLEX Index

[1] For changes made pursuant to the original filing, new text is underscored and deleted text is in brackets; for changes made pursuant to the first partial amendment, new text is italicized in bold and deleted text is struck-through.

Options ***on broad stock index groups*** with Cliquet style settlement have "preceding business day convention," meaning that if a monthly observation date falls on a non NYSE MKT business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day. FLEX Index Options ***on broad stock index groups*** with Cliquet style settlement have European-style exercise.

(20) The term "VWAP Settlement" is a settlement style that may be designated for FLEX ***Equity*** Options in which the contract settles to the Volume-Weighted Average Price on the exercise date. FLEX Options with a VWAP Settlement have European-style exercise.

* * * * *

(22) The term "Non-FLEX ByRDs" means a Non-FLEX Option that is a Binary Return Derivatives contract.

* * * * *

Rule 903G. Terms of FLEX Options

* * * * *

(b) Special Terms for FLEX Index Options

* * * * *

(4) Asian style settlement. The parties to FLEX Index Options ***on broad stock index groups*** may designate Asian style settlement. FLEX Index Options ***on broad stock index groups*** with Asian style settlement shall be call options (no puts) and designated by: (i) the duration of the contract which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the strike price; (iii) the expiration date, which must be a NYSE MKT business day; and (iv) a set of monthly observation dates.

(5) Cliquet style settlement. The parties to FLEX Index Options ***on broad stock index groups*** may designate Cliquet style settlement. FLEX Index Options ***on broad stock index groups*** with Cliquet style settlement shall be call options (no puts) and be designated by: (i) the duration of the contract which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the capped monthly return that must be expressed in dollars and cents and in increments not less than $0.05 and must be a value between $0.05 and $25.95; (iii) the expiration date, which must be a NYSE MKT business day; and (iv) a set of monthly observation dates. The

capped monthly return will serve as the "exercise (strike) price" for a FLEX Index Option ***on broad stock index groups*** with Cliquet style settlement.

(c) Special Terms for FLEX Equity Options

* * * * *

(3) Exercise settlement shall be ~~by~~:

(i) ***for FLEX Equity Options other than FLEX ByRDs, by*** physical delivery of the underlying security; ***and***

~~(ii)delivery in cash of the difference of the closing value of the underlying security or Exchange Traded Fund Shares and the exercise price; or~~

(ii~~i~~) ~~in the case of~~ ***for*** FLEX ByRDs, ***in*** the same ***manner and style*** as ***N***~~n~~on-FLEX ByRDs, pursuant to ***the VWAP settlement provision contained in*** Rule 910ByRDs ***and pursuant to the European exercise style, per Rule 900ByRDs(b)(1)***.

(4) FLEX Equity Options shall be subject to the exercise by exception provisions of Rule 805 of the Options Clearing Corporation [Rule 805].

(5) VWAP settlement. The parties to a FLEX ***Equity*** Option may designate VWAP settlement with call or put options and the settlement price will be calculated as the amount in which the Volume-weighted Average Price of all reported transactions in the underlying security (rounded to $0.01) on the expiration date exceed the agreed up on “exercise (strike) price” of the option.

* * * * *

Rule 906G. Position Limits

* * * * *

(b) FLEX Equity Options. Except as provided in (i***) and (ii)*** below, there shall be no position limits for FLEX Equity options. However, each member or member organization (other than a Specialist or [Registered Options Trader]Floor Market Maker) that maintains a position on the same side of the market in excess of the level established pursuant to Rule 904 for Non-FLEX Equity options of the same class on behalf of its own account or for the account of a customer shall report information on the FLEX Equity option position, positions in any related instrument, the purpose or strategy for the position and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX Equity option position in excess of three times the level established for Non-FLEX Equity option of the same class, the Exchange may impose such higher margin requirement and/or may assess capital charges upon the member organization carrying the account to the extent of any margin deficiency resulting from the higher margin requirement.

(i) As long as the options positions remain open, positions in FLEX Options that expire on a third Friday-of-the-month expiration day shall be aggregated with positions in Non-FLEX Options on the same underlying ("comparable Non-FLEX Options") and shall be subject to the position limits set forth in Rule 904, and the exercise limits set forth in Rule 905.

(ii) Position limits for FLEX ByRDs shall be the same as Non-FLEX ByRDs, as set forth in Rule 904ByRDs(a), except that positions in FLEX ByRDs shall be aggregated with positions in Non-FLEX ByRDs on the same or similar underlying ("comparable Non-FLEX ByRDs") for the purpose of calculating position limits. For purposes of the position limits established under this Rule, long positions in "Finish Low" and short positions in "Finish High" Binary Return Derivatives shall be considered to be on the same side of the market; and short positions in "Finish Low" and long positions in "Finish High" Binary Return Derivatives shall be considered to be on the same side of the market.

* * * * *

EXHIBIT 5

Additions underlined
Deletions [bracketed]

NYSE MKT RULES

* * * * *

TRADING OF OPTION CONTRACTS

* * * * *

Section 15. Flexible Exchange (“FLEX”) Options

Rule 900G. Applicability and Definitions

(a) Applicability. The Rules in this Section are applicable only to Flexible Exchange Options. Except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the rules and policies of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Flexible Exchange Options are included within the definition of "security" or "securities" as such terms are used in [t]the Rules of the Exchange.

(b) Definitions. The following terms as used in the Rules shall, unless the context otherwise indicates, have the meanings herein specified.

(1) Flexible Exchange Option—the term "Flexible Exchange Option" or "FLEX Option" means a customized options contract that is subject to the rules in this Section.

(2) Submitting Member—the term "Submitting Member" means an Exchange member (who is deemed eligible by the Exchange to trade FLEX Options) that initiates FLEX Option bidding and offering by submitting a FLEX Request for Quotes.

(3) Request for Quotes—the term "Request for Quotes" means the initial request supplied by a Submitting Member to initiate FLEX bidding and offering.

(4) FLEX Quote—the term "FLEX Quote" means (i) FLEX bids and offers entered by Specialists and [Registered Options Traders]Floor Market Makers and (ii) orders to purchase and orders to sell FLEX Options entered by Floor Brokers, in each case in response to a Request for Quotes.

(5) Request Response Time—the term "Request Response Time" means the minimum period of time established by the Exchange, during which Exchange members participating in FLEX Options may provide FLEX Quotes in response to a Request for Quotes.

(6) BBO—the term "BBO" means the best bid or offer, or both, as applicable, entered in response to a Request for Quotes.

(7) BBO Improvement Interval—the term "BBO Improvement Interval" means the minimum period of time, to be established by the Exchange, during which members may submit FLEX Quotes to meet or improve the BBO established during the Request Response Time.

(8) Cap Interval—the term "Cap Interval" for purposes of this Section means the value specified by the Submitting Member in a Request for Quotes that is to be added to the exercise price for a European-capped FLEX Option (in the case of a call) or subtracted from the exercise price for a capped FLEX Option (in the case of a put) in setting the cap price as defined in Rule 900C(b) 25.

(9) Underlying Equivalent Value—the term "Underlying Equivalent Value" means the aggregate underlying monetary value of a FLEX Index Option derived by multiplying the index multiplier by the current index value times the given number of FLEX contracts.

(10) FLEX Equity Option—the term "FLEX Equity Option" means an option on a specified underlying equity security that is subject to the rules in this Section.

(11) FLEX Index Option—the term "FLEX Index Option" means an index option subject to the rules in this Section.

(12) Index Multiplier—the term "Index Multiplier" means the monetary amount, stated in terms of the settlement currency specified in the contract, by which the current index settlement value is to be multiplied to arrive at the value required to be delivered to the holder of a call or the holder of a put upon valid exercise of the option. The Exchange has established the following Index Multipliers for FLEX Index Options on domestic indices: U.S. Dollars - $100; Canadian Dollars - $100; Japanese Yen Y10,000; [Deutsche Mark - 200DM;] British Pounds – 100[[]pound<u>s</u>[]]; Swiss Francs - 200SF; [French Francs - 500F;] and European Currency Units - 100 ECU.

(13) Non-FLEX Option—the term "Non-FLEX Option" means an option contract that is not a FLEX Option.

(14) Non-FLEX Equity Option—the term "Non-FLEX Equity Option" means a Non-FLEX Option that is an option on a specified underlying equity security.

(15) Non-FLEX Index Option—the term "Non-FLEX Index Option" means a Non-FLEX Option that is an index option.

(16) Series of FLEX Options—the term "Series of FLEX Options" means, in the case of FLEX Index Options, all such option contracts of the same class having the same exercise price, exercise style, exercise settlement value, expiration date, and index multiplier, and denominated in the same settlement currency[, and,]<u>;</u> in the case of FLEX

Equity Options, all such option contracts of the same class having the same exercise price, exercise style and expiration date; and, in the case of FLEX ByRDs, all such option contracts of the same class having the same expiration date, strike price, and exercise settlement amount.

(17) The term “FLEX ByRDs” means a Binary Return Derivatives contract on any ByRDs-eligible underlying security that is subject to the rules in this Section.

(18) The term "Asian style settlement" is a settlement style that may be designated for FLEX Index Options on broad stock index groups and results in the contract settling to an exercise settlement value that is based on an arithmetic average of the specified closing prices of an underlying broad stock index group taken on 12 predetermined monthly observation dates (including on the expiration date). FLEX Index Options on broad stock index groups with Asian style settlement have "preceding business day convention," meaning that if a monthly observation date falls on a non NYSE MKT business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day. FLEX Index Options on broad stock index groups with Asian style settlement have European-style exercise.

(19) The term "Cliquet style settlement" is a settlement style that may be designated for FLEX Index Options on broad stock index groups and results in the contract settling to an exercise settlement value that is equal to the greater of $0 or the sum of capped monthly returns (i.e., percent changes in the closing value of the underlying broad stock index group from one month to the next month) applied over 12 predetermined monthly observation dates (including on the expiration date). FLEX Index Options on broad stock index groups with Cliquet style settlement have "preceding business day convention," meaning that if a monthly observation date falls on a non NYSE MKT business day (e.g., holiday or weekend), the monthly observation would be on the immediately preceding business day. FLEX Index Options on broad stock index groups with Cliquet style settlement have European-style exercise.

(20) The term “VWAP Settlement” is a settlement style that may be designated for FLEX Equity Options in which the contract settles to the Volume-Weighted Average Price on the exercise date. FLEX Options with a VWAP Settlement have European-style exercise.

(21) The term "FLEX Official" means an Exchange employee designated to perform the FLEX Official functions set forth in Rule 910G.

(22) The term "Non-FLEX ByRDs" means a Non-FLEX Option that is a Binary Return Derivatives contract.

Rule 901G. Hours of Trading

FLEX Option transactions may be effected during normal Exchange options trading hours on any business day. The Exchange may, from time to time, determine to amend the times set for FLEX Options trading.

Rule 902G. Trading Rotations

There shall be no trading rotations in FLEX Options.

Rule 903G. Terms of FLEX Options

(a) General Terms

(1) The Exchange may approve and open for trading any FLEX Index Options series or FLEX Equity Options series on any index or equity security that is eligible for Non-FLEX Options trading under Rule 901C, with respect to indexes, or Rule 915, with respect to equities, and that has Non-FLEX Options on such index or equity security listed and traded on at least one national securities exchange, even if the Exchange does not list and trade Non-FLEX Options on such index or equity security. The terms of a particular FLEX contract shall be established through the Request for Quotes process and the bidding and offering mechanics detailed in this Rule. The applicable index multiplier in the case of U.S. dollar-denominated FLEX Index Options shall be the same multiplier that applies to non-FLEX index option contracts on the same underlying index.

(2) Every FLEX Request for quotes and every FLEX contract shall contain one element, as designated by the parties to the contract, from each of the following contract term categories:

(i) Underlying security in the case of FLEX Equity Options [and]or underlying index in the case of FLEX Index Options;

(ii) Type (put, call, or spread);

(iii) Exercise Style (American, European, or capped);

(iv) Expiration date (any business day specified as to day, month and year, except that a FLEX Index Option that expires on or within two business days of a third Friday-of-the-month expiration day for a non-FLEX option other than a QIX option) ("Expiration Friday"), may only have an exercise settlement value on the expiration date determined by reference to the reported level of the index as derived from the opening prices of the component securities ("a.m. settlement");

(v) Exercise prices (specified as described in subparagraph (b)(1) below for FLEX Index Options and in subparagraph (c)(2) below for FLEX Equity Options);

(vi) The maximum term of any FLEX Equity Option shall be fifteen (15) years. The maximum term of any FLEX Index Option shall be fifteen (15) years; and

(vii) The minimum value size for both FLEX Equity and FLEX Index Options transactions and quotations shall be 1 contract.

(3) In addition to the terms listed in paragraph (2) of this Rule, every Request for Quotes shall contain the following additional transaction specifications:

(i) Quote type and form sought (i.e. specify whether bid, offer, or both is sought, and whether the quote, which must be stated in the currency designated in the Request for Quotes, is to be submitted[in the form of a fractional price—e.g. 1/8, 1/4,—]as a specific dollar amount, or in the case of a FLEX Equity Option, a percentage of the underlying stock or Exchange-Traded Fund Share price or in the case of a FLEX Index Option a percentage of the Underlying Equivalent Value);

(ii) Submitting Member Crossing Intention (specify any intention to cross in compliance with Exchange Rules); and[;]

(iii) Request Response Time Interval (to be specified in minutes, provided that the length of the interval must fall within the time ranges established by the Exchange).

(4) Reserved.

(b) Special Terms for FLEX Index Options

(1) Exercise prices shall be specified in terms of (i)(a) a specified index value number, (b) a method for fixing such a number at the time a FLEX Quote is accepted, or (c) a percentage of index value calculated as of the open or close of trading on the Exchange on the trade date; and (ii) the cap interval in the case of a European-Capped style option. Exercise prices may be rounded to the nearest minimum tick or other decimal increment determined by the Exchange on a class-by-class basis that may not be smaller than $0.01. Premiums will be rounded to the nearest minimum tick. For exercise prices and premiums stated using a percentage-based methodology, such values may be stated in a percentage increment determined by the Exchange on a class-by-class basis that may not be smaller than 0.01% and will be rounded as provided above.

(2) Exercise Settlement Value shall be specified, for use in setting the exercise settlement amount, as the index value reported at the close or at the open of trading on the Exchange or as a specified average, provided that any average index value must conform to the averaging parameters established by the Exchange[;].

(3) FLEX Index Options shall be designated for settlement in U.S. dollars, Canadian Dollars, British Pounds, Japanese Yen, [Deutsche Marks,] Swiss Francs, [French Francs,] or European Currency Units only and shall settle in the designated currency[;].

(4) Asian style settlement. The parties to FLEX Index Options on broad stock index groups may designate Asian style settlement. FLEX Index Options on broad stock index groups with Asian style settlement shall be call options (no puts) and designated by: (i)

the duration of the contract which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the strike price; (iii) the expiration date, which must be a NYSE MKT business day; and (iv) a set of monthly observation dates.

(5) Cliquet style settlement. The parties to FLEX Index Options on broad stock index groups may designate Cliquet style settlement. FLEX Index Options on broad stock index groups with Cliquet style settlement shall be call options (no puts) and be designated by: (i) the duration of the contract which may range from 350 to 371 days (which is approximately 50 to 53 calendar weeks) from the date of listing; (ii) the capped monthly return that must be expressed in dollars and cents and in increments not less than $0.05 and must be a value between $0.05 and $25.95; (iii) the expiration date, which must be a NYSE MKT business day; and (iv) a set of monthly observation dates. The capped monthly return will serve as the "exercise (strike) price" for a FLEX Index Option on broad stock index groups with Cliquet style settlement.

(c) Special Terms for FLEX Equity Options

(1) Reserved.

(2) Exercise prices and premiums may be stated in [dollar amount or percentage of the price of the underlying security, rounded to the nearest minimum price variation (as set forth in Rule 960NY);]terms of (i) a dollar amount; (ii) a method for fixing such a number at the time a FLEX Request for Quote or FLEX Order is traded; or (iii) a percentage of the price of the underlying security at the time of the trade or as of the close of trading on the Exchange on the trade date. Exercise prices may be rounded to the nearest minimum tick or other decimal increment determined by the Exchange on a class-by-class basis that may not be smaller than $0.01. Premiums will be rounded to the nearest minimum tick. For exercise prices and premiums stated using a percentage-based methodology, such values may be stated in a percentage increment determined by the Exchange on a class-by-class basis that may not be smaller than 0.01% and will be rounded as provided above.

(3) Exercise settlement shall be[by]:

(i) for FLEX Equity Options other than FLEX ByRDs, by physical delivery of the underlying security; and

(ii) for FLEX ByRDs, in the same manner and style as Non-FLEX ByRDs, pursuant to the VWAP settlement provision contained in Rule 910ByRDs and pursuant to the European exercise style, per Rule 900ByRDs(b)(1).

(4) FLEX Equity Options shall be subject to the exercise by exception provisions of Rule 805 of the Options Clearing Corporation [Rule 805].

(5) VWAP settlement. The parties to a FLEX Equity Option may designate VWAP settlement with call or put options and the settlement price will be calculated as the amount in which the Volume-weighted Average Price of all reported transactions in the underlying security (rounded to $0.01) on the expiration date exceed the agreed up on “exercise (strike) price” of the option.

. . . *Commentary* ------------------

.01 Provided the options on an underlying security or index are otherwise eligible for FLEX trading, FLEX Options shall be permitted in puts and calls that do not have the same exercise style, same settlement style, same expiration date and same exercise price as Non-FLEX Options that are already available for trading on the same underlying security or index. FLEX Options shall also be permitted before the options are listed for trading as Non-FLEX Options. Once and if the option series are listed for trading as Non-FLEX Options, (i) all existing open positions established under the FLEX trading procedures shall be fully fungible with transactions in the respective Non-FLEX Option series, and (ii) any further trading in the series would be as Non-FLEX Options subject to the Non-FLEX trading procedures and rules, however, in the event the Non-FLEX series is added intra-day, the holder of a position established under FLEX Trading Procedures would be permitted to close such position using FLEX trading procedures against another closing only FLEX position for the balance of the trading day on which the series is added.

Rule 904G. FLEX Trading Procedures and Principles

(a) Initiating a FLEX Request for Quotes.

(i) To initiate a FLEX transaction, a Submitting Member shall submit to the [FLEX Specialist]FLEX Official a Request for Quotes, utilizing for that purpose the forms, formats and procedures established by the Exchange.

(ii) On receipt of a Request for Quotes in proper form the [FLEX Specialist]FLEX Official shall cause the terms and specifications of the Request for Quotes to be immediately [displayed]disseminated at the post. Such communication shall be made over facilities maintained or approved by the Exchange for that purpose, including any off-floor communications networks approved by the Exchange.

(b) FLEX Bidding and Offering in Response to Requests for Quotes.

(i) Members may enter at the [FLEX] post FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the Request Response Time.

(ii) Each FLEX Quote shall refer to the identifier assigned to the Request for Quotes, or to such other reference indicator as the Exchange determines appropriate from time to time.

(iii) All FLEX Quotes may be entered, modified or withdrawn at any point during the Request Response Time. At the Expiration of the Request Response Time, the BBO shall be identified in accordance with the price and time priority principles set forth by the Exchange.

(c) Formation of Contracts Following the Processing of Initial Quotes.

(i) At the expiration of the Request Response Time, the BBO shall be [visibly displayed both]<u>disseminated</u> at the post and on such market data systems as are available.

(ii) If the Submitting Member has not indicated an intention to cross or act as principal with respect to any part of the FLEX trade, the member shall promptly accept or reject the [displayed]<u>disseminated</u> BBO[:]<u>;</u> provided, however, that if such a Submitting Member either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX participating members other than the Submitting Member will have an opportunity during the BBO Improvement Interval in which to match, or improve, (as applicable), the BBO. At the expiration of any such BBO Improvement Interval, the Submitting Member must promptly accept or reject the BBO(s).

(iii) If the Submitting Member has indicated an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the [displayed]<u>disseminated</u> BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the Submitting Member must indicate at the post the price at which the member expects to trade. In these circumstances, the Submitting Member may participate with all other Flex-participating members in attempting to improve or match the BBO during the BBO Improvement Interval. At expiration of the BBO Improvement Interval, the submitting Member must promptly accept or reject the BBO(s).

(iv) The Submitting Member has no obligation to accept any FLEX bid or offer.

(v) Whenever, following the completion of FLEX bidding and offering responsive to a given Request for Quotes, the Submitting Member rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the Request for Quotes, members may accept the entire order or the unfilled balance of the BBO.

(d) Quote Acceptance and Rejection. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder.

(e) Priority of Bids and offers. Quote priorities are based on price and time as set forth below. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder.

(i) Bids. The highest bid shall have priority, but where the two or more best bids are submitted at the same price, the bid(s) submitted first in time will have priority.

(ii) Offers. The lowest offer shall have priority, but where the two or more best offers are submitted at the same price, the offer(s) submitted first in time will have priority.

(iii) In the case of FLEX Equity Options only and notwithstanding the foregoing subparagraphs (i) and (ii) of this paragraph (e), whenever the Submitting Member has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the Submitting Member will be permitted to execute the contra side of the trade that is the subject of the Request for Quotes, to the extent of at least 40% of the trade.

(f) Crossing Limitations. A Submitting Member may effect crossing transactions only on public customer orders or orders respecting the Submitting Member's firm proprietary account.

(g) Incremental Changes for Bids and Offers. Changes in decimal bids and offers for FLEX Index Options in the designated currency shall meet or exceed the following minimums (or such other minimums as the Exchange sets from time to time to ensure fair and orderly markets); U.S. Dollars - $.01; Canadian Dollars - $.01; Japanese Yen - .01Y; [Deutsche Marks - .01DM; French Francs - .01F;] Swiss Francs - .01F; British Pounds - .01[[]pounds[ ]]; European Currency Units - .01ECU.

Rule 905G. Discretionary Transactions

A Floor Broker may be given discretion with respect to the number of FLEX contracts to be purchased or sold. Such discretion must be granted by the customer in clear terms in a manner approved by the Exchange and must be reflected in a contemporaneously-prepared, time-stamped document prepared by the Floor Broker, one copy of which shall be promptly sent to the customer and one copy of which shall be maintained by the Floor Broker for the full term of the FLEX contract or the time required under Securities and Exchange Commission Rule 17a-4 of the Securities Exchange Act of 1934, whichever is longer.

Rule 906G. Position Limits

(a) FLEX Index Options. - (i) In determining compliance with Rule 904C, FLEX Index Options shall be subject to FLEX contract position limits fixed by the Exchange. With the exception of the Major Market Full Size Nasdaq-100 (NDX), or Russell 2000 (RUT) Indices, which shall have no position limits for FLEX Index Options, in no event shall position limits exceed in the aggregate 200,000 contracts on the same side of the market in FLEX Index Options on Broad Stock Index Groups. Additionally, with respect to positions in FLEX Options on Stock Index Industry Groups, in no event shall those limits exceed four times the position limits for standard index options on the same underlying index set forth in Rule 904C.

(ii) At the close of trading two business days prior to the last day of trading of the calendar quarter, positions in p.m.-settled FLEX Index Options (i.e., options having a settlement value that is determined by the level of the index at the close of trading on the last trading day before expiration), shall be aggregated with positions in Quarterly Index Options on the same index with the same expiration shall be subject to the position limits set forth in Rule 904C.

(iii) Aggregation of Positions. Except as provided in subparagraph (a)(ii) above, and in (A) below, FLEX option positions shall not be aggregated with option contract positions in non-FLEX options or with options on any stocks included in the index underlying FLEX Index Options, nor shall FLEX Option positions on a given index be combined with FLEX Option positions on another index.

(A) As long as the options positions remain open, positions in FLEX Index Options that expire on a third Friday-of-the-month expiration day shall be aggregated with positions in Non-FLEX Index Options on the same underlying security ("comparable Non-FLEX Index Options") and shall be subject to the position limits set forth in Rule 904C, and the exercise limits set forth in Rule 905C.

(iv) 100,000 Contract Reporting Requirement. Each member or member organization other than an Exchange Specialist or [Registered Options Trader]Floor Market Maker, that maintains a position in Major Market; Full Size Nasdaq-100 (NDX) FLEX, or Russell 2000 (RUT) Index options contracts in excess of 100,000 contracts on the same side of the market on behalf of its own account or for the account of a customer shall report information as to whether those positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form required by the Exchange.

(v) Margin and Clearing Form Requirements. Whenever the Exchange determines that additional margin is warranted in light of the risks associated with an under-hedged Major Market, full size Nasdaq-100 (NDX), or Russell 2000 (RUT), FLEX Index option position, the Exchange may impose additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 462. Additionally, it should be noted that the clearing firm carrying this account will be subject to capital changes under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(b) FLEX Equity Options. Except as provided in (i) and (ii) below, there shall be no position limits for FLEX Equity options. However, each member or member organization (other than a Specialist or [Registered Options Trader]Floor Market Maker) that maintains a position on the same side of the market in excess of the level established pursuant to Rule 904 for Non-FLEX Equity options of the same class on behalf of its own account or for the account of a customer shall report information on the FLEX Equity option position, positions in any related instrument, the purpose or strategy for the position and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX Equity option position in excess of three times the level established for Non-FLEX Equity option of the same class, the Exchange may impose such higher margin requirement and/or may assess capital charges upon the member organization carrying the account to the extent of any margin deficiency resulting from the higher margin requirement.

(i) As long as the options positions remain open, positions in FLEX Options that expire on a third Friday-of-the-month expiration day shall be aggregated with positions in Non-FLEX Options on the same underlying ("comparable Non-FLEX Options") and shall be subject to the position limits set forth in Rule 904, and the exercise limits set forth in Rule 905.

(ii) Position limits for FLEX ByRDs shall be the same as Non-FLEX ByRDs, as set forth in Rule 904ByRDs(a), except that positions in FLEX ByRDs shall be aggregated with positions in Non-FLEX ByRDs on the same or similar underlying (“comparable Non-FLEX ByRDs”) for the purpose of calculating position limits. For purposes of the position limits established under this Rule, long positions in "Finish Low" and short positions in "Finish High" Binary Return Derivatives shall be considered to be on the same side of the market; and short positions in "Finish Low" and long positions in "Finish High" Binary Return Derivatives shall be considered to be on the same side of the market.

Rule 907G. Exercise Limits

(a) Exercise limits for FLEX Options shall be equivalent to the FLEX position limits prescribed in Rule 906G.

(b) Except as provided in Rule 906G (a)(iii)(A) and (b)(i), FLEX Options shall not be taken into account when calculating exercise limits for non-FLEX Option contracts.

Rule 908G. Fidelity Bonds

No [Registered Options Trader]Floor Market Maker or Floor Broker shall effect any transaction in FLEX Options unless they have satisfied the requirements set forth in Rule 330.

Rule 909G. Financial Requirements for Specialists, Floor Brokers & [Registered Option Traders]Floor Market Makers Trading FLEX Options

(a) FLEX Index Option registered specialists shall be required to maintain at least $1.0 million net liquidating equity and/or $1.0 million net capital, as applicable. As used herein, the term "net capital" shall mean a net capital amount computed in accordance with the requirements of Rule 15c3-1 of the Securities Exchange Act of 1934. A FLEX Index Option registered specialist or its clearing member, as applicable, shall immediately inform the Exchange whenever the specialist fails to be in compliance with such requirements. The Exchange may waive the financial requirements of this Rule 909G(a) in unusual circumstances.

(b) To be eligible to effect FLEX Index Option transactions, [Registered Option Traders]Floor Market Makers and Floor Brokers shall maintain $100,000 in net liquidating equity in their individual or joint accounts with any one clearing member in which transactions in FLEX Index Options will be conducted. Joint account equity may not be combined with individual account equity for this purpose unless all participants in the joint and individual accounts trade for the same broker-dealer through those accounts. Failure to remain in compliance with the foregoing requirements shall be grounds for suspension or termination of authorization to effect transactions in any class of FLEX Index Options, except for closing transactions or where there are unusual circumstances as determined by the Exchange.

(c) FLEX Equity Option registered specialists shall comply with [Exchange Rules 171 and 950(h)]Rule 927NY(c)(10) regarding specialist's financial requirements.

Rule 910G. FLEX Official

(a) The Exchange may at any time designate an Exchange employee to act as a FLEX Official in one or more classes of FLEX Options. The FLEX Official shall perform the functions set forth in paragraph (b) of this Rule. The Exchange may also designate other qualified employees to assist the FLEX Official as the need arises.

(b) A FLEX Official is responsible for:

(1) reviewing the conformity of FLEX Requests for Quotes and FLEX Quotes to the terms and specifications contained in Rule 903G;

(2) posting FLEX Requests for Quotes for dissemination;
(3) determining the BBO;
(4) ensuring that FLEX contracts are executed in conformance with the priority principles set forth in Rule 904G; and
(5) calling upon Specialists to make FLEX Quotes in specific classes of FLEX Equity Options as provided in paragraph (c) of Rule 927NY.

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Rule 927NY. Specialists

(a) – (b) No change.

(c) Obligations of Specialists:

Each Specialist must meet the following obligations:

(1) – (6) No change.

(7) Make FLEX Quotes in response to a specific Request for Quotes in appointed classes of FLEX Equity Options whenever in the opinion of the FLEX [Post]

Official the interests of a fair, orderly and competitive market are best served by such action.

(8) – (12) No change.

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