

Additions: Underlined

Deletions: [Bracketed]

Rules of NYSE MKT LLC

**Rule 2 - Equities. "Member," "Membership," "Member Firm," etc.**

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(j) The term “DMM unit” is a member organization or unit within a member organization that has [been approved to act as a DMM unit under] met the requirements of Rules 98 and 103. For purposes of Exchange rules and notwithstanding the foregoing, the term "DMM unit" shall be interchangeable with the terms "DMM organization" or "DMM member organization."

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**Rule 36 - Equities. Communications Between Exchange and Members' Offices**

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.30 DMM Unit Post Wires—

With the approval of the Exchange, a DMM unit may maintain a telephone line at its stock trading post location to the off-Floor offices of the DMM unit or the unit's clearing firm, or to persons providing non-trading related services [as permitted under Rule 98]. Such telephone connection shall not be used for the purpose of transmitting to the Floor orders for the purchase or sale of securities[, but may be used to enter options or futures hedging orders through the unit's off-Floor office or the unit's clearing firm, or through a member (on the floor) of an options or futures exchange as permitted under Rules 98 - Equities and 105 - Equities]. A DMM unit may also maintain wired or wireless devices that have been registered with the Exchange, such as computer terminals or laptops, to communicate only with the system employing the algorithms and with individual algorithms. The wired or wireless device will enable the DMM unit to activate or deactivate the system employing the algorithms or an individual algorithm or change such system's pre-set parameters.

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## Rule 98 - Equities. Operation of a DMM Unit

### (a) Applicability

(1) [Unless a member organization and its approved persons are subject to Rule 98 (Former) - Equities, t]The provisions of this rule shall apply to all member organizations seeking to operate a DMM unit at the Exchange and any approved person that may provide services to a DMM unit.

### (b) Definitions

For purposes of this Rule, the following terms shall be defined as provided.

(1) ["DMM" means any individual qualified to act as a DMM on the Floor of the Exchange, as defined in Rule 103 - Equities.] "DMM unit" means a trading unit within a member organization that is approved pursuant to Rule 103 - Equities to act as a DMM unit.

(2) ["DMM unit" means any member organization, aggregation unit within a member organization, or division or department within an integrated proprietary aggregation unit of a member organization that (i) has been approved by NYSE Regulation pursuant to section (c) of this Rule, (ii) is eligible for allocations under Rule 103B - Equities as a DMM unit in a security listed on the Exchange, and (iii) has met all registration and qualification requirements for DMM units assigned to such unit. For purposes of Exchange rules and notwithstanding the foregoing, the term "DMM unit" shall be interchangeable with the terms "DMM organization" or "DMM member organization."

(3) "DMM API" refers to any algorithmic system used by a DMM unit to generate quoting or trading messages for the DMM 's account that are delivered to the Exchange-provided trading platform, commonly referred to as "Display Book®" via an external quote application programmed interface ( "API") pursuant to Rule 104 - Equities.

(4) "DMM's account" "DMM securities" means any [account through which a DMM unit quotes or trades at the Exchange in] securities allocated to [it] the DMM unit pursuant to Rule 103B - Equities or other applicable rules.

[(5)] (3) "DMM rules" means any rules that govern DMM or DMM unit conduct or trading.

[(6) "DMM confidential information" means any non-public information relating to a DMM unit's trading or quoting in securities allocated to that DMM pursuant to Rule 103B - Equities, including positions or any other indication of a DMM's trading or quoting interest in securities allocated to such DMM, the DMM API, or any other non-public information relating to a DMM's interactions with a security allocated to such DMM, but not including non-public order information.]

[(7)] (4) "Floor-based [N]non-public order" means any order, whether expressed electronically or verbally, or any information regarding a reasonably imminent non-public transaction or series of transactions entered or intended for entry or execution on the Exchange and which is not publicly available on a real-time basis via an

Exchange-provided datafeed, such as NYSE OpenBook® or otherwise not publicly available. Non-public orders include order information at the opening, re-openings, the close, [when the security is trading in slow mode], and order information in Exchange systems [the NYSE Display Book®] that is not available via NYSE OpenBook®.

[(8)] (5) "Investment banking department" means any department or division, whether or not specifically identified as such, that performs any investment banking services on behalf of a member organization.

[(9)] (6) "Research department" means any department or division, whether or not specifically identified as such, that is responsible for preparing the substance of a research report on behalf of a member organization.

[(10)] "Customer-facing department" means any trading or market-making department, division, aggregation unit, or desk that receives, routes, or executes orders for its own customers or customers of another broker-dealer or clearing accounts.

(11) "Aggregation unit" means any trading or market-making department, division, or desk that meets the requirements of the definition of an "independent trading unit" pursuant to Rule 200 of Regulation SHO, 17 CFR Part 242.200(f).

(12) "Approved person" means any person who controls a member organization, or who engages in a securities or kindred business and is controlled by or under common control with a member organization but is not a member or allied member or an employee of a member organization, as defined in Rule 304 - Equities.

(13) "Non-trading related services" means those persons or systems that provide support services to a trading or market-making department, division, aggregation unit, or desk, including a DMM unit, but that are not involved with day-to-day trading decisions.

(14) "Integrated proprietary aggregation unit" means an aggregation unit of a member organization or approved person with a trading objective to engage in proprietary trading, including market-making activities. An integrated proprietary aggregation unit must be separate from any department or division that engages in the activities of an investment banking, research, or customer-facing department. Subject to section (d) of this Rule, a DMM unit may be part of an integrated proprietary aggregation unit.]

[(15)] (7) "Related products" means any derivative instrument that is related to a DMM security [allocated to a DMM unit], including options, warrants, hybrid securities, single-stock futures, security-based swap agreement, a forward contract, or any other instrument that is exercisable into or whose price is based upon or derived from a security listed or traded at the Exchange.

(c) Operation of a DMM unit.

(1) A member organization will be permitted to operate a DMM unit provided that the member organization has obtained prior written approval from the Exchange.

(2) A member organization seeking approval to operate a DMM unit pursuant to this rule must maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such member organization's business, (i) to prevent the misuse of material, non-public information by such member organizations or persons associated with such member organization and (ii) to ensure compliance with applicable federal laws and regulations and with Exchange rules. For purposes of this Rule, conduct constituting the misuse of material, non-public information includes, but is not limited to:

(A) Trading in any securities issued by a corporation, or in any related product, while in possession of material-non-public information concerning the issuer; or

(B) Trading in a security or related product, while in possession of material non-public information concerning imminent transactions in the security or related product; or

(C) Disclosing to another person or entity any material, non-public information involving a corporation whose shares are publicly traded or an imminent transaction in an underlying security or related product for the purpose of facilitating the possible misuse of such material, non-public information.

(3) Restrictions on trading for member organizations operating a DMM unit.

(A) A member organization shall protect against the misuse of Floor-based non-public order information. Only Floor-based employees of the DMM unit and individuals responsible for the direct supervision of the DMM unit's Floor-based operations may have access to Floor-based non-public order information.

(B) While on the Trading Floor of the Exchange, employees of the DMM unit:

(i) except as provided for in Rule 36.30, may trade only DMM securities and only on or through the systems and facilities of the Exchange as permitted by Exchange rules.

(ii) except as provided for in Rules 36.30, may not communicate with individuals or systems responsible for making trading decisions for related products or for away-market trading in their assigned DMM securities.

(iii) shall not have access to customer information or the DMM unit's position in related products.

(C) When a Floor-based employee of a DMM unit moves to a location off of the Trading Floor of the Exchange or if any person that provides risk management oversight or supervision of the Floor-based operations of the DMM unit is aware of Floor-based non-public order information, he or she shall not (1) make such information available to customers, (2) make such information available to individuals or systems responsible for making trading decisions in DMM securities in away markets or related products, or (3) use any such information in connection with making trading decisions in DMM securities in away markets or related products.

(D) A DMM unit may make available to a Floor broker associated or affiliated with an approved person or member organization any information that the DMM

would be permitted to provide under Exchange rules to an unaffiliated Floor broker.

(4) Any interest entered into Exchange systems by the DMM unit in DMM securities must be identifiable as DMM unit interest.

(5) The member organization must provide the Exchange with real-time net position information for trading in DMM securities by the DMM unit and any independent trading unit of which it is part at such times and in the manner prescribed by the Exchange.

(6) The DMM unit may not operate as a specialist or market maker on the Exchange or the NYSE MKT LLC equities or options trading floors in related products, unless specifically permitted in Exchange rules.

(7) The member organization shall maintain information barriers between the DMM unit and any investment banking or research departments of the member organization. No DMM or DMM unit may be directly supervised or controlled by an individual associated with an approved person or the member organization who is assigned to any investment banking or research departments.

(d) The DMM rules will apply only to the DMM units' quoting or trading in their DMM securities for their own accounts at the Exchange.

[(c) Approval to operate a DMM unit

(1) A member organization will be permitted to operate a DMM unit provided that the member organization has obtained prior written approval from NYSE Regulation, Inc. ("NYSE Regulation").

(2) A member organization seeking approval to operate a DMM unit pursuant to this Rule must (i) adopt and implement comprehensive written procedures and guidelines governing the conduct and supervision of business handled by such unit; (ii) establish a process for regular review of such written procedures and guidelines; and (iii) implement controls and surveillances reasonably designed to prevent and detect violations of these procedures and guidelines. At a minimum, such policies and procedures shall be reasonably designed in accordance with the following.

(A) Unless otherwise specified in this Rule, the DMM unit shall maintain the confidentiality of both DMM confidential information and non-public orders.

(i) A member organization's departments, divisions, or aggregation units not part of the DMM unit, including investment banking, research, and customer-facing departments, shall not have access to DMM confidential information or non-public order information.

(ii) Approved persons shall not have access to DMM confidential information or non-public order information. Notwithstanding this restriction, a DMM

may make available to a Floor broker associated or affiliated with an approved person or member organization any information that the DMM would be permitted to provide under Exchange rules to an unaffiliated Floor broker.

- (B) Except as provided in paragraph (d) of this Rule, the DMM unit shall comply with all of the requirements of an aggregation unit.
- (C) The DMM unit shall not have access to material non-public information that is in the possession of aggregation units of the member organization or the approved person that do not include the DMM unit and that is related to a security allocated to the DMM unit, including (i) information relating to investment banking or research activity by the member organization or approved person; (ii) information relating to trading by customer-facing departments; and (iii) information relating to positions held by aggregation units that do not include the DMM unit.
- (D) The DMM unit shall maintain or have allocated to it net capital sufficient to meet the requirements of Rule 103.20 - Equities.
- (E) Senior managers of the member organization or approved person who are not assigned solely to the DMM unit may provide management oversight of the DMM unit provided that any such management oversight does not conflict with or compromise in any way the DMM unit from complying with the DMM rules.
  - (i) For purposes of risk management, senior managers of a member organization or approved person who are not assigned to the DMM unit may have access to DMM confidential information or non-public orders provided that upon receipt of such information, the senior manager (1) does not make such information available to the individuals or systems responsible for the day-to-day trading decisions of other aggregation units at the member organization or approved person, and (2) does not use such information to directly or indirectly influence the day-to-day trading decisions of the other aggregation units of the member organization or approved person with respect to the securities allocated to the DMM unit for which the senior manager has DMM confidential information or non-public order information.
  - (ii) Except as provided for in this Rule, no DMM may be directly supervised or controlled by an individual associated with an approved person or the member organization who is assigned to any investment banking, research, or customer-facing departments.

- (3) If a member organization is approved to operate a DMM unit under this Rule, the DMM rules will apply only to trading at the Exchange by the DMM unit in the securities allocated to the DMM unit.
- (d) Approval to operate a DMM unit within an integrated proprietary aggregation unit.
- (1) Notwithstanding any provision of this Rule to the contrary, a member organization will be permitted to operate a DMM unit within an integrated proprietary aggregation unit, provided that the member organization has obtained prior written approval from NYSE Regulation.
  - (2) A member organization seeking approval to operate a DMM unit within an integrated proprietary aggregation unit pursuant to this Rule must (i) adopt and implement comprehensive written procedures and guidelines governing the conduct and supervision of business handled by such unit; (ii) establish a process for regular review of such written procedures and guidelines; and (iii) implement controls and surveillances reasonably designed to prevent and detect violations of these procedures and guidelines. At a minimum, such policies and procedures shall be reasonably designed in accordance with the following.
    - (A) Unless otherwise provided in this Rule, the DMM unit shall meet the requirements set forth in section (c)(2)(A), (C), (D), and (E) of this Rule.
    - (B) The DMM unit shall restrict access to non-public order information by other areas of the integrated proprietary aggregation unit as follows.
      - (i) Except as provided for in section (c)(2)(E) of this Rule, individuals not assigned to the DMM unit shall not have access to non-public order information.
      - (ii) Systems, including computer algorithms, not assigned to the DMM unit shall not have access to non-public order information.
      - (iii) While on the Floor of the Exchange, individuals assigned to the DMM unit, including DMMs, shall not communicate with individuals or systems responsible for making trading decisions for the integrated proprietary aggregation unit.
      - (iv) When an individual assigned to a DMM unit moves to a location off of the Floor of the Exchange, he or she shall not (1) make any non-public order information or DMM confidential information available to individuals or systems responsible for making trading decisions for the integrated proprietary aggregation unit, or (2) use any non-public order information or, except as provided for in section (f) of this Rule, DMM confidential information in connection with making trading decisions for the integrated proprietary aggregation unit.

- (C) The integrated proprietary aggregation unit shall maintain records of its DMM accounts independent of the accounts of the integrated proprietary aggregation unit.
  - (D) The integrated proprietary aggregation unit may not engage in any activities that violate other Exchange rules or federal securities laws or regulations, including prohibitions on frontrunning, wash sales, and manipulation.
- (3) If a member organization is approved to operate a DMM unit within an integrated proprietary aggregation unit under this Rule, the DMM rules will apply to any trading on or through the systems and facilities of the Exchange by the integrated proprietary aggregation unit through the DMM unit in the securities that are allocated to the DMM unit. The DMM rules will also apply to the integrated proprietary aggregation unit if the integrated proprietary aggregation unit causes the DMM unit to violate the DMM rules.
- (4) An integrated proprietary aggregation unit shall maintain order audit trail information consistent with the following:
- (A) Reserved.
  - (B) The integrated proprietary aggregation unit must meet the order audit trail requirements of the exchanges or marketplaces where it trades or quotes.
  - (C) Member organizations must maintain records sufficient to reconstruct in a time-sequenced manner both the entry and execution of trading by the independent proprietary aggregation unit, including records sufficient to compare the entry and execution of trading by such unit to records maintained by the Exchange concerning trading or quoting on or through the systems and facilities of the Exchange by the DMM unit in the securities allocated to it.
- (e) Sharing Non-Trading Related Services
- (1) Subject to approval by NYSE Regulation, a DMM unit may share non-trading related services with its member organization or approved persons.
  - (2) To obtain approval to share non-trading related services, the DMM unit must (i) adopt and implement comprehensive written procedures and guidelines governing the sharing of non-trading related services; (ii) establish a process for regular review of such written procedures and guidelines; and (iii) implement controls and surveillances reasonably designed to prevent and detect violations of these procedures and guidelines. At a minimum, such policies and procedures shall be reasonably designed in accordance with the following.
    - (A) The DMM unit and member organization or approved person shall maintain the confidentiality of DMM confidential information and non-public orders.



- (i) Individuals who provide non-trading related services to the DMM unit and who have access to either DMM confidential information or non-public order information shall not, either directly or indirectly, provide such information or otherwise use such information in such a way that it could be made available to individuals or systems that are not part of the DMM unit, except to the extent that such information is needed for the purpose of providing non-trading related services to the DMM unit. Under no circumstances shall non-public order information or DMM confidential information be made available to investment banking, research, or customer-facing departments.
- (ii) Systems, including computer algorithms, that provide non-trading related services to the DMM unit and that have access to either DMM confidential information or non-public order information shall be configured in such a way to ensure that such information is not made available to individuals or systems that are not assigned to the DMM unit, except to the extent that such information is needed for the purpose of providing non-trading related services to the DMM unit. Under no circumstances shall non-public order information or DMM confidential information be made available to investment banking, research, or customer-facing departments.

(f) Risk Management

- (1) Subject to the approval of NYSE Regulation, a DMM unit that has been approved pursuant to section (c) of this Rule is eligible for an exemption from the requirements of Rule 105(b)-(d) - Equities and the Guidelines for DMMs' Registered Security Option and Single Stock Futures Transactions Pursuant to Rule 105 - Equities for the purpose of conducting risk management trading.
  - (A) To obtain an exemption from Rule 105(b)-(d) - Equities and the guidelines thereunder, the DMM unit must (i) adopt and implement comprehensive written procedures and guidelines governing the conduct of trading in related products, (ii) establish a process for regular review of such written procedures and guidelines; and (iii) implement controls and surveillances reasonably designed to prevent and detect violations of these procedures and guidelines. At a minimum, such policies and procedures shall be reasonably designed to provide that:
    - (i) The individuals or systems, including computer algorithms, responsible for trading in related products shall not have access to non-public order information or, except as provided for in sections (f)(1)(A)(v) and (vi) of this Rule, DMM confidential information.
    - (ii) While on the Floor of the Exchange, individuals assigned solely to the DMM unit, including DMMs, shall not directly enter or execute any trades in related products.

- (iii) When an individual assigned to a DMM unit moves off of the Floor of the Exchange, he or she shall not (1) make any non-public order information or DMM confidential information available to individuals or systems responsible for making trading decisions for related products, or (2) use any non-public order information or, except as provided in section (f)(1)(A)(v) of this Rule, DMM confidential information, in connection with making trading decisions for trading in related products.
  - (iv) The DMM API shall not make any trading decisions for any related products.
  - (v) The individuals or systems, including computer algorithms, responsible for making trading decisions in related products may have electronic access to the DMM unit's trades at the Exchange in securities allocated to the DMM unit, provided that such trades have been printed to the Consolidated Tape.
  - (vi) Except as provided for in section (c)(2)(E) of this Rule, when providing risk management oversight over trading in securities allocated to the DMM unit and other trading within the DMM unit, senior managers of the DMM unit who have access to non-public order information or DMM confidential information shall not (1) make such information available to the individuals or systems responsible for the day-to-day trading decisions of either trading in related products within the DMM unit, or, if applicable, the integrated proprietary aggregation unit that provides risk management to the DMM unit pursuant to sections (f)(2) or (f)(3) of this Rule, or (2) use such information to directly or indirectly influence the day-to-day trading decisions of either trading in related products within the DMM unit or, if applicable, the integrated proprietary aggregation unit of the member organization or approved person with respect to the securities allocated to the DMM unit for which the senior manager has non-public order information.
- (2) Subject to the approval of NYSE Regulation, an integrated proprietary aggregation unit approved pursuant to section (d) of this Rule to operate a DMM unit may conduct risk management trading related to the DMM unit's trading, including trading in related products, provided that:
- (A) In addition to meeting the requirements of sections (d) and (f)(1)(A)(i) through (v) of this Rule, the integrated proprietary aggregation unit must (i) adopt and implement comprehensive written procedures and guidelines governing the conduct of risk management of the DMM unit, (ii) establish a process for regular review of such written procedures and guidelines; and (iii) implement controls and surveillances reasonably designed to prevent and detect violations of these procedures and guidelines.

- (i) The individuals or systems, including computer algorithms, responsible for managing the risk of the DMM unit may electronically direct the DMM unit's trading or quoting at the Exchange in securities that are allocated to the DMM unit, provided, however, that the DMM unit must comply at all times with its market-making obligations, including the DMM rules, notwithstanding any electronic trading directions received from the integrated proprietary aggregation unit.
- (3) Subject to the approval of NYSE Regulation, an approved person or member organization associated with a DMM unit may conduct risk management trading related to the DMM unit's trading, including trading in related products, provided that:
- (A) The DMM unit maintains the confidentiality of DMM confidential information and non-public order information, as required by section (c) of this Rule.
  - (B) Individuals employed by the approved person who are responsible for making risk-management decisions on behalf of the DMM unit shall be dually employed with the DMM unit's member organization.
  - (C) The approved person or member organization must (i) adopt and implement comprehensive written procedures and guidelines governing the conduct of risk management of the DMM unit, (ii) establish a process for regular review of such written procedures and guidelines; and (iii) implement controls and surveillances reasonably designed to prevent and detect violations of these procedures and guidelines. At a minimum, such policies and procedures shall be reasonably designed to provide that:
    - (i) The individuals or systems, including computer algorithms, responsible for managing the risk of the DMM unit shall be assigned to an integrated proprietary aggregation unit.
    - (ii) The individuals or systems, including computer algorithms, responsible for managing the risk of the DMM unit shall not have access to non-public order information or, except as provided for in sections (f)(3)(C)(iii) and (iv) of this Rule, DMM confidential information.
    - (iii) The individuals or systems, including computer algorithms, responsible for managing the risk of the DMM unit may have electronic access to the DMM unit's trades at the Exchange in securities allocated to the DMM unit, provided that such trades have been printed to the Consolidated Tape.
    - (iv) The individuals or systems, including computer algorithms, responsible for managing the risk of the DMM unit may electronically direct the DMM unit's trading or quoting at the Exchange in securities that are allocated to

the DMM unit, provided, however, that the DMM unit must comply at all times with its market making obligations, including the DMM rules, notwithstanding any electronic trading directions received from the member organization or approved person.]

[(g)] (e) Failure to Maintain Confidentiality

(1) In the event that a DMM unit receives from the member organization or approved person non-public information about a security that is allocated to the DMM unit, that DMM unit shall promptly communicate that fact to the person responsible for compliance with the securities laws and regulations within the DMM unit (compliance officer) and shall seek a determination from such compliance officer as to whether the DMM should cease acting as a DMM in the security involved.

(A) If the compliance officer determines that the DMM should temporarily cease acting as a DMM in the security:

(i) The DMM shall transfer the responsibility to act as a DMM in such security to another member who is registered as a DMM and who is not in possession of the information so received;

(ii) The compliance officer shall immediately notify [NYSE Regulation Division of Market Surveillance] the Exchange when (1) a determination is made that another DMM should act as a DMM in such security, and (2) when the compliance officer determines that the DMM who regularly handles the security can resume acting as a DMM for that security.

(iii) The compliance officer shall be responsible for determining when it is appropriate for the DMM to resume acting as DMM in the security involved.

(iv) The compliance officer shall take such actions as may be necessary to ensure that the transfer of the security to another member who is registered as a DMM is conducted in a "neutral" manner so that there is no communication of the information that had been received by the DMM who, as a consequence of receiving such information, was required to cease acting as a DMM for that security.

(v) The compliance officer shall maintain a written record of each request from a DMM for a determination of whether to cease acting as a DMM in a security. Such record shall include a description of the information received by the DMM, an indication when and from whom the information was received, when the compliance officer was consulted on the matter, when the compliance officer made a determination on the matter, the determination of whether to cease acting as a DMM in a security, the basis for such determination, the time at which the DMM resumed acting as a DMM in the security involved, and such other information as the Exchange may from time to time require.

[(h)] (f) Reporting Obligations

(1) The member organization or approved person associated with a DMM unit shall report to the Exchange [NYSE Regulation], on a monthly "after the fact" basis and on such form and in such specific detail as the Exchange [NYSE Regulation] may prescribe, information regarding material investment banking activities in which it has been engaged (e.g., underwriting, tender offers, mergers, acquisitions, recapitalizations, etc.), and material research reports, recommendations, etc., pertaining to any security that has been allocated to a DMM unit pursuant to Rule 103B - Equities.

(2) A DMM unit shall report to the Exchange [NYSE Regulation] on a monthly "after the fact" basis and on such form and in such specific detail as the Exchange [NYSE Regulation] may prescribe, information regarding determinations pursuant to section [(g)(1)] (e)(1) of this Rule by a compliance officer that a DMM shall not be required to cease acting as a DMM in a security.

(3) A DMM unit shall promptly report to the Exchange [NYSE Regulation] any failure to maintain the confidentiality of [DMM confidential information or] Floor-based non-public order information, as required by section[s] (c)[, (d), (e), and (f)] of this Rule.

(4) In the event a DMM unit, member organization, or approved person becomes aware of any trading activity that may be a result of a breach of (i) the DMM unit's internal controls or surveillances as required by section[s] (c)[, (d), (e), and (f)] of this Rule, or (ii) the requirement to maintain the confidentiality of [DMM confidential information or] Floor-based non-public order information, as required by section[s] (c)[, (d), (e), and (f)] of this Rule, the DMM unit, member organization, or approved person shall:

(A) Promptly conduct an internal investigation into any such actual or potential breach to determine whether such breach occurred and if there was a breach, how such breach occurred;

(B) Promptly take any and all necessary remedial measures to prevent and detect such breaches from recurring; and

(C) On a quarterly basis, for any ongoing internal investigation required by section [(h)](f)(4)(A) of this Rule, report in writing to the Exchange [NYSE Regulation]:

(i) The commencement of the internal investigation;

(ii) The quarterly progress of each open investigation (report by the 15th day of the month following the quarter); and

(iii) The completion of the investigation, including the methodology and results of the investigation, remedial actions taken, any internal disciplinary action taken, and any referral of the matter to the Exchange, another self-regulatory organization, the Securities and Exchange Commission or another Federal agency.

[(i)] (g) Breach

Any failure by the DMM unit to maintain confidentiality of [DMM confidential information or] Floor-based non-public order information, may result in the imposition of appropriate regulatory sanctions, including a withdrawal of the registration of one or more securities of the DMM unit or the withdrawal of the approval to operate a DMM unit.

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**[Rule 98 Former - Equities. Affiliated Persons of DMMs]**

Delete Rule in its entirety

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**[Rule 99 – (Former) Equities. Reserved]**

[Reserved]

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**Rule 104T - Equities. Dealings by DMMs**

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*[This section is applicable only to those DMM member organizations and associated approved persons that have been approved for an exemption under Rule 98 (Former)-Equities and have not been approved to operate as a DMM unit under Rule 98 - Equities. This section is not available for new entrants to become a DMM unit at the Exchange.]*

**(a) (Former)** No DMM shall effect on the Exchange purchases or sales of any security in which such DMM is registered, for any account in which he or she, his or her member organization or any other member, allied member, or approved person, (unless an exemption with respect to such approved person is in effect pursuant to Rule 98 (Former) - Equities) in such organization or officer or employee thereof is directly or indirectly interested, unless such dealings are reasonably necessary to permit such DMM to maintain a fair and orderly market, or to act as an odd-lot dealer in such security.]

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**[.13 Investment Transactions (Former).—**

*This section is applicable only to those DMM member organizations and associated approved persons that have been approved for an exemption under*

*Rule 98 (Former)- Equities and have not been approved to operate as a DMM unit under Rule 98 - Equities. This section is not available for new entrants to become a DMM unit at the Exchange.*

**(a)** Any transactions effected for the benefit of any of the following persons in stocks in which a DMM is registered must be for investment purposes:

**(i)** any member, principal executive, officer, employee or person or party active in the business of the DMM;

**(ii)** the spouse and children of any of the above-named persons or parties who reside in the same household as such person or party; or

**(iii)** any approved person who is affiliated with the DMM (other than an approved person entitled to an exemption from this Rule pursuant to Rule 98 - Equities.)

**(b)** Any transaction included within paragraph (a) may only be made as follows:

**(i)** acquisitions at prices below the last different price—on "minus" or "zero minus" ticks; and

**(ii)** liquidations at prices above the last different price—on "plus" or "zero plus" ticks—except with the prior approval of the Exchange.

**(c)** All off-Floor orders entered for any of the above-named accounts must be identified so that such orders will not be executed prior to any agency order received by the DMM at the same price even though such agency order may be received subsequent to the identified order.

**(d)** No DMM, and no member, principal executive, approved person (other than an approved person entitled to an exemption from this rule pursuant to Rule 98 - Equities) affiliated with such DMM, officer, employee or person active in the business of the DMM shall originate orders in stocks in which such DMM is registered for any account over which they exercise investment discretion.

**(e)** Transactions in a stock in which a DMM is registered effected for trust accounts, blind accounts, for the benefit of such DMM or any person specified in paragraph (a) shall be subject to the provisions of this rule. Transactions in a fund which invests broadly in securities and which may from time to time invest in a security in which a DMM is registered, shall not be subject to this rule.]

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**Rule 105 - Equities. DMMs' Interest in Pools[, Options, and Single Stock Futures]**

(a) No [member acting as a DMM or his or her member organization or any other member, principal executive or approved person in such organization] DMM unit or officer or employee thereof shall be directly or indirectly interested in a pool dealing or trading in a stock in which such [member] DMM unit is registered as a DMM.

*[This section (a)(Former) is applicable only to those DMM member organizations and associated approved persons that have been approved for an exemption under Rule 98 (Former)- Equities and have not been approved to operate as a DMM unit under Rule 98 - Equities. This section is not available for new entrants to become a DMM unit at the Exchange.]*

(a) **(Former)** No member acting as a DMM or his member organization or any other member, principal executive or approved person in such organization or officer or employee thereof shall be directly or indirectly interested in a pool dealing or trading in a stock in which such member is registered as a DMM.

(b) No member acting as a DMM or his or her DMM unit or any other member, or principal executive or officer or employee thereof, shall directly or indirectly, hold, acquire, grant or have an interest in any option to purchase or sell or to receive or deliver shares of a stock in which such member is registered as a DMM, or in any security future of a stock in which such member is registered as DMM, except as provided in this Rule. The term "listed option" as used herein shall mean an option issued by the Options Clearing Corporation and traded on a national securities exchange. The term "security future" shall have the meaning given that term in section 3(a)(55) of the Securities Exchange Act of 1934. A security future of a single stock is hereinafter referred to as a "single stock future".

*This section (b)(Former) is applicable only to those DMM member organizations and associated approved persons that have been approved for an exemption under Rule 98 (Former) - Equities and have not been approved to operate as a DMM unit under Rule 98 - Equities. This section is not available for new entrants to become a DMM unit at the Exchange.]*

(b) **(Former)** No member acting as a DMM or his or her member organization or any other member, principal executive or approved person (other than an approved person entitled to an exemption from this Rule pursuant to Rule 98 - Equities) or officer or employee thereof, shall directly or indirectly, hold, acquire, grant or have an interest in any option to purchase or sell or to receive or deliver shares of a stock in which such member is registered as a DMM, or in any security future of a stock in which such member is registered as DMM, except as provided in this Rule. The term "listed option" as used herein shall mean an option issued by the Options Clearing Corporation and traded on a national securities exchange. The term "security future" shall have the



meaning given that term in section 3(a)(55) of the Securities Exchange Act of 1934. A security future of a single stock is hereinafter referred to as a "single stock future".

(c) The term "DMM's account" shall mean the account (whether the individual account of the member organization or joint account as permitted by Rule 94 - Equities) in which the ordinary trading business of the member as a DMM is conducted. With respect to any stock position in any DMM's account, any DMM or member organization having an interest in such account may hold, acquire, grant or have an interest in listed stock options, or in single stock futures, to purchase or sell or to receive or deliver shares of such stock only where appropriate to permit such DMM to offset the risk of making a market in the underlying stock. No DMM or member organization having an interest in the DMM's account shall initiate or effect any opening transaction in a listed stock option, or in a single stock future, to offset more than a reasonable estimate of potential loss that might be incurred in relation to the DMM's market-making function.

Any such options or futures transactions shall be made in accordance with the "Guidelines for DMMs' Registered Security Option and Single Stock Futures Transactions Pursuant to Rule 105 - Equities" as promulgated by the Exchange and as may be amended from time to time. Any opening transaction that does not conform to the requirements specified in such "Guidelines," and any failure to take required action to liquidate any option or futures position within the time periods specified in such "Guidelines" shall be deemed to be a violation of this Rule 105 - Equities.

Notwithstanding the fact that a DMM's options or futures transactions may be in conformity with the "Guidelines" such DMM shall nonetheless be deemed to be in violation of Rule 105 - Equities if he or she has engaged in such options or futures transactions for manipulative or other purposes not related to offsetting the risk of making a market in the underlying registered security.

(d) A DMM unit and any officer or employee of such DMM unit that has a position in any registered security of such DMM's in any account (other than the registered security's account) may grant or have an interest in listed options or single stock futures to purchase or sell or to receive or deliver shares of such registered security but only to the extent and in the manner that the "Guidelines", as promulgated by the Exchange and as may be amended from time to time, would permit the DMM to use listed options or single stock futures as to transactions for the DMM's account.

*This section (d)(Former) is applicable only to those DMM member organizations and associated approved persons that have been approved for an exemption under Rule 98 (Former)- Equities and have not been approved to operate as a DMM unit under Rule 98 - Equities. This section is not available for new entrants to become a DMM unit at the Exchange.*

**(d) (Former)** A member, principal executive or approved person (other than an approved person entitled to an exemption from this Rule pursuant to Rule 98 - Equities), in the member organization of a DMM and any officer or employee of such organization who has a position in any registered security of such DMM in any account (other than the

DMM's account) may grant or have an interest in listed options or single stock futures to purchase or sell or to receive or deliver shares of such registered security but only to the extent and in the manner that the "Guidelines", as promulgated by the Exchange and as may be amended from time to time, would permit the DMM to use listed options or single stock futures as to transactions for the DMM's account.

**GUIDELINES FOR DMMs' REGISTERED SECURITY  
OPTION AND SINGLE STOCK FUTURES  
TRANSACTIONS PURSUANT TO RULE 105 - EQUITIES**

(a) Rule 105 - Equities provides that a DMM may use listed options and single stock futures overlying covered securities in which he or she is registered only where appropriate to offset the risk of making a market in the underlying registered security.

A DMM may not initiate or effect an opening option or single stock futures transaction to offset more than a reasonable estimate of potential loss that might be incurred in relation to the DMM's market-making function.

An option position established pursuant to Rule 105 - Equities may be established by means of any legitimate hedging strategy, provided that the net option position is on the opposite side of the market from the DMM's stock position.

Any options or single stock futures transactions effected pursuant to Rule 105 - Equities must be made in conformity with these "Guidelines".

Except as provided in paragraph (g) below, a DMM shall be deemed to be in violation of Rule 105 - Equities if he or she establishes any option or single stock futures position in a registered security which exceeds that permitted by paragraphs (b), (c) and (d) below. Except as provided in paragraph (g) below, a DMM shall also be deemed to be in violation of Rule 105 - Equities if, having established an option or single stock futures position that does not exceed that permitted by paragraphs (b), (c), and (d) below, he or she subsequently fails to take, within the time periods specified in paragraphs (e) and (f) below, such action as required to liquidate any option or single stock futures position where the net option or single stock futures position (i) exceeds the permitted number of contracts because of a change of more than 25 percent in the size of the underlying registered security position from that which existed when the option position was established; or (ii) has become on the same side of the market as the underlying registered security position. Notwithstanding the fact that a DMM's options or single stock futures transactions may be in conformity with the "Guidelines", such DMM shall nonetheless be deemed to be in violation of Rule 105 - Equities if he or she has engaged in such options or single stock futures transactions for manipulative or other purposes not related to offsetting the risk of making a market in the underlying registered security.

(b) Conditions for Opening Options Transactions to Hedge an Existing Registered Security Position with a Net Option Position on the Opposite Side of the Market.

Except as provided in paragraph (g) below, opening options transactions under Rule 105 - Equities must meet the following three conditions:

- (1) The transaction must result in a net option position on the opposite side of the market from the underlying registered security position.
- (2) The transaction must be effected solely to offset the risk of making a market in the underlying registered security.
- (3) The resulting net option position must not exceed the number of shares of the registered security position that the DMM is offsetting, based on using dynamic deltas or fixed hedge ratios as discussed below, or another hedging convention approved by the Exchange.

Any opening options transaction that does not meet all three conditions shall be deemed to be in violation of Rule 105 - Equities, except as specified in paragraph (4) and in paragraph (g) below.

(4) When a DMM holds a position in a near term (as defined in paragraph (c) below) option series which he or she wishes to replace with a more distant expiration series prior to the liquidation or expiration of such near term options series, the DMM may do so to offset a reasonable estimate of potential loss that might be incurred in the DMM's existing position in the underlying registered security subject to the provisions of paragraph (c) of Rule 105 - Equities above. In order to establish a hedged position with the more distant term options series while concurrently holding a position in the near term series which would result in an "over-hedged" position, the DMM shall enter an order, which has a reasonable expectation of being executed, no later than the close of trading on the exchange or exchanges where the option is traded on the day after the new position was established, to liquidate his or her position in the near term options series.

### **(c) Calculation of Options Positions to Offset Existing Stock Positions**

The DMM shall have the choice of offsetting his or her registered security position using either dynamic deltas, fixed hedge ratios or any other hedging convention approved by the Exchange to determine the number of option contracts permitted to offset an existing stock position.

(i) Use of dynamic deltas—In determining whether a DMM's option position complies with the third condition of paragraph (b) above, based on dynamic deltas, the Exchange will use its pricing model to calculate the appropriate delta for each option series.

#### **Example 1**

Assume the DMM is long 10,000 shares of a stock that is quoted at 50.25. The DMM wishes to offset that position by writing call option contracts. The Exchange's pricing model derives a delta for the option series of .5 based upon the \$50 bid price. The

maximum permissible option position the DMM may establish to offset his or her registered security position would be calculated as follows:

$$\frac{10,000}{100} \div .5 = 200$$


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In this example, the DMM would be permitted to write no more than 200 call contracts having a delta of .5 to offset his or her stock position.

### Example 2

Assume the DMM is long 5,000 shares and has hedged his or her position by buying 100 put option contracts with a delta of .5. Subsequently, the DMM buys 1,000 shares for his own account. The DMM could offset the additional 1,000 shares by acquiring an additional option position of 20 put contracts, calculated as follows:

$$\frac{1,000}{100} \div .5 = 20$$


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Thus, the DMM in this example would be permitted to have an option position of 120 put contracts to offset the 6,000 share stock position.

### Example 3

Assume that a DMM has a 2,000 share long position in a registered security and wishes to use options to offset the risk of loss in that position. Options at the following strike prices have been opened for trading: 40, 45, 50, 55 and 60. The deltas for those options are at 1.0, .8, .5, .2 and .05, respectively.

Since the DMM is long the stock, the DMM may offset his or her position either by writing calls or by buying puts.

In writing calls, the DMM could effect options transactions as follows:

- 20 call options with a strike price of 40 or
- 25 call options with a strike price of 45 or
- 40 call options with a strike price of 50 or

- 100 call options with a strike price of 55 or
- 400 call options with a strike price of 60.

The DMM could also combine different series of call options, such as:

- 10 call options with a strike price of 45 to hedge 800 shares and
- 16 call options with a strike price of 50 to hedge 800 shares and
- 20 call options with a strike price of 55 to hedge 400 shares.

The same principles would apply to opening transactions involving put options.

(ii) Use of fixed hedge ratios—In determining whether a DMM's option position complies with the third condition of paragraph (b) above based on fixed hedge ratios, the Exchange will use the applicable "hedge ratios" as follows:

(1) One option contract for each 100-share stock position existing at the time of the acquisition of the option contract, where such option contract is "in-the-money" as defined below.

(2) One and one-half option contracts for each 100-share stock position existing at the time of the acquisition of the option contracts, where such option contracts are "at-the-money" as defined below.

(3) Two option contracts for each 100-share position existing at the time of the acquisition of the option contracts, where such option contracts are no more than one strike price interval "out-of-the-money" as defined below.

The number of option contracts that may be used under the "hedge ratio" approach to offset a position in the underlying registered security depends upon the size of the stock position at the time of the acquisition of the option(s) and the strike price of the option(s) in relation to the market price of the stock. Not more than one "in-the-money" option, or one and one-half "at-the-money" options, or two "out-of-the-money" options to hedge each 100-share registered security position may be used. Options at the same strike price, or combinations of options at different strike prices may be used, provided the net overall options position thereby established conforms to conditions (1), (2) and (3) of paragraph (b) above and the hedge ratios. The hedge ratios may be expressed as follows:

- In-the-money option: 1 to 1
- At-the-money option: 1.5 to 1
- Out-of-the-money option: 2 to 1

*Definitions.* For purposes of these Guidelines to administer Rule 105 - Equities, an "at-the-money" option, whether a put or a call, shall be an option where the price of the underlying registered security is (i) equal to the strike price of the option, or (ii) greater or less than the strike price of the option by an amount which does not exceed one-half of the strike price interval for that particular option. For example, assume that options with a strike price interval of five points have been opened for trading at strike prices of 45, 50, 55 and 60, and the market price of the underlying stock is 52. The option with a strike price of 50 would be considered "at-the-money" since that strike price is less than one-half the five point price interval below the market price of the stock. In this example where the strike price interval is five points, the option having the strike price of 50 would be "at-the-money" when the market price of the underlying stock is traded at or between 47.50 and 52.50. If the market price of the underlying stock is *exactly* at the midpoint of the strike price interval, then options having two different strike prices would be considered to be "at-the-money". Thus, in the above example, if the market price of the underlying stock was 52.50, then both the 50 and 55 strike price options, both puts and calls, would be "at-the-money".

An "in-the-money" call option shall be any call option whose strike price is less than the lowest strike price of an "at-the-money" call option. An "in-the-money" put option shall be any put option whose strike price is greater than the highest strike price of an "at-the-money" put option. For example, assume that options have been opened for trading at strike prices of 40, 45, 50, 55 and 60 and the market price of the underlying stock is 52. Options with a strike price of 50 would be "at-the-money". Thus, call options with strike prices of 40 and 45, and put options with strike prices of 55 and 60, would be "in-the-money".

An "out-of-the-money" call option shall be any call option whose strike price is greater than the highest strike price of an "at-the-money" call option. An "out-of-the-money" put option shall be any put option whose strike price is less than the lowest strike price of an "at-the-money" put option. For example, assume as above that options have been opened for trading at strike prices of 40, 45, 50, 55 and 60, and the market price of the underlying stock is 52.50. Options with a strike price of 50 and 55 would both be "at-the-money". Thus, call options with a strike price of 60, and put options with strike prices of 40 and 45 would be "out-of-the-money".

A near term option shall be an option that expires on the next possible expiration date for that particular option series.

#### **Example 4**

Assume that a DMM has a 2,000-share long position in a registered security and wishes to use a fixed hedge ratio approach to options to offset the risk of loss in that position. The market price of the stock is 52, and options at the following strike prices have been opened for trading: 40, 45, 50, 55 and 60.

Since the DMM is long the stock, he may offset his or her position by writing calls or by buying puts. (If the DMM had a short position in the registered security, the DMM could offset his or her position by buying calls or writing puts.)

In writing calls using the hedge ratio approach, the DMM could effect options transactions as follows:

- 20 call options with a strike price of 45 or 40 or
- 30 call options with a strike price of 50 or
- 40 call options with a strike price of 55.

The DMM could also combine different series of call options, such as:

- 10 call options with a strike price of 45 to hedge 1,000 shares and
- 9 call options with a strike price of 50 to hedge 600 shares and
- 8 call options with a strike price of 55 to hedge 400 shares.

The same principles would apply to opening transactions involving put options.

(iii) Other hedging strategies—If the DMM seeks to offset risk of loss by using a strategy other than one based on dynamic deltas or fixed hedge ratios, he shall submit such strategy to the Exchange and obtain its approval before effecting any options transactions. Such strategy must constitute a legitimate hedge and must comply with the provisions of paragraph (b) above.

(d) Conditions for Single Stock Futures Transaction to Hedge an Existing Registered Security Position with a Net Futures Position on the Opposite Side of the Market

Single stock futures transactions under Rule 105 - Equities must meet the following three conditions:

- (1) The transaction must result in a net futures position on the opposite side of the market from the underlying registered security position.
- (2) The transaction must be effected solely to offset the risk of making a market in the underlying registered security.
- (3) The resulting net futures position must not exceed the number of shares of the registered security position that the DMM is offsetting.

Any single stock futures transaction that does not meet all three conditions shall be deemed to be in violation of Rule 105 - Equities.

DMMs may purchase or sell single stock futures to hedge an existing registered security position only where the number of shares to be delivered pursuant to such contracts does not exceed the number of shares in the DMM's existing registered security position. One futures contract may be used for each 100 shares to be offset.

### **Example 5**

Assume the DMM has a 10,000 share long position in a registered security and wishes to hedge that position with single stock futures. The DMM could do so by acquiring a short single stock futures position not to exceed 100 contracts.

### **(e) Liquidating An "Excess" Option or Single Stock Futures Position on the Opposite Side of the Market from the Underlying Registered Security Position**

Where a DMM's closing position on any trading day in an underlying registered security has changed by more than 25 percent from that which existed when an offsetting option or single stock futures position was established, with the result that the DMM's net option or single stock futures position, while still on the opposite side of the market from the registered security position, then exceeds, in the case of options, that permitted by the use of deltas or hedge ratios or other approved hedging convention, or in the case of futures, the total number of contracts, the DMM shall take, or cause to be taken, action to liquidate one or more options or futures positions until his or her net option or futures position no longer exceeds the number permitted by the hedging convention used.

The DMM shall be required to enter such liquidation order, or orders, which have a reasonable expectation of being executed, by the close of trading on the exchange or exchanges where the option or futures contract is traded on the next trading day.

Notwithstanding the above, where a DMM's closing stock position has changed by more than 25 percent from that which existed when an offsetting option or futures position was established, with the result that his or her net option or futures position exceeds that permitted by paragraph (c) above by the equivalent of up to 5,000 shares (e.g., 50 in-the-money option contracts or 50 option contracts with a delta of 1.0), or 50 futures contracts the DMM shall not be required to liquidate any such "excess" options or futures contracts. The DMM shall not be required to liquidate any option or futures position which exceeds that permitted by paragraph (c) above where the DMM's closing stock position on any trading day has not changed by more than 25 percent from that which existed when such option or futures position was established.

The point in time to be observed in taking any liquidation action required by this paragraph (e) is the time of order entry, not necessarily the time when the order is actually executed. In liquidating an "excess" option or futures position, the DMM shall not be required to send to the Floor of an options or futures exchange an order or orders immediately executable "at the market", but may, if he or she so chooses, send to the Floor of an options or futures exchange an order or orders that may be "worked" by an independent broker according to his or her "broker's judgment" to obtain "best



execution". The DMM shall not, however, give specific instructions to such independent broker as to how the order or orders are to be "worked". If, while the order or orders are being "worked", the DMM's stock position changes such that it has not changed by more than 25 percent from that which existed when the offsetting option or futures position was established, the liquidation orders or the unexecuted portion of such orders may be cancelled.

When, as a result of a more than 25 percent change in the size of the DMM's stock position from that which existed when an offsetting option or futures position was established, the DMM has had to liquidate an "excess" option or futures position, the DMM shall be deemed thereby to have established a new offsetting stock/option or futures position pursuant to Rule 105 - Equities and these "Guidelines". Should the stock position continue to change in the same direction, any subsequent required liquidation action shall be taken if the closing stock position changes by more than 25 percent from that which existed when the new offsetting position was established.

### **Example 6**

Assume that a DMM has a 100,000 share long registered security stock position which he offsets using a hedge ratio approach by writing 1,000 in-the-money calls. Subsequently, the DMM's closing stock position declines to 80,000 shares long, but the DMM maintains the 1,000 contract in-the-money option position. The DMM's option position would now exceed that permitted by the hedge ratios by 200 contracts.

However, no liquidation action would be required because the DMM's stock position did not change by more than 25 percent from that which existed when the offsetting option position was established.

### **Example 7**

Assume that a DMM had a 10,000 share long registered security position which he or she offset using a hedge ratio approach by writing 100 in-the-money calls. Subsequently, the DMM's closing stock position declined to 4,000 shares long, but the DMM maintained the 100 contract in-the-money option position. In this situation, the DMM's stock position has now changed by more than 25 percent from that which existed when the offsetting option position was established. The DMM's option position now exceeds that permitted by the hedge ratios by 60 contracts.

The DMM would be required to enter an order to liquidate 60 option contracts no later than the close of trading on the exchange where the option is traded on the next trading day.

If, in this example, the DMM's closing stock position continued to decline, the next liquidation action would be taken with reference to a change of 25 percent or more in the 4,000 share stock position.

**Example 8**

Assume that a DMM had a 10,000 share long registered security position which he or she offset using dynamic deltas by writing 100 calls with a delta of 1.0. Subsequently, the DMM's closing stock position declined to 7,000 shares long, but the DMM maintained the 100 contract option position. In this situation, the DMM's closing stock position has now changed by more than 25 percent from that which existed when the offsetting option position was established. However, no liquidation action would be required because the equivalent share position represented by the number of option contracts in excess of that permitted by the use of deltas is only 3,000 shares, which is less than the 5,000 share minimum.

**Example 9**

Assume that a DMM had a 10,000 share long registered security position which he or she offset by 100 short single stock futures contracts. Subsequently, the DMM's closing stock position declined to 7,000 shares long, but the DMM maintained the 100 contract short futures position. In this situation, the DMM's closing stock position has now changed by more than 25 percent from that which existed when the offsetting futures position was established. However, no liquidation action would be required because the equivalent share position represented by the number of futures contracts is only 3,000 shares, which is less than the 5,000 share minimum.

**(f) Liquidating an Option or Futures Position on the Same Side of the Market as the Underlying Registered Security Position**

Where a DMM's position in an underlying registered security changes such that it becomes "flat" (i.e., no position) or it becomes on the same side of the market as a net offsetting option or futures position previously established pursuant to Rule 105 - Equities and these "Guidelines", the DMM shall take, or cause to be taken, action to liquidate one or more option or futures positions until his or her net option or futures position is no longer on the same side of the market as his or her stock position.

The DMM shall be required to enter such liquidation order or orders which have a reasonable expectation of being executed by the close of trading on the exchange or exchanges where the option or futures contract is traded, on the same trading day that his or her stock position became "flat" or on the same side of the market as his or her net option or futures position.

Notwithstanding the above, the DMM shall not be required to take liquidation action where his or her same side option or futures position is equivalent to a stock position of 5,000 shares or less.

The point in time to be observed in taking any liquidation action required by this paragraph (f) is the time of order entry, not necessarily the time when the order is actually

executed. The DMM may enter a "working" order along the same lines as discussed in paragraph (e) above.

If, while the order or orders are being "worked", the DMM's stock position changes such that it is no longer on the same side of the market as the DMM's net option or futures position, the liquidation orders or the unexecuted portion of such orders may be cancelled.

#### **Example 10**

Assume that a DMM had a 10,000 share long position which the DMM hedged by writing 200 calls with a delta of .5. Subsequently, his or her stock position became 1,000 shares short. The DMM's stock and net option positions would now be on the same side of the market, and the DMM would be required to enter an order which has a reasonable expectation of being executed to liquidate his or her 200 contract option position not later than the close of trading on the exchange where the option is traded, on the same trading day that his or her stock position became on the same side of the market as his or her net option position. If, in this example, the DMM had written 100 or less option contracts, which represent the equivalent of 5,000 shares of stock, the DMM would not have been required to take any liquidation action.

#### **Example 11**

Assume that a DMM had a 10,000 share long position which the DMM hedged by 100 short single stock futures contracts. Subsequently, the DMM's stock position became 1,000 shares short. The DMM's stock and futures positions would now be on the same side of the market, and the DMM would be required to enter an order that has a reasonable expectation of being executed to liquidate the 100 contract futures position not later than the close of trading on an exchange where the futures contract is traded, on the same trading day that the stock position became on the same side of the market as the futures position. If, in this example, the DMM's futures position had been 50 or fewer contracts, which represents the equivalent of 5,000 or fewer shares of stock, the DMM would not have been required to take any liquidation action.

#### **(g) Long Term Option or Futures Strategy to Offset Market-Making Risk**

Notwithstanding any other provision of these "Guidelines" regarding the establishment and liquidation of option or futures positions, the DMM may, with the approval of the Exchange, establish an option or futures position, and not be subject to liquidation requirements as to such option or futures position, to offset general market-making risk as to any registered security. The DMM shall submit a long term option or futures strategy to the Exchange for its approval prior to effecting any option or futures transactions. The Exchange shall not grant approval of any such long term option strategy unless option positions, when established, consist of out-of-the-money options which are not near term options. A DMM may establish an option or futures position in accordance with this paragraph (g) irrespective of an existing position in the subject registered security

provided that the option or futures position is a reasonable offset of the DMM's dealer risk in the subject registered security. The objective of such a strategy shall be the maintenance of a long term option or futures position which would offset market-making risk irrespective of day-to-day fluctuations in the DMM's position in the registered security. The Exchange shall terminate approval for such a long term option or futures strategy, and may deem the DMM to be in violation of Rule 105 - Equities, in any case where the Exchange shall determine that the DMM's market-making decisions have been influenced by the existence of any long term option or futures position. A DMM who determines to establish an option or futures position pursuant to this paragraph may not, while the DMM continues to hold such position, establish any other position pursuant to any other paragraph of these "Guidelines", other than a "calendar rollover" as permitted under paragraph (b)(4) above, as to the same registered security. Conversely, a DMM who has established an option or futures position pursuant to any other paragraph of these "Guidelines" may not, while the DMM continues to hold such position, establish an option or futures position pursuant to this paragraph (f) as to the same registered security. The same principles apply with respect to single stock futures.

#### **(h) Prohibition Against Front-Running of Blocks**

All members and member organizations should not trade in options or in underlying securities by taking advantage of their possession of material, non-public information concerning block transactions in these securities. It would be improper for a member or person associated with a member who has knowledge of a block transaction in any security underlying an option or of a block transaction in the option covering that security, before information concerning the block transaction has been made publicly available, to take advantage of the non-public information in his or her possession and execute or cause to be executed an order (1) to buy or sell an option, while in possession of non-public information concerning a block transaction in the underlying stock, or (2) to buy or sell an underlying security, while in possession of non-public information concerning a block transaction in an option covering that security, for an account in which such member or associated person has an interest or for an account with respect to which such member or associated person exercises investment discretion. A DMM may not establish an offsetting option position in a registered security stock if he or she is in possession of material, non-public information concerning a block transaction in such stock.

#### **(i) Recording of Option or Futures Positions**

Any option or futures position relating to a DMM's account and established or increased pursuant to Rule 105 - Equities shall be recorded for bookkeeping purposes in a separate "memo" account. Each time a transaction in the overlying option, or single stock futures contract, is effected for the DMM's account, the DMM's registered security position, shall also be recorded in the "memo" account.

#### **(j) Reporting of Accounts**

In a manner prescribed by the Exchange, each DMM shall file with the Division of Market Surveillance and keep current a list identifying all accounts in which the DMM, his or her member organization, or any other member, principal executive or approved person of such member organization or any officer or employee thereof has a direct or indirect interest and in which are effected options or single stock futures transactions in which any of his registered securities is the underlying security. No such DMM, member organization, member, principal executive, approved person, officer or employee shall engage in options or single stock futures transactions in which any of such stocks of any such DMM is the underlying security in any account which has not been reported to the Exchange.

**(k) Reporting of Transactions**

In the event that any DMM, his or her member organization, or any other member, principal executive or approved person in such member organization or officer or employee of such member organization engages in any option or single stock futures transaction in which any registered security of the DMM is the underlying security, such DMM, person or party shall submit to the Division of Market Surveillance, in such automated format and with such frequency as the Exchange may prescribe, such information concerning such option or single stock futures transaction as the Exchange may require.

**(l) Alteration of Stock Positions Due to Off-Hours Trading**

See Paragraph (d)(v) of Rule 900 - Equities (Off-Hours Trading: Applicability and Definitions) in respect of DMMs' Off-Hours Trading orders that require the liquidation of an options or single stock futures position pursuant to Rule 105 - Equities and these Guidelines.

**(m) DMM Shall Not Be Options or Single Stock Futures Market-Maker**

No DMM unit or officer or employee thereof shall act as an options market-maker or option DMM, or function in any capacity involving market-making responsibilities, in any option as to which the underlying security is a stock in which the DMM is registered as such, nor shall any such persons function in any market making capacity with respect to any single stock futures contract of a security in which such DMM is registered as such.

**(m) Specialist Shall Not Be Options or Single Stock Futures Market-Maker (Former)**

*This section is applicable only to those DMM member organizations and associated approved persons that have been approved for an exemption under Rule 98 (Former)-Equities and have not been approved to operate as a DMM unit under Rule 98 - Equities. This section is not available for new entrants to become a DMM unit at the Exchange.*

(i) Except as provided below, no equity DMM, his or her member organization, other member, principal executive or approved person in such member organization or officer or employee thereof shall act as an options market-maker or option specialist, or function in any capacity involving market-making responsibilities, in any option as to which the underlying security is a stock in which the DMM is registered as such, nor shall any such persons function in any market making capacity with respect to any single stock futures contract of a security in which such DMM is registered as such.

(ii) Notwithstanding the above, an approved person of an equity DMM entitled to an exemption from this rule under Rule 98 - Equities may act as a competitive market maker, competitive options trader, registered options trader, or as a specialist or market maker in any option as to which the underlying security is a stock in which the associated DMM is registered as such, or in any single stock futures contract of a security in which the associated DMM is registered as such; provided, however, that if an approved person is so acting as an options market maker pursuant to this paragraph, or in a market making capacity with respect to a single stock futures contract pursuant to this paragraph, neither that approved person, nor any other approved person of the DMM, may act as a market maker in any equity security in which the associated DMM is registered as such and which underlies an option as to which the approved person acts as an options market maker, or is subject to delivery pursuant to a single stock futures contract as to which the approved person acts in a market making capacity.

(iii) Notwithstanding the above, an approved person of an equity DMM entitled to an exemption from this rule under Rule 98 - Equities may act in a market making capacity other than as a specialist in any Exchange Traded Fund on another market center, and may act as a specialist or in any other market making capacity in any option as to which the underlying security is such an Exchange Traded Fund in which the associated DMM is registered as such on the Exchange.

#### **(n) Use of Both Options and Single Stock Futures to Hedge Registered Security Position**

If a DMM chooses to hedge a registered security position with positions in both options and futures contracts, the resulting total market share position, when established, may not exceed the size of the existing registered security stock position being hedged. Any excess or same side of the market equivalent share position must be liquidated in accordance with the principles of this rule.

#### **Example 12**

Assume that a DMM had a 5,000 share long position which he or she hedged by 50 short single stock futures contracts. Subsequently, the DMM's stock position became 10,000 shares long. The DMM now chooses to hedge the additional 5,000 share stock position with stock options. To do so, in this example, the DMM's stock option position must be 50 or fewer contracts, which represents the equivalent of 5,000 or fewer shares of stock. If the DMM's registered security long position subsequently falls below 10,000 shares, or

if it becomes a short position, the DMM must liquidate a sufficient amount of the single stock futures or stock options to comply with the principles of this rule.]

\* \* \* \* \*

**Rule 123B - Equities. Exchange Automated Order Routing System**

\* \* \* \* \*

**[DMM Booth Wire Policy**

**A. Authorization for Booth Wires**

1. Unless it does a business in securities in which it is not registered, no DMM unit shall be authorized by the Exchange to have a booth wire.

**B. DMMs' Communications by Means of Their Own Booth Wires or Booth Wires Assigned to Other Members/Member Organizations**

1. A DMM may communicate with the upstairs trading desk of a member organization by means of a booth wire assigned to that organization only under the following conditions:
  - a. a DMM may not accept an order in a registered security by means of a booth wire.
  - b. a DMM may not accept a modification of an order already in his possession by means of a booth wire.
  - c. if a DMM does not have an order of a member organization in his or her possession, he or she may not initiate a communication with that organization's upstairs trading desk.
  - d. if a DMM does have an order in his or her possession from the member organization, the DMM may initiate a conversation by means of that organization's booth wire with that organization's block trading desk, or he or she may respond to a request for such a conversation. The DMM may not, however, initiate such a conversation if he or she has orders on the same side of the market in his or her possession from more than one member organization and the execution of those orders might be impacted as a result of a booth wire conversation with the upstairs trading desks of the member organizations that entered the orders.

- e. a DMM may engage in a conversation with the upstairs trading desk of a member organization as permitted herein only for the purpose of discussing general market conditions or known buying and selling interest that may have an impact upon the execution of an order in the DMM's possession or, where the DMM does not have an order in the DMM's possession, upon a decision to enter an order.
- f. in no event may a DMM disclose information the DMM is required to keep confidential under Exchange rules and policies, and in no event may a DMM disclose information that the DMM would not make available, in the routine course of discharging the DMM's market making and agency responsibilities, either upon the DMM's own initiative or upon request, as appropriate, to any member on the Floor, or to any other member organization's upstairs trading desk by means of that organization's booth wire.

C. DMMs' Responsibility to Be Fair and Impartial in Booth Wire Communications

- 1. DMMs are responsible for communicating, as permitted under Exchange rules and policies, relevant market information in a fair and impartial manner. A DMM shall not favor any particular member organization in determining the appropriateness of responding to requests to communicate with a member organization's upstairs trading desk by means of a booth wire, but shall respond to all such requests insofar as the level of market activity and overall market conditions permit the DMM to do so at the time the DMM receives a request for a booth wire communication.
- 2. A DMM who fails to act in a fair and impartial manner in responding to requests for a booth wire communication, as permitted herein, shall be deemed to be acting in contravention of just and equitable principles of trade.]

\* \* \* \* \*

**Rule 900 - Equities. Off-Hours Trading: Applicability and Definitions**

\* \* \* \* \*

**Applicability of Other Exchange Rules**

(b) As modified by this Rule 900 - Equities, all other Exchange Rules shall also so apply, except that the following shall *not* so apply:

(i) all provisions pertaining to Regulation NMS in the incorporated Rules; and

(ii) Rule 45 - Equities (Application of Rules) through Rule 128B – Equities (Publications of Changes, Corrections, Cancellations or Omissions and Verification of Transactions), except that the following *shall* apply:



\* \* \* \* \*

**DMM, Odd-Lot Brokers, and Registered Traders**

104 - Equities	Dealings and Responsibilities of DMM
104T - Equities	(Dealings by DMMs) (paragraph (a) of Supplementary Material .13 only)
104A - Equities	(DMM—General) (Supplementary Material .50 only)
105 - Equities	(DMM Interest in Pools[and Options]) as provided in paragraph (d)(v) of this Rule
118 - Equities	(Orders To Be Reduced and Increased on Ex-Date) as provided in paragraph (d)(vi) of this Rule
121 - Equities	(Records of DMM)
128B - Equities	(Publications of Changes, Corrections, Cancellations or Omissions and Verification of Transactions)

\* \* \* \* \*

**(d) Interaction among Off-Hours Trading Rules and Floor Rules**

\* \* \* \* \*

[(iii) Notwithstanding the limitations on the transactions of a DMM in securities in which the DMM is registered set forth in Supplementary Material .12 of Rule 104 - Equities, a DMM:

(A) may assign to an investment account any security in which the DMM is registered acquired through the Off-Hours Trading Facility; and

(B) may purchase securities through the Off-Hours Trading Facility to cover a short position in his dealer account.]

[(iv)] (iii) The limitations on the security (or, in the case of a DMM,) and transactions of a DMM , shall not apply to transactions effected through the Off-Hours Trading Facility. However, the member shall include in any calculation of his aggregate position in a security any position in the security that the member acquires through the Off-Hours Trading Facility.

[(v) A DMM shall not enter an order in securities in which the DMM is registered through the Off-Hours Trading Facility for any account in which the DMM or the DMM's member organization has a direct or indirect interest if the execution of the order would create a position in the security that would require the DMM to liquidate an options or single stock futures position pursuant to Rule 105 - Equities and its Guidelines.]

[(vi)] (iv) For the purpose of applying Rule 118 - Equities to Off-Hours Trading, securities will not become quoted ex-dividend, ex-distribution, ex-rights or ex-interest on any day until after the close of Off-Hours Trading.

\* \* \* \* \*