

Text of the Proposed Rule Change:¹**Rules of NYSE Alternext US LLC**

General and Floor Rules**PART I—General Rules****[Rule 1. Hours of Business**

Except as otherwise determined by the Board of Directors, the Exchange shall be open for the transaction of business on every business day, Monday through Friday. At 9:00 a.m., official announcement shall be made that the Exchange is open for trading in options on debt securities. At 9:30 a.m., official announcement shall be made that the Exchange is open for all other business purposes. The Exchange shall remain open until closed by official announcement at 4:00 p.m.; provided however, that option transactions in debt options may be effected on the Exchange only until 3:00 p.m. and all other option transactions may be effected on the Exchange until 4:00 p.m. each business day at which times no further debt or other options transactions may be made.

"After-Hours Trading" (as defined in Rule 1300(e)(iii)) shall be conducted during such hours as the Exchange may from time to time specify.

Except as may be otherwise determined by the Board of Directors, the Chief Executive Officer of the Exchange, or his designee, shall have the power to halt, extend or suspend trading in some or all securities traded on the Exchange, to close some or all Exchange facilities, and to determine the duration of any such halt, extension, suspension or closing, when he deems such action to be necessary or appropriate for the maintenance of a fair and orderly market or the protection of investors, or otherwise in the public interest, due to extraordinary circumstances, such as (1) actual or threatened physical danger, severe climatic conditions, civil unrest, terrorism, acts of war, or loss or interruption of facilities utilized by the Exchange; (2) a request by a governmental agency or official; or (3) a period of mourning or recognition for a person or event. In considering such action, the Chief Executive Officer of the Exchange, or his designee, shall consult with the Vice Chairman or Senior Supervisory Officer on the Floor, if available, and such available Senior Floor Officials as he deems appropriate under the circumstances. The Chief Executive Officer of the Exchange, or his designee, shall notify the Board of Directors of actions taken pursuant to this Rule, except for a period of mourning or recognition for a person or event, as soon thereafter as is feasible.

¹ New text is underscored and deleted text is in brackets.

••• *Commentary* -----

.01 Holidays.—The Board has determined that the Exchange will not be open for business on New Year's Day, Martin Luther King, Jr. Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day or Christmas Day. Martin Luther King, Jr. Day, President's Day, and Memorial Day will be observed on the third Monday in January, the third Monday in February and the last Monday in May, respectively, in accordance with Federal legislation.

The Board has also determined that, when any holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday, and that when any holiday observed by the Exchange falls on a Sunday, the Exchange will not be open for business on the following Monday, unless unusual business conditions exist at the time.

.02 Options Trading after 4:00 p.m.—The Board has determined that no option series shall freely trade after 4:00 p.m. except that broad stock index group options and options on select Exchange-Traded Fund Shares shall freely trade until 4:15 p.m. each business day. However, one trading rotation in any class of options contracts may be effected even though employment of the rotations will result in the effecting of transactions on the Exchange after 4:00 p.m., provided:

- (1) Trading in the underlying security opens or re-opens after 3:30 p.m. (N.Y. time); and promptly thereafter, the Exchange commences an opening or re-opening rotation in the corresponding options;
- (2) Such rotation was initiated due to unusual market conditions pursuant to Rule 918, and (i) notice of such rotation is publicly disseminated no later than the commencement of the rotation or 4:00 p.m. (N.Y. time), whichever is earlier; or (ii) notice of such rotation is publicly disseminated after 4:00 p.m., and the rotation does not commence until five minutes after news of such rotation is publicly disseminated; or
- (3) For those option classes trading on the ANTE System, an automated trading rotation will be held at the close of each trading day and shall commence as soon as practicable after 4:00 p.m. or 4:15 p.m. for select index options and options on select Exchange-Traded Fund Shares.
- (4) A trading rotation commenced under either (1) or (2) above, must be authorized by two (2) Floor Officials.

If prior to 4:00 p.m., a trading rotation is in progress and a Senior Floor Official and a Floor Official determine that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m. Except for a trading rotation held pursuant to (3) above, any trading rotation commenced after 4:00 p.m. must be approved by a Senior Floor Official.

.03 Transactions in unit investment trust securities listed pursuant to Section 118B of the Company Guide may be effected on the Exchange until 4:15 p.m. each business day.

.04 The Exchange shall be open for trading in EUROTOP 100 Index options at 8:30 a.m. and shall cease trading in such options at 11:30 a.m. on each business day.

.05 The hours of business for a security traded on the Exchange pursuant to unlisted trading privileges shall generally be the same as the hours during which the security is traded in the primary market for such security, provided, however, that Exchange specialists in Nasdaq securities may send quotations to the SIP between 9:25 and 9:30 a.m., and such quotations shall be for test purposes only. Notwithstanding the foregoing, in accordance with Rules 1000 and 1000A, Portfolio Depositary Receipts and Index Fund Shares trading on the Exchange pursuant to unlisted trading privileges may trade until 4:00 p.m. or 4:15 p.m. as specified by the Exchange.

Rule 2. Visitors

Visitors shall not be admitted to the Floor except with the permission of an Officer of the Exchange or a member of the Board of Directors.]

[Rule 21. Appointment of the Senior Supervisory Officer, Senior Floor Officials, Exchange Officials and Floor Officials

(a) Senior Supervisory Officer.— Each director of the Exchange who spends a substantial part of his time on the Floor shall serve as a Senior Floor Official. The Chief Executive Officer or his designee, or the Chief Regulatory Officer or his designee, subject to the approval of the Board, shall designate one of the directors serving as a Senior Floor Official to act as the Senior Supervisory Officer on the Floor. If none of the directors spend a substantial part of their time on the Floor, the Chief Executive Officer or his designee, or the Chief Regulatory Officer or his designee shall designate one of the Senior Floor Officials (appointed pursuant to paragraph (b) of this Rule) to act as the Senior Supervisory Officer on the Floor. In the absence of the person designated as the Senior Supervisory Officer on the Floor, the Senior Floor Officials (appointed pursuant to paragraph (b) of this Rule), according to an order of succession to be prescribed at the time of appointment, or the acting Senior Floor Official, as provided in paragraph (c) of this Rule, shall exercise the authority of the Senior Supervisory Officer on the Floor.

(b) Senior Floor Officials.— The Chief Executive Officer or his designee, or the Chief Regulatory Officer or his designee, in consultation with the Senior Supervisory Officer on the Floor, may, subject to the approval of the Board, appoint additional Senior Floor Officials from among the Exchange Officials (appointed pursuant to paragraph (d) of this Rule), who spend a substantial part of their time on the Floor of the Exchange.

(c) Floor Officials.— The Chief Executive Officer or his designee, or the Chief Regulatory Officer or his designee, subject to the approval of the Board, shall appoint as Floor Officials qualified employees of the Exchange and each Exchange Official (appointed pursuant to paragraph (d) of this Rule) who spends a substantial part of his

time on the Floor, and such other persons who are active on the Floor and familiar therewith, as the Chief Executive Officer or his designee or the Chief Regulatory Officer or his designee shall determine to be necessary for the effective and orderly supervision of the operations on the Floor. In the event all of the Senior Floor Officials are absent from the Floor, the senior Exchange Official or the senior employee of the Exchange who is serving as a Floor Official, as the case may be, according to an order of succession to be prescribed at the time of appointment, shall serve as the acting Senior Floor Official.

(d) Exchange Officials— Subject to the approval of the Board of Directors, and after seeking the advice of members, member organizations and allied members, the Chief Executive Officer or his designee, or the Chief Regulatory Officer or his designee, shall from time to time appoint a number of members of the Exchange, and individuals who are employed by or associated with a member organization in a senior capacity, to serve as Exchange Officials. In selecting such Exchange Officials, due consideration shall be given to the various phases of Exchange activities and member organization operations.

••• *Commentary* -----

.01 Floor Officials (other than directors and Exchange Officials) are to be selected from among nominees recommended by members who spend a substantial part of their time on the Floor. Any organization or association, which is composed of members who are active on the Floor and is organized for the purpose of representing the interests of such members or any segment thereof engaged in performing specific Floor functions, may submit to the Secretary of the Exchange a slate of nominees for appointment as Floor Officials. The Board shall have the authority to determine whether or not a particular organization or association represents a sufficient number of members active on the Floor of the Exchange to warrant its submission of a slate of nominees for appointment as Floor Officials, and the Board may require the submission of such records and data concerning any such organization or association as it may deem appropriate for making such determination. All nominees shall be persons who have had experience and are familiar with Floor activities and operations. Names of nominees shall be submitted to the Secretary of the Exchange at least three weeks prior to each annual meeting of the Exchange, and at such other times as the Chief Executive Officer or his designee, or the Chief Regulatory Officer or his designee may designate in order to fill a vacancy or to appoint additional Floor Officials. If the number of nominees submitted in accordance with the above provisions shall not be equal to at least fifty percent more than the number of Floor Official positions to be filled at any given time, the Chief Executive Officer or his designee or the Chief Regulatory Officer or his designee may request the Senior Floor Officials to submit names of additional nominees so that the total number of nominees is equal to at least fifty percent more than the number of positions to be filled.

Floor Officials appointed pursuant to this rule shall serve until the next annual meeting of the Exchange and until their successors are appointed and take office; provided, however, that a Floor Official who ceases to be active on the Floor shall no longer serve in such capacity, and provided further, that the Chief Executive Officer or his designee, or the

Chief Regulatory Officer or his designee may at any time, with the approval of the Board, remove any Floor Official from office for cause.

Rule 22. Authority of Floor Officials

(a) Senior Supervisory Officer.—The person serving as the senior supervisory officer on the Floor, shall have general authority

1. to supervise the Floor Officials and the Senior Floor Officials in the performance of their responsibilities on the Floor;
2. to redelegate his powers on the Floor to Senior Floor Officials and Floor Officials appointed pursuant to Rule 21;
3. to promote fair and orderly operations on the Floor;
4. to effect compliance with accepted and established standards of conduct and decorum on the Floor;
5. to advise the Chief Executive Officer in connection with Floor facilities and administration;
6. to exercise any authority conferred upon Senior Floor Officials or Floor Officials;

and shall have such other and additional authority on the Floor as the Board, either upon recommendation of the Chief Executive Officer or upon its own initiative, may, by rule or otherwise, prescribe.

(b) Powers in Special Circumstances.—Where unusual circumstances call for prompt action, the Senior Supervisory Officer on the Floor, in consultation with the available Senior Floor Officials and the Chief Executive Officer or his designee, may reallocate any security to another specialist pending action by the Board as soon as practicable thereafter. In an emergency, the Senior Supervisory Officer on the Floor, the Senior Floor Officials, and the Chief Executive Officer or his designee, or such of them as may then be available, acting jointly, may halt or suspend any or all trading on the Exchange, or may reopen after a halt or reinstate after a suspension any trading previously halted or suspended pursuant to this paragraph, and such decision shall remain in effect until and unless changed by the Board at a meeting to be held as soon as practicable thereafter.

(c) Floor Officials.—A Floor Official shall be an officer of the Exchange, and in addition to such other powers and duties as the Board may prescribe, by rule or otherwise, or as the Chairman, or the Chief Executive Officer if delegated by the Chairman, subject to the approval of the Board may delegate, shall have authority

1. to supervise openings and reopenings of securities;

2. to halt or to reopen trading in a security;
3. to resolve market disputes submitted to him by members;
4. to regulate and supervise unusual situations which may arise in connection with the making of bids, offers or transactions;
5. to ascertain from a member whether he is bidding or offering pursuant to an off-Floor order for an account in which to his knowledge a member or member organization has an interest, and to require the member so bidding or offering to announce that fact in the trading crowd at frequent intervals; and
6. to supervise the operation of the applications of the System as defined and described in Section 7 of Part II of the Rules of the Exchange ("ITS Rules"), including the authority to resolve market disputes involving ITS Rules arising between Exchange members and members of other ITS participating market centers.

In addition, a Floor Official with the concurrence of a Senior Floor Official may restrict or ban trading by Registered Traders, restrict or ban transactions pursuant to off-Floor orders for accounts in which members or member organizations have an interest, prohibit specialists from accepting stop or stop limit orders, or restrict or ban the use of hand signals with respect to any securities.

A member of the regulatory staff shall advise and participate in any Floor Official decision or ruling with respect to:

1. The application of the Unusual Market Exceptions to the SEC's Firm Quote Rule (Rules 115; 958A (d); 958A-ANTE (d));
2. ITS disputes (Rule 22(c)(6));
3. Member disputes (Rule 22(c)(3));
4. Cancellation or revisions to trades (Rules 118(n); 135A; 155, Commentary .05;

(d) Review of Rulings.—Any member wishing a prompt (i.e., prior to scheduled settlement) on-Floor review of a Floor Official's market decision, shall, forthwith and in the presence of the ruling Floor Official, present the matter to an Exchange Official who shall confirm, amend, or overrule the decision. The Exchange Official's decision in a matter may be promptly presented on appeal to a panel of three Senior Floor Officials who have not already ruled on the matter which panel shall confirm, amend, or overrule the decision. The Senior Supervisory Officer on the Floor may serve on a panel as a Senior Floor Official. Any remaining vacancies on the panel may be filled by Exchange Officials (who have not already ruled on the matter) in order of their seniority as Exchange Officials.

Any member wishing a prompt (i.e., prior to scheduled settlement) on-Floor review of a market decision of a Floor Official made with the concurrence of a Senior Floor Official shall, forthwith and in the presence of the ruling Floor Official and Senior Floor Official, present the matter to a panel of three Senior Floor Officials who have not already ruled on the matter which panel shall confirm, amend, or overrule the decision. The Senior Supervisory Officer on the Floor may serve on a panel as a Senior Floor Official. In the event that three Senior Floor Officials are not available, Exchange Officials who have not already ruled on the matter may serve on a panel in order of their seniority as Exchange Officials.

A member of the regulatory staff shall advise and participate in any review of a Floor Official decision or ruling that required the advice and participation of a member of the regulatory staff in the initial Floor Official ruling.

The decision or ruling of a Floor Official or Officials, Exchange Official, or three Senior Floor Official panel shall be binding on members. Notwithstanding the foregoing, at any point after establishing a loss (or profit) through clearance and complying with the highest decision (if any) made in a matter, either party to the matter may elect to submit it to arbitration pursuant to the Arbitration Rules of the Exchange. The final decision or ruling on the Trading Floor shall not be binding on the arbitrators, but they may give it such weight as they feel is appropriate. Not all decisions or rulings on the Trading Floor may be subject to arbitration.

(e) Two Floor Officials in consultation with a designated senior executive officer of the Exchange may summarily exclude a member or person associated with a member or member organization from the Exchange premises for not longer than the remainder of the trading day for the following violations:

- Physical violence
- Unbusinesslike conduct
- Harassment (as set forth in Exchange Rule 16)
- Failure to abide by a Floor Official's ruling
- Property damage
- Enabling/Assisting suspended member or associated person to gain improper access to the Floor
- Failure to supervise a visitor

Any action taken by Floor Officials under this paragraph (e) shall not preclude additional disciplinary action under Exchange Rules.

Where a member or persons associated with a member or member organization is summarily excluded from the Floor pursuant to this paragraph (e), that member or associated person shall have the right to request reinstatement from Floor Officials after a sufficient "cooling-off" period has elapsed. If, in the judgment of two Floor Officials (at least one of whom must have participated in the initial decision to exclude), the member or associated person no longer poses an immediate threat to the safety of persons or property, or the orderly conduct of business, the member or associated person shall be permitted to return to the Floor.

••• *Commentary* -----

.01 A Floor Official who halts or reopens trading shall immediately notify the Senior Supervisory Officer or Senior Floor Official available, and the Market Operations Division, and, in the case of a non-regulatory halt or a reopening following a non-regulatory halt, the Floor Official shall receive the prior concurrence of a Senior Floor Official or Exchange Official.

.02 A written record of all Floor Official decisions or rulings must be made on a form provided by the Exchange. The written record should be prepared as soon as practicable after the decision or ruling is made. Floor Officials must submit the completed rulings forms to the Exchange at the end of each trading day. Failure to submit completed rulings forms may result in the removal of a Floor Official or a Floor Official becoming ineligible for reappointment.

.03 A Floor Official should report any problems regarding Floor facilities and administration to the Senior Supervisory Officer or to the Market Operations Division, and should consult with the Senior Supervisory Officer or Senior Floor Official available or the Rulings, Legal and Regulatory, or Listing Qualifications Departments concerning the interpretation or application of rules or policies in unusual circumstances. In addition, a Floor Official may consult those Departments regarding any other market decision or dispute.]

[Rule 27A. Allocation of Options

(a) The Exchange allocates options admitted to dealings on the Exchange.

(b) The Exchange shall select the specialist that appears best able to perform the functions of a specialist in the security to be allocated. Factors to be considered in the allocation may include, but are not limited to: (1) quality of markets made by the specialist, (2) experience with trading the security or similar securities, (3) willingness to promote the Exchange as a marketplace, (4) operational capacity including number and quality of professional staff, (5) number and quality of support personnel, (6) record of disciplinary and cautionary actions including significant pending enforcement matters, (7) evaluations, (8) Specialist Floor Broker Questionnaire ratings and data, (9) the degree of interest expressed by a specialist in receiving the allocation in question, (10) undertakings by specialist applicants with respect to market quality, (11) order flow

statistics, (12) the existence of a common ownership or similar economic interest among one or more specialists, and (13) a recommendation by the specialist to list the options. Specialists that are subject to a preclusion on new allocations as a result of a disciplinary proceeding or action by the Exchange's Enforcement Department only are eligible for allocations of "related securities" as described in Commentary .01 of this Rule.

(c) Option specialists must submit an application to the Exchange to be considered for a new allocation of these securities.

(d) At regular intervals, the Exchange shall prepare a list (the "pre-allocation list") of the most qualified option specialists on the Exchange based upon criteria enumerated in paragraph (b) of this Rule. In the event that the Exchange determines to list an option following its designation by another exchange, that option shall be allocated to the next specialist on the pre-allocation list unless, in the opinion of the Exchange, a material performance situation or another relevant matter has developed with respect to that specialist since the preparation of the pre-allocation list in which case the specialist shall be bypassed and the Exchange will determine if the specialist should be removed from the pre-allocation list.

(e) The Exchange shall reallocate an option class when (1) recommended by the Exchange's Enforcement Department, (2) a specialist requests to be relieved of a particular security for good cause, (3) a specialist's registration in a security is canceled due to disciplinary action, (4) a specialist dissolves or recombines, (5) a specialist has been determined to be in such financial or operating condition that it cannot be permitted to continue to specialize in one or more of its specialty securities with safety to investors, its creditors or other members, or (6) a specialist has become subject to the pre-borrowing requirement of Rule 203(b)(3) of Regulation SHO under the Securities Exchange Act of 1934 with respect to one of its underlying securities. The Exchange may determine to restore an option class to a specialist which had been subject to a reallocation if the conditions which led to the reallocation are corrected or no longer exist. If the original reallocation was made due to the financial or operating condition of the specialist as described in (5) above, then the Exchange may consider the equities of all parties involved, and it may, in its discretion, restore the security or securities to the specialist or allow the original reallocation to remain undisturbed. If the original reallocation was made due to the specialist becoming subject to the pre-borrowing requirement described in (6) above, then the Exchange shall restore the security or securities to the specialist if the specialist is no longer subject to the pre-borrowing requirement. The procedures set forth above in no way abrogate or limit the authority of the Exchange to take action in accordance with Rules 475 through 477.

(f) The decision of the Exchange to allocate or reallocate a security to a particular specialist may be appealed to the Board of Directors upon submission of a timely application for review by an aggrieved specialist. Such application must be submitted to the Secretary of the Exchange within five business days of the time that the aggrieved party is notified of the decision. A specialist will be deemed to have been notified of the Exchange's decision upon the earlier of (1) receipt of written notice of the decision, or (2)

the Exchange posts on one of its web sites a notice that includes the identity of the specialist that was selected. The filing of an application for review does not stay the decision of the Exchange. Any written statement and documents in support of an appeal to the Board of Directors must be submitted to the Secretary of the Exchange within 20 calendar days of the submission of a timely application for review. Exchange staff shall have 20 calendar days from receipt by the Secretary of the Exchange of the statement in support of the appeal to submit a rebuttal statement together with supporting documents. The Board of Directors may (1) limit its review of the appeal to the record created by Exchange staff together with the written statements and supporting documents submitted by the appellant and staff in connection with the appeal, or (2) consider additional information that was not included in the record, as the Board of Directors determines is appropriate to render a fair decision on the appeal. A verbatim record of the proceeding shall be kept and a written decision of the Board of Directors shall be rendered as soon as reasonably possible after the hearing. The decision of the Board of Directors shall constitute final action by the Exchange.

••• *Commentary* -----

.01 Related Securities. Options on related securities shall be automatically allocated to the specialist that is already registered in the options on the issuer's securities unless the specialist is subject to a preclusion on new allocations. In such an event, the Exchange may, nonetheless, allocate the options on a related security to the current specialist if it is determined that the trading characteristics of the newly listed option are closely related to the currently listed option.

For purposes of this Commentary, the term "related securities" means the securities of a partially or wholly owned subsidiary, securities that are convertible into the securities of the issuer, contingent value rights, a "tracking" stock designed to track the performance of the issuer or a corporate affiliate of the issuer, securities created in connection with the merger or acquisition of one or more companies, securities created in connection with a "spin-off" transaction, convertible or non-convertible senior securities, securities into which a listed security is convertible. The term "related securities" does not include Exchange Traded Funds.]

General and Floor Rules

PART II—Rules Principally Applicable to Floor Transactions

Section 4. Members Acting as Specialists

[Rule 170. Registration and Functions of Specialists

(a) No member shall act as a specialist in any security unless such member is registered as a specialist in such security by the Exchange and such registration may be revoked or suspended at any time by the Exchange.

(b) As a condition of a member's being registered as a specialist in one or more securities, it is to be understood that, in addition to the execution of commission orders entrusted to him and the performance of his obligations as an odd-lot dealer (if he is so registered) in such securities, a specialist is to engage in a course of dealings for his own account to assist in the maintenance, insofar as reasonably practicable, of a fair and orderly market on the Exchange in such securities in accordance with and when viewed in relation to the criteria set forth in paragraphs (c) and (d) of this rule and the commentary thereto. If the Exchange shall have found any substantial or continued failure by a specialist to engage in such a course of dealings, the registration of such specialist shall be subject to suspension or cancellation by the Exchange in one or more of the securities in which he is registered. Nothing herein shall limit any other power of the Board of Directors under any rule of the Exchange with respect to the registration of a specialist or in respect of any violation by a specialist of the provisions of this rule.

(c) A specialist or his member organization shall not effect on the Exchange purchases or sales of any security in which such specialist is registered, for any account in which he or his member organization is directly or indirectly interested, unless such dealings are reasonably necessary to permit such specialist to maintain a fair and orderly market, or to act as an odd-lot dealer in such security.

(d) In connection with the function of a specialist in relation to assisting in the maintenance, insofar as reasonably practicable, of a fair and orderly market in the securities in which he is registered, it is ordinarily expected that a specialist will engage, to a reasonable degree under the existing circumstances, in dealings for his own account in full lots when lack of price continuity or lack of depth in the full lot market or temporary disparity between supply and demand in either the full lot or the odd-lot market exists or is reasonably to be anticipated. Transactions on the Exchange for his own account effected by a specialist in the securities in which he is registered are to constitute a course of dealings reasonably calculated to contribute to the maintenance of price continuity with reasonable depth, and to the minimizing of the effects of temporary disparity between supply and demand, immediate or reasonably to be anticipated, in either the full lot or the odd-lot market. Transactions in such securities not part of such a course of dealings are not to be effected by a specialist for his own account.

(e) No member (other than a specialist acting pursuant to paragraphs (c) or (d) above), officer, employee or approved person who is affiliated with a specialist or specialist member organization, shall, during the period of such affiliation, purchase or sell any security in which such specialist is registered for any account in which such person or party has a direct or indirect interest. Any such person or party may, however, reduce or liquidate an existing position in a security in which such specialist is registered provided that such orders are (1) identified as being for an account in which such person or party has a direct or indirect interest; (2) approved for execution by a Senior Floor Official; and (3) executed by the specialist in a manner reasonably calculated to contribute to the maintenance of price continuity with reasonable depth. No order entered pursuant to this paragraph (e) shall be given priority over, or parity with, any order represented in the market at the same price.

••• *Commentary* -----

.01 In effecting transactions for his own account for the purpose of establishing or increasing a position, a specialist is to effect such transactions in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular stock and the adequacy of his position to the immediate and reasonably anticipated needs of the full lot and the odd-lot market. The following types of transactions to establish or increase a position are not to be effected except when they are reasonably necessary to render the specialist's position adequate to such needs:

- (a) a purchase at a price above the last sale in the same trading session;
- (b) the purchase of all or substantially all the stock offered on the book at a price equal to the last sale, when the stock so offered represents all or substantially all the stock offered in the market; and, when a substantial amount of a stock is offered at a price equal to the last sale price, the purchase of more than 50% of all the stock offered at the last sale price;
- (c) the supplying of all or substantially all the stock bid for on the book at a price equal to the last sale, when the stock so bid for represents all or substantially all the stock bid for in the market; and, when a substantial amount of a stock is bid for at a price equal to the last sale price, the supplying of more than 50% of all the stock bid for at the last sale price;
- (d) failing to re-offer or re-bid where necessary after effecting transactions described in (a), (b) or (c) above.

Transactions of these types may, nevertheless, be effected with the approval of a Floor Official or in relatively inactive markets where they are an essential part of a proper course of dealings and where the amount of stock involved and the price change, if any, are normal in relation to the market. In addition, transactions of the type described in (b) and (c) above may be effected without the approval of a Floor Official when the specialist is, respectively, purchasing stock on a zero minus tick or selling stock on a zero plus tick.

.02 Transactions by a specialist for his own account in liquidating or decreasing his position in a stock in which he is registered are to be effected in a reasonable and orderly manner in relation to the condition of the general market, the market in the particular stock and the adequacy of the specialist's positions to the immediate and reasonably anticipated needs of the full lot and the odd-lot market, and, in this connection:

- (a) the specialist may liquidate a position by selling stock on a direct minus tick or by purchasing stock on a direct plus tick only if such transactions are reasonably necessary in relation to the specialist's overall position in the stocks in which he is registered, and the specialist has obtained the prior approval of a Floor Official;

(b) the specialist should maintain a fair and orderly market during liquidation and, after reliquifying, should re-enter the market to offset imbalances between supply and demand. The selling of stock on a direct minus tick or a zero minus tick, or the purchasing of stock on a direct plus tick or a zero plus tick should be effected in conjunction with the specialist's re-entry in the market on the opposite side of the market from the liquidating transaction where the imbalance of supply and demand indicates that immediately succeeding transactions may result in a lower price (following the specialist's sale of stock on a direct minus tick or a zero minus tick) or a higher price (following the specialist's purchase of stock on a direct plus tick or a zero plus tick). During any period of volatile or unusual market conditions resulting in a significant price movement in the subject security, the specialist's transactions re-entering the market following a liquidating transaction effected by selling stock on a direct minus tick or zero minus tick, or purchasing stock on a direct plus tick or zero plus tick, should, at a minimum, reflect the specialist's usual level of dealer participation in the subject security. During such periods of unusual price movement in a security, any series of such transactions which may be affected in a brief period of time should be accompanied by the specialist's re-entry in the market and effecting transactions which reflect a significant degree of dealer participation.

.03 A specialist's quotation, made for his own account, should be such that a transaction effected at his quoted price or within the quoted spread, whether having the effect of reducing or increasing the specialist's position, would bear a proper relation to preceding transactions and anticipated succeeding transactions.

.04 A specialist should avoid participating as a dealer in opening or reopening a stock in such a manner as to reverse the balance of public supply and demand as reflected by market and limited price orders at or near the price of the previous close or halt, unless the condition of the general market or the specialist's position in light of the reasonably anticipated needs of the market makes it advisable to do so, or unless the specialist has obtained the prior approval of a Floor Official to do so. He may, however, buy or sell stock as a dealer to minimize the disparity between supply and demand at an opening or reopening.

.05 A member acting as a specialist may not effect transactions for the purpose of adjusting a LIFO inventory in a stock in which he is so acting except as a part of a course of dealings reasonably necessary to assist in the maintenance of a fair and orderly market.

.06 Members dealing for their own account are subject to the short selling rules of the Securities and Exchange Commission, and the above criteria with respect to the function of a specialist in relation to assisting in the maintenance, insofar as reasonably practicable, of a fair and orderly market in the securities in which he is registered do not require or permit any transactions in contravention of the short selling rules of the Commission.

.07 Under certain circumstances a specialist may assign securities in which he is registered to an investment account. Purchases creating or adding to a position in an investment account may not be made unless reasonably necessary to permit the specialist to assist in the maintenance of a fair and orderly market or to act as an odd-lot dealer.

In the maintenance of price continuity with reasonable depth, it is commonly desirable for a specialist to supply securities to the market, even though he may have to sell short to do so, to the extent reasonably necessary to meet the needs of the market.

A specialist may not effect a transfer of securities in which he is registered from his dealer account to an investment account if the transfer would result in creating a short position in the dealer account.

A specialist may not assign to an investment account any securities in which he is registered which were purchased in the full-lot market on a "plus" or "zero plus" tick. In addition, in order to make such assignment, he must have maintained, with respect to full-lot purchases in that security, a stabilization rate of at least 75%, measured by the tick test, as defined in Rule 111(e)(3), for the day of purchase, and for the entire calendar week encompassing that day.

If a "net long" position is created as a result of a specialist's maintenance of an investment position in a security in which he is registered while a short position in such security exists in his dealer account, the specialist may not cover such a short position by purchasing in the full-lot market on a "plus" tick. In addition, he must also limit his purchase to no more than 50% of the security offered on a "zero plus" tick, and in no event may he purchase the final full-lot offered.

Each specialist who establishes or maintains an investment account in any security in which he is registered as a specialist shall file with the Exchange in a form prescribed by the Exchange a monthly report showing his position in such account and his short position, if any, in his dealer account for each such security.

.08 (a) Notwithstanding the provisions of Commentary .01(a) and (b) above, whenever a specialist effects a principal purchase of a specialty stock in another participating market center through ITS, at or above the price at which he holds orders to sell that stock, such orders which remain unexecuted on the Floor must be filled by the specialist by purchasing the stock for his own account at the same price at which he effected his principal transaction through ITS, unless effecting such a principal transaction on the Floor, at that price, would (i) be inconsistent with the maintenance of fair and orderly markets; or (ii) result in the election of stop orders.

(b) Notwithstanding the provisions of Commentary .01(c) above, whenever a specialist effects a principal sale of a specialty stock in another participating market center through ITS, at or below the price at which he holds orders to buy that stock, such orders which remain unexecuted on the Floor must be filled by the specialist by selling stock for his own account at the same price at which he effected his principal transaction through ITS,

subject to the same conditions as set forth in (a)(i) and (ii) above and provided further that effecting such a principal transaction on the Floor, at that price, would not be precluded by the short selling rules, or would not result in a sale to a stabilizing bid.

.09 Notwithstanding the provisions of Commentary .02(a) above, whenever a specialist effects a principal purchase (sale) of a specialty stock in another participating market center through ITS, at or above (at or below) the price at which he holds orders to sell (buy) that stock, such orders which remain unexecuted on the Floor must be filled by the specialist by purchasing (selling) the stock for his own account, at the same price at which he effected his principal transaction through ITS, subject to the same conditions as set forth in Commentary .08 above.

.10 Each specialist shall keep active at all times the quotation processing facilities (known as "Quote Assist") provided by the Exchange. A specialist may deactivate the quotation processing facilities as to a stock or a group of stocks provided that Floor Official approval is obtained. Such approval to deactivate Quote Assist must be obtained no later than three minutes from the time of deactivation.

.11 The following provisions of this Rule shall not apply to the trading of Nasdaq securities pursuant to Exchange Rule 118: paragraph (e), Commentary .01, .02, .05, .07, .08 and .09.

.12 The following provisions of this Rule shall not apply to the trading of Portfolio Depository Receipts, Index Fund Shares and Trust Issued Receipts: Commentary .01, .02, .06 (to the extent that the SEC has granted "no action" relief or otherwise exempted the security from the "Short Sale Rule"), and .07.

.13 In connection with Trust Issued Receipts listed pursuant to Commentary .03 to Rule 1202 ("Single TIRs"), Commentaries .01, .02 and .07 of this Rule shall not apply to the trading of receipts for the purpose of bringing the price of the receipt into parity with the value of the securities on which the receipt is based, with the net asset value of the securities comprising the receipt or with a futures contract on the value of the securities on which the receipt is based. Such transactions must be effected in a manner that is consistent with the maintenance of a fair and orderly market and with the other requirements of this rule and the supplementary material herein.

Rule 171. Specialist Financial Requirements

Every registered specialist shall maintain tentative net capital in the amount of \$1,000,000 or in an amount sufficient to assume a position of sixty trading units of each security in which such specialist is registered, whichever amount is greater. In the event that two or more specialists are associated with each other and deal for the same specialists account, the above requirement of this rule shall apply to such specialists as one unit, rather than to each specialist individually.

• • • *Commentary* -----

.01 Every specialist who enters into a financing arrangement with any creditor either for

the purpose of meeting the requirements imposed by this rule or for the purpose of financing any specialist transactions, including arrangements made pursuant to Rule 462, shall inform the Exchange of the name of the creditor and the terms of the arrangement. Each specialist and each member organization which is a party to any such financing arrangement shall notify the Exchange of any amendment, cancellation or expiration of such arrangement at least 72 hours in advance (or such shorter period as is reasonable in the circumstances if the financial condition of the member organization would otherwise be substantially impaired). In addition to such notice and the notifications and reports otherwise required by the Exchange, the Exchange must be informed immediately by telephone (and thereafter by confirmation in writing) of the intention to issue a margin call.

.02 See Rules 360 to 363 relating to registration and reports of joint accounts.

.03 Specialists must be able to meet the requirements of Rule 171 without taking into consideration the capital required to carry or finance investment accounts.

.04 For each security in which a specialist is registered which is principally traded or priced in a U.S. marketplace other than the Exchange, such specialist shall maintain tentative net capital sufficient to assume a position of twenty trading units of such security.

.05 The term "tentative net capital" means net capital, computed in accordance with Securities Exchange Act Rule 15c3-1 before application of haircuts and undue concentration charges.

.06 Each specialist or specialist unit subject to this Rule, shall promptly notify the Exchange in writing if the tentative net capital of such specialist or specialist unit after deduction of all capital withdrawals including maturities, if any, scheduled during the next six months, falls below 125% of the minimum dollar amount required hereby (the "early warning level").

.07 In the event the tentative net capital of any specialist or specialist unit subject to this Rule falls below the early warning level, such specialist or specialist unit shall attempt to reach a written agreement with the Exchange's Financial Regulatory Services Department (FRSD) on a plan for raising the specialist or specialist unit's capital to an appropriate level or taking other appropriate action. In the event of the failure to reach such agreement within five business days following the initial response or involvement of FRSD, FRSD may refer such matter to the Committee on Floor Member Performance or the Market Quality Committee as appropriate to take such action as it shall decide is appropriate.

.08 For purposes of Rule 171, the amount sufficient to assume a position of sixty trading units shall be equal to 15% of the current market value of the position.

Rule 172. Relief and Temporary Specialists

(a) Relief Specialists.—Any member registered as a regular specialist must either (1) be associated with other members also registered as regular specialists in the same securities, either through a partnership, limited liability company, member corporation or a joint account, and arrange for at least one member of the group to be in attendance during the hours when the Exchange is open for business, or (2) arrange for the registration by at least one other member as relief specialist, who would always be available, in the regular specialist's absence, to take over the "book" and to service the market, so that there would be no interruption of the continuity of service during the hours when the Exchange is open for business.

The same obligations and responsibilities for the maintenance and stabilization of the market which rest upon regular specialists, rest also upon relief specialists while in possession of the "book."

A member registered as a specialist will be permitted to register as a relief specialist for only one particular specialist or specialist group. The Committee on Floor Member Performance will approve the registration of a regular specialist as a relief specialist provided that the surrounding circumstances are such as to permit the member to act in such relief capacity, and at the same time insure the adequate servicing of the securities in which the member is registered as a regular specialist and the proper performance of the member's specialist functions therein.

(b) Temporary Specialists.—In the event of an emergency, such as the absence of the regular and relief specialists, or when the volume of business in the particular stock or stocks is so great that it cannot be handled by the regular and relief specialists without assistance, a Floor Official may authorize a member of the Exchange who is not registered as a specialist or relief specialist in such stock or stocks, to act as temporary specialist for that day only.

A member who acts as a temporary specialist by such authority is required to file with Trading Analysis, at the end of the day, a report showing (a) the name of the security or securities in which the member so acted, (b) the name of the regular specialist, (c) the time of day when the member so acted, and (d) the name of the Floor Official who authorized the arrangement.

The Floor Official will not give such authority for the purpose of permitting a member not registered as specialist or relief specialist habitually to relieve a regular specialist at lunch periods, etc.

If a temporary specialist substitutes for a regular specialist, and if no regular or relief specialist is present, the temporary specialist is expected to assume the obligations and responsibilities of regular specialists for the maintenance and stabilization of the market.

Rule 173. Relief and Temporary Specialist Financial Requirements

(a) A full time relief specialist, i.e., one who may be called upon to act as a relief

specialist for an entire business day, shall have no financial requirement so long as his or her dealings while relieving the regular specialist are effected for the account of the regular specialist. A full time relief specialist must satisfy the financial requirements of Rule 171 with respect to the securities in which he or she is acting as a relief specialist if the relief specialist, or the specialist unit providing the relief specialist, participates in the profit and loss of the dealings by the relief specialist.

(b) There is no financial requirement with respect to a member registered as a part-time relief specialist, i.e., one who may be called upon to act as a relief specialist for less than the entire business day, usually for lunch periods, etc. Dealings effected by a part-time relief specialist while relieving the regular specialist must be made for the account of the regular specialist being relieved.

(c) There is no financial requirement for a temporary specialist acting pursuant to Rule 172(b).

Rule 174. Disclosures by Specialists Prohibited

(a) A member acting as a specialist may disclose information in regard to orders entrusted to the specialist as provided in this rule.

(b) When requested by a member, member organization, or a representative of the issuer of the security involved, the specialist may disclose to such parties the names of buying and selling member organizations in either completed or partially executed Exchange transactions unless specifically directed to the contrary by the parties involved.

(c) While acting in a market making capacity, the specialist may in response to an inquiry from a member conducting a market probe in the normal course of business provide any information about buying or selling interest in the market which may include the identity of bidders or offerors represented on his book unless the specialist has been expressly directed to the contrary by the broker who entered the order with the specialist and may also include information regarding stop orders if the specialist has a reasonable basis to believe that the member intends to trade the security at a price which stop orders would be relevant, provided that the specialist shall, while on the Floor, make the same information available in a fair and impartial manner to any member, and provided further that the specialist, when requested, shall disclose whether a bid or offer is in whole or in part for an account in which he has a direct or indirect interest.

(d) The specialist shall disclose information in regard to limited price orders entrusted to him as a specialist to the extent required by the Plan provided for in Rule 230. The provisions of the Plan shall not be construed to require a specialist to disclose the name of a bidder or offeror whose order is contained in the specialist's book.

(e) A stock specialist or specialist member organization that is also registered as the option specialist in the overlying option in a side-by-side trading environment is required to disclose on request to all participants in the option or stock trading crowds information about aggregate buying and selling interest at different price points represented by limit

orders on the option or stock books.

••• *Commentary* -----

.01 If a specialist discloses the name of a buying or selling member organization in a completed or partially executed transaction to any person (other than a Floor Official or authorized official of the Exchange), the specialist must disclose such information to any other person who requests it pursuant to the Rules.

.02 The Plan, as currently in effect, provides as follows: "With respect to limit orders held by any specialist or any Participant in any stock traded through ITS, the rules of each Participant shall provide that, so long as the off-board trading rules of such Participant as in effect on the date the Plan is filed with the SEC remain in effect, such specialist will on request and to the extent practicable supply the specialists registered in such stock or any other Participant with information relating to such limit orders. The sharing of such information following any removal of the current off-board trading rules will be dependent upon implementation of necessary equal regulation of all market makers in all markets coupled with adequate surveillance procedures."

.03 (a) On a best efforts basis, the specialist may disseminate a depth indication in any security. Such depth indication may be disseminated for the purpose of indicating that there is additional market interest to buy below the current published bid, or additional market interest to sell above the current published offer, as described in paragraph (b) below. The depth indication shall be disseminated by means of an appropriate symbolic designation, appended to the current published bid and/or offer, as appropriate, but the depth indication shall not itself be deemed to constitute a "firm quotation" for purposes of this Rule or Rule 11Ac1-1 under the Securities Exchange Act of 1934.

(b) The depth indication may be disseminated only when there is market interest, consisting of the specialist's proprietary interest as well as interest reflected by orders represented by the specialist as agent (including percentage orders), aggregating such minimum number of shares and range of prices below the published bid or above the published offer as the Exchange deems appropriate and communicates to its members and member organizations.

Rule 175. Specialist Prohibitions

(a) No specialist or his member organization, or any member, limited partner, officer, employee or approved person thereof shall, directly or indirectly:

- (1) Acquire, hold or grant an interest in any option to purchase or sell or to receive or deliver shares of a stock in which such specialist is registered, except as provided in this Rule; or
- (2) Acquire or hold any interest or participation in any joint-account for buying or selling on the Exchange, or through ITS or any other application of the System, any security in which such specialist is registered, except a joint-account with a partner of such specialist or a regular member or regular member organization

of the Exchange, which joint-account has been reported to the Exchange pursuant to Rule 360 and not disapproved; or

- (3) Acquire or hold any interest or participation in any finder's fee payable in cash, stock, or otherwise, which finder's fee is paid or to be paid by any person in connection with a transaction effected or to be effected by or with the issuer, or in any security of the issuer, of the stock in which such specialist is registered.

(b) With respect to the stock position in a specialist's account, any specialist or member organization having an interest in such account may hold, acquire or grant an interest in listed options to purchase or sell or to receive or deliver shares of such stock only where appropriate to permit such specialist to offset the risk of making a market in the underlying specialty stock. No specialist or member organization having an interest in the specialist's account shall establish or maintain any listed option position which is (i) excessive in terms of the specialist's existing position in the underlying specialty stock or (ii) excessive in terms of a reasonable estimate of potential loss that might be incurred in relation to any such equity position. Any options transactions effected pursuant to this Paragraph (b) shall be made in accordance with the "Guidelines for Specialists' Specialty Stock Options Transactions Pursuant to Rule 175" 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 position within the time periods specified in such "Guidelines," shall be deemed to be a violation of this Rule 175. Notwithstanding the fact that a specialist's options transactions may be in conformity with the "Guidelines," such specialist shall nonetheless be deemed to be in violation of Rule 175 if he has engaged in such options transactions for manipulative or other purposes not related to offsetting the risk of making a market in the underlying specialty stock.

A member, approved person in the member organization of a specialist and any limited partner, officer or employee thereof who has a position in any specialty stock of such specialist in any account (other than the specialist's account) may grant or hold an interest in listed options to purchase or sell or to receive or deliver shares of such specialty stock but only to the extent and in the manner, that both as to acquisitions and liquidations, the "Guidelines for Specialists' Specialty Stock Options Transactions Pursuant to Rule 175," as promulgated by the Exchange and as may be amended from time to time, would permit any such stock position, were it in a specialist's account, to be offset by such listed options by the interested persons in such account.

For purposes of this Paragraph (b), the term "listed option" shall mean an option issued by the Options Clearing Corporation or Trans Canada Options Inc., and the term "specialist's account" shall mean the account (whether the individual account of the specialist, the account of his member organization or a joint-account as permitted by Rule 360) in which the ordinary trading business of the specialist is conducted.

- (c) No specialist or his member organization or any member, limited partner, officer, or

approved person thereof shall act as an options specialist or function in any capacity involving marketmaking responsibilities in any option as to which the underlying security is a stock in which the specialist is registered as such. Notwithstanding the foregoing:

- (1) A specialist member organization or an approved person of a specialist registered in a stock admitted to dealings on an unlisted basis may act as a specialist, Registered Options Trader or other registered market maker in the related option provided that such persons have established and obtained Exchange approval for procedures restricting the flow of material, non-public corporate or market information between them pursuant to Exchange Rule 193, and
- (2) A specialist, specialist member organization or approved person of a specialist or specialist member organization registered in an Exchange Traded Fund Share or Trust Issued Receipt that meets the criteria set forth in Commentary .03(a) to Amex Rule 1000 or Commentary .02(a) to Amex Rule 1000A or approved by the Securities and Exchange Commission as eligible for trading arrangements under this paragraph and Rule 958(e) may act as a specialist, Registered Options Trader or other registered market maker in the related option without implementing procedures to restrict the flow of information between them and without any physical separation between the underlying Exchange Traded Fund Share or Trust Issued Receipt and the related option. In addition, paragraph (b) of this Rule and the Guidelines to this Rule are inapplicable to a specialist or specialist member organization registered in an Exchange Traded Fund Share or Trust Issued Receipt that meets the criteria set forth in Commentary .03(a) to Amex Rule 1000 or Commentary .02(a) to Amex Rule 1000A or approved by the Securities and Exchange Commission as eligible for trading arrangements under this paragraph and Rule 958(e) and the approved persons of such specialist or specialist member organization.

(d) A specialist or his member organization, or any member, limited partner, officer, employee or approved person thereof may simultaneously acquire, hold or grant interests in Exchange-Traded Fund Shares, options on Exchange-Traded Fund Shares and options on the index or portfolio of securities underlying the respective Exchange-Traded Fund Shares.

••• *Commentary* -----

.01 For purposes of this Rule, Exchange Traded Fund Shares shall be defined as including those products known generally as equity derivatives, and shall include index warrants, index linked notes, and Exchange-listed securities representing interests in open end unit investment trusts or open-end management investment companies that hold securities based on an index or a portfolio of securities.

Guidelines for Specialists' Specialty Stock Option Transactions Pursuant to Rule 175

(a) Rule 175 Overview

Rule 175 provides that a specialist may use listed options overlying securities in which he is registered only where appropriate to offset the risk of making a market in the underlying specialty stock. A specialist may not initiate or effect an opening option transaction to offset more than a reasonable estimate of potential loss that might be incurred in relation to the specialist's market making function.

An option position established pursuant to Rule 175 must be made in conformity with these Guidelines.

Except as provided in paragraph (f) below, a specialist shall also be deemed to be in violation of Rule 175 if he establishes any option position in a specialty stock which exceeds that permitted by paragraphs (b) and (c) below. Except as provided in paragraph (f) below, a specialist shall also be deemed to be in violation of Rule 175 if, having established an option position that does not exceed that permitted by paragraphs (b) and (c) below, he subsequently fails to take, within the time periods specified in paragraphs (d) and (e) below, such action as required to liquidate any option position where the net position (i) exceeds the permitted number of contracts because of a change of more than 25 percent in the size of the underlying specialty stock 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 specialty stock position.

Notwithstanding the fact that a specialist's option transactions may be in conformity with the Guidelines, such specialist shall nonetheless be deemed to be in violation of Rule 175 if he has engaged in such option transactions for manipulative or other purposes not related to offsetting the risk of making a market in the underlying specialty stock.

(b) Conditions for Opening Option Transactions to Hedge an Existing Specialty Stock Position with a Net Option Position on the Opposite Side of the Market

Except as provided in paragraph (f) below, opening option transactions under Rule 175 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 specialty stock position.
- (2) The transaction must be effected solely to offset the risk of making a market in the underlying specialty stock.
- (3) The resulting net option position must not exceed the number of shares of the specialty stock position that the specialist is offsetting, based on using dynamic deltas or fixed hedge ratios as discussed below, or another hedging convention approved by the Exchange.

Any opening option transaction that does not meet all three conditions shall be deemed to be in violation of Rule 175, except as specified in paragraph (4) and in paragraph (f) below.

- (1) When a specialist holds a position in a near-term (as defined in paragraph (c) below) option series which he wishes to replace with a more distant expiration series prior to the liquidation or expiration of such near-term option series, the specialist may do so to offset a reasonable estimate of potential loss that might be incurred in the specialist's existing position in the underlying specialty stock subject to the provisions of paragraph (b) of Rule 175. In order to establish a hedged position with the more distant term option series while concurrently holding a position in the near-term series which would result in an "over-hedged" position, the specialist 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 position in the near-term option series.

(c) Calculation of Option Positions to Offset Existing Stock Positions

The specialist shall have the choice of offsetting his specialty stock 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 specialist'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. Deltas represent the ratio of price movement in the option to price movement in the stock. The number of option contracts permitted to offset each 100 shares of stock may be calculated as follows:

(# of shares/100) delta value = # of contracts

Delta values may range from 0 to 1.

Example 1

Assume the specialist is long 10,000 shares of stock that are quoted at 50.25. He 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 specialist may establish to offset his specialty stock position would be calculated as follows:

$$\frac{10,000}{.5} = 20,000$$

100

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

Example 2

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

$$\frac{10,000}{100} \div .5 = 20$$

Thus, the specialist 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 specialist has a 2,000 share long position in a specialty stock 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 specialist is long the stock, he may offset his position either by writing calls or by buying puts.

In writing calls, the specialist could effect option 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 specialist 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 specialist'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 specialty stock 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 specialty stock 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 positions thereby established conform 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 175, an "at-the-money" option, whether a put or a call, shall be an option where the price of the underlying specialty stock 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 dollars 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-dollar price interval below the market price of the stock. In this example where the strike price interval is five dollars, 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, than 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 specialist has a 2,000 share long position in a specialty stock 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 specialist is long the stock, he may offset his position by writing calls or by buying puts, (If the specialist had a short position in the specialty stock, he could offset his position by buying calls or writing puts.)

In writing calls using the hedge ratio approach, the specialist could effect option 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 specialist 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 specialist 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 prior to effecting any option transactions. Such strategy must constitute a legitimate hedge and must comply with the provisions of paragraph (b) above.

(d) Liquidating An "Excess" Option Position on the Opposite Side of the Market from the Underlying Specialty Stock Position

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

The specialist 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 is traded on the next trading day.

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

option position which exceeds permitted by paragraph (c) above where the specialist's closing stock position on any trading day has not changed by more than 25 percent from that which existed when such option position was established.

The point in time to be observed in taking any liquidation action required by this paragraph (d) is the time of order entry, not necessarily the time when the order is actually executed. In liquidating an "excess" option position, the specialist shall not be required to send to the Floor of an options exchange an order or orders immediately executable "at the market," but may, if he so chooses, send to the Floor of an options exchange an order or orders that may be "worked" by an independent broker according to his "broker's judgment" to obtain "best execution." The specialist 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 specialist's stock position changes such that it has not changed by more than 25 percent from that which existed when the offsetting option 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 a specialist's stock position from that which existed when an offsetting option position was established, the specialist has had to liquidate an "excess" option position, the specialist shall be deemed thereby to have established a new offsetting stock/option position pursuant to Rule 175 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 5

Assume that a specialist has a 100,000 share long specialty stock position which he offsets using a hedge ratio approach by writing 1,000 in-the-money calls. Subsequently, the specialist's closing stock position declines to 80,000 shares long, but the specialist maintains the 1,000 contract in-the-money option position. The specialist's option position would now exceed that permitted by the hedge ratios by 200 contracts. However, no liquidation action would be required because the specialist's stock position did not change by more than 25 percent from that which existed when the offsetting option position was established.

Example 6

Assume that a specialist had a 20,000 share long specialty stock position which he offset using a hedge ratio approach by writing 200 "in-the-money" calls. Subsequently, the specialist's closing stock position declined to 8,000 shares long, but the specialist maintained the 200 contract "in-the-money" option position. In this situation, the specialist's stock position has now changed by more than 25 percent from that which existed when the offsetting option position was established. The specialist's option position now exceeds that permitted by the hedge ratios by 120 contracts.

The specialist would be required to enter an order to liquidate 120 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 specialist'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 8,000 share stock position.

Example 7

Assume that a specialist had a 10,000 share long specialty stock position which he offset using dynamic deltas by writing 100 calls with a delta of 1.0. Subsequently, the specialist's closing stock position declined to 7,000 shares long, but the specialist maintained the 100 contract option position. In this situation, the specialist's 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.

(e) Liquidating an Option Position on the Same Side of the Market as the Underlying Specialty Stock Position

Where a specialist's position in an underlying specialty stock 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 position previously established pursuant to Rule 175 and these Guidelines, the specialist shall take, or cause to be taken, action to liquidate one or more option positions until his net option position is no longer on the same side of the market as his stock position.

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

Notwithstanding the above, the specialist shall not be required to take liquidation action where his same side option 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 (e) is the time of order entry, not necessarily the time when the order is actually executed. The specialist may enter a "working" order along the same lines as discussed in paragraph (d) above.

If, while the order or orders are being "worked," the specialist's stock position changes such that it is no longer on the same side of the market as the specialist's net option

position, the liquidation orders or the unexecuted portion of such orders may be cancelled.

Example 8

Assume that a specialist had a 10,000 share long position which he hedged by writing 200 calls with a delta of .5. Subsequently, his stock position became 1,000 shares short. His stock and net option positions would now be on the same side of the market, and he would be required to enter an order which has a reasonable expectation of being executed to liquidate his 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 stock position became on the same side of the market as his net option position. If in this example, the specialist had written 100 or less option contracts, which represent the equivalent of 5,000 shares of stock, he would not have been required to take any liquidation action.

(f) Long-Term Option Strategy to Offset Market Making Risk

Notwithstanding any other provision of these Guidelines regarding the establishment and liquidation of option positions, the specialist may, with the approval of the Exchange, establish an option position, and not be subject to liquidation requirements as to such option position, to offset general market making risk as to any specialty stock. The specialist shall submit a long-term option strategy to the Exchange for its approval prior to effecting any option 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 specialist may establish an option position in accordance with this paragraph (f) irrespective of an existing position in the subject specialty stock provided that the option position is a reasonable offset of the specialist's dealer risk in the subject specialty stock. The objective of such a strategy shall be the maintenance of a long-term option position which would offset market making risk irrespective of day-to-day fluctuations in the specialist's position in the specialty stock. The Exchange shall terminate approval for such a long-term option strategy, and may deem the specialist to be in violation of Rule 175, in any case where the Exchange shall determine that the specialist's market making decisions have been influenced by the existence of any long-term option position. A specialist who determines to establish an option position pursuant to this paragraph (f) may not, while he 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) above, as to the same specialty stock. Conversely, a specialist who has established an option position pursuant to any other paragraph of these Guidelines may not, while he continues to hold such position, establish an option position pursuant to this paragraph (f) as to the same specialty stock.

(g) Prohibition Against Front-Running of Blocks

In Information Circulars No. 82-37, No. 85-115 and No. 90-147 (dated July 6, 1982, November 29, 1985 and September 14, 1990 respectively), the Exchange advised

members and member organizations that they 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. The Exchange noted that 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 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. The prohibitions against front-running stated in such Information Circulars shall take precedence over any requirements stated in these Guidelines. Thus, a specialist may not establish an offsetting option position in a specialty stock if he is in possession of material, non-public information concerning a block transaction in such stock.

(h) Recording of Option Positions

Any option position relating to a specialist's account and established or increased pursuant to Rule 175 shall be recorded for bookkeeping purposes in a separate "memo" account. Each time a transaction in the overlying option is effected for the specialist's account, the specialist's specialty stock position, shall also be recorded in the "memo" account.

(i) Reporting of Accounts

In a manner prescribed by the Exchange, each specialist shall file with the Exchange and keep current a list identifying all accounts in which the specialist, his member organization, or any other member, approved person of such member organization or any limited partner, officer or employee thereof has a direct or indirect interest and in which are effected option transactions in which any of his specialty stocks is the underlying security. No such specialist, member organization, member, approved person, limited partner, officer or employee shall engage in option transactions in which any of the such stocks of any such specialist is the underlying security in any account which has not been reported to the Exchange.

(j) Reporting of Transactions

In the event that any specialist, his member organization, or any other member, approved person in such member organization or limited partner, officer or employee of such member organization engages in any option transaction in which any specialty stock of the specialist is the underlying security, such specialist, person or party shall submit to the Exchange on such form or forms as the Exchange may prescribe, such information concerning such option transaction, as the Exchange may require.

(k) Preservation of Records

Each specialist shall preserve or cause to be preserved for at least three years, the first two years of which shall be in an easily accessible place, a record of every purchase or sale of any option on any of his specialty stocks, which purchase or sale is effected by such specialist, his member organization, or any other member, approved person in such member organization or limited partner, officer or employee thereof. Such record shall include the terms of the purchase or sale order, the time at which the order was entered for execution and the time at which a report of execution of such order was received by the person who entered such order.

(l) Rescinded.]

Trading of Option Contracts**Section 1. General Rules Relating to Options****[Rule 900. Applicability, Definitions and References**

(a) **Applicability**—The Rules in this Chapter (Trading of Options Contracts) shall be applicable to (i) the trading on the Exchange of option contracts issued by the Options Clearing Corporation and the terms and conditions thereof; and (ii) the exercise and settlement, the handling of orders, and the conduct of accounts and other matters, relating to option contracts dealt in by any member or member organization. Except to the extent that specific Rules in this Chapter 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 option contracts. Option contracts (as defined below) are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange.

(b) **Definitions**—The following terms as used in the Rules in this Chapter shall, unless the context otherwise indicates, have the meanings herein specified:

- (1) **Options Clearing Corporation**—The term "Options Clearing Corporation" means The Options Clearing Corporation, a subsidiary of the Participating Exchanges.
- (2) **Rules of the Options Clearing Corporation**—The term "rules of the Options Clearing Corporation" means the by-laws and the rules of the Options Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.
- (3) **Clearing Member**—The term "clearing member" means an Exchange member or member organization who or which has been admitted to membership in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.

- (4) **Participating Exchange**—The term "Participating Exchange" means a national securities exchange which has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.
- (5) **Option Contract**—The term "option contract" means a put or a call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the rules of the Options Clearing Corporation.
- (6) **Exchange Option Transaction**—The term "Exchange option transaction" means a transaction effected on the Floor of the Exchange between Exchange members for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract.
- (7) **Type of Option**—The term "type of option" means the classification of an option contract as either a put or a call.
- (8) **Call**—The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from The Options Clearing Corporation the number of shares (if the underlying security is a stock or an Exchange-Traded Fund Share) or the principal amount (if the underlying security is a Government security or certificate of deposit) of the underlying security covered by the option contract.
- (9) **Put**—The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to The Options Clearing Corporation the number of shares (if the underlying security is a stock or an Exchange-Traded Fund Share) or the principal amount (if the underlying security is a Government security or certificate of deposit) of the underlying security covered by the option contract.
- (10) **Class of Options**—The term "class of options" means all option contracts of the same type of option covering the same underlying security.
- (11) **Series of Options**—The term "series of options" means all option contracts of the same class of options having the same expiration date, exercise price and unit of trading.
- (12) **Underlying Security**—The term "underlying security" in respect of an option contract means the security which the Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase in the case of a put) upon the valid exercise of such option contract.
- (13) **Exercise Price**—The term "exercise price" in respect of an option contract means

- (i) if the underlying security is a stock, the stated price per share, or
- (ii) if the underlying security is a Government security other than a Treasury bill, the specified percentage of the principal amount, or
- (iii) if the underlying security is a Treasury bill, the specified complement of the annualized discount, or
- (iv) if the underlying security is a certificate of deposit, the specified complement of the annualized yield,

at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(14) **Aggregate Exercise Price**—The term "aggregate exercise price" in respect of an option contract means:

- (i) if the underlying security is a stock or an Exchange-Traded Fund Share, the exercise price of the option contract multiplied by the number of shares of the underlying stock or Exchange-Traded Fund covered by such option contract; or
- (ii) if the underlying security is a Government security (other than a Treasury bill), (a) the exercise price of the option contract multiplied by the principal amount of the underlying security covered by such option contract, plus (b) accrued interest computed in accordance with the provisions of Rule 859; or
- (iii) if the underlying security is a Treasury bill, the difference between the principal amount of such Treasury bill and the Aggregate Discount Amount. The "Aggregate Discount Amount" in respect of an option contract covering a Treasury bill shall be the principal amount of the underlying Treasury bill (a) multiplied by the annualized discount (100% minus the exercise price of the option contract), and (b) further multiplied by a fraction having a numerator equal to the number of days to maturity of the underlying Treasury bill on the earliest date on which it could be delivered pursuant to the rules of the Options Clearing Corporation in connection with the exercise of the option (normally 91 or 182 days), and a denominator of 360; or
- (iv) if the underlying security is a certificate of deposit, the principal amount specified in the option contract multiplied by the fraction $\frac{360 + R_1 L_1}{360 + R_2 L_2}$, where

R_1 = The stated interest rate of the particular certificate of deposit delivered in connection with the exercise of the option,

L 1 = The original maturity of such certificate of deposit, i.e, the number of days to maturity on the date it was issued,

R 2 = 100 minus the exercise price of the option contract, and

L 2 = The remaining maturity, i.e., the number of days to maturity of the certificate of deposit on the exercise settlement date.

(15) **Expiration Month**—The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

(16) **Expiration Date**—The term "expiration date" in respect of an option contract means the day and time fixed by the rules of the Options Clearing Corporation for the expiration of all option contracts covering the same underlying security and having the same expiration month as such option contract.

(17) **Long Position**—The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

(18) **Short Position**—The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

(19) **Opening Purchase Transaction**—The term "opening purchase transaction" means an Exchange option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.

(20) **Opening Writing Transaction**—The term "opening writing transaction" means an Exchange option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

(21) **Closing Sale Transaction**—The term "closing sale transaction" means an Exchange option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

(22) **Closing Purchase Transaction**—The term "closing purchase transaction" means an Exchange option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.

(23) **Covered**—

(i) The term "covered" in respect of a short position in a call option contract

means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Rule 610(f) or 610(h), respectively, of the rules of The Options Clearing Corporation, or an index option escrow receipt in a form satisfactory to the Exchange, or the writer holds in the same account as the short position on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), or on the basis of a matching principal amount (if the underlying security is a Government security or a certificate of deposit), a long position either in the underlying security or in an option contract of the same class of options having an exercise price equal to or less than the exercise price of the option contract in such short position. For purposes of the definition set forth in this paragraph (b)(23)(i), the term underlying security, when used with reference to an option relating to a Treasury bill or certificate of deposit, shall include any Treasury bill or certificate of deposit, respectively, which but for its maturity date, would be deliverable in accordance with the rules of the Exchange and The Options Clearing Corporation in connection with the exercise of the option.

(ii) The term "covered" in respect of a short position in a put option contract means the writer's obligation is secured by an option guarantee letter in a form satisfactory to the Exchange, or the writer holds in the same account as the short position, on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), or on the basis of a matching principal amount (if the underlying security is a Government security or a certificate of deposit), a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

(24) **Uncovered**—The term "uncovered" in respect of a short position in an option contract means that the short position is not covered.

(25) **Outstanding**—The term "outstanding" in respect of an option contract means an option contract which has been issued by the Options Clearing Corporation and has neither been the subject of a closing sale transaction on the Exchange or a comparable closing transaction on another Participating Exchange nor been exercised nor reached its expiration date.

(26) **Primary Market**—The term "primary market" means (a) in respect of an underlying security which is principally traded on a national securities exchange, the principal exchange market in which the underlying security is traded, and (b) in respect of an underlying security which is principally traded in the over-the-counter market, in the case of equity securities, the market reflected by the National Association of Securities Dealers Automated Quotation system ("NASDAQ"), and in the case of all other securities, the market reflected by any widely recognized quotation dissemination system or service.

- (27) **Options Trading**—The term "options trading", when not preceded by the word "Exchange", means trading in any option issued by the Options Clearing Corporation, whether or not of a class or series which has been approved for trading on the Exchange.
- (28) **Government Security**—The term "Government security" means a bond, note, bill, or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal and interest by, the United States or a corporation in which the United States has a direct or indirect interest.
- (29) **Treasury Bill**—The term "Treasury bill" means a Government security sold by the United States Treasury Department at a discount from principal amount, bearing no interest payment, and with a term to maturity of not more than one year.
- (30) **Treasury Note**—The term "Treasury note" means a Government security sold by the United States Treasury Department with a term to maturity of at least one year but not more than ten years at the time of original issuance.
- (31) **Treasury Bond**—The term "Treasury bond" means a Government security sold by the United States Treasury Department with a term to maturity of more than ten years at the time of original issuance.
- (32) **Certificate of Deposit**—The term "certificate of deposit" means a negotiable instrument, having a denomination of \$100,000 or more, issued by a bank at a fixed rate of interest for a fixed period of time, with both principal and interest payable at maturity.
- (33) **Annualized Discount**—The term "annualized discount" in respect of a Treasury bill means the percent discount from principal amount at which the Treasury bill may be purchased or sold, expressed as a discount for a term to maturity of 360 days.
- (34) **Annualized Yield**—The term "annualized yield" in respect of a certificate of deposit means the yield at which a certificate of deposit may be purchased or sold, expressed as a yield for a term to maturity of 360 days.
- (35) **Complement**—The term "complement", when used with reference to an annualized discount or annualized yield, means the difference between 100% and the annualized discount or annualized yield.
- (36) **Debt Security and Debt Option**—The term "debt security" in respect of an option contract means any bill, note, bond, certificate of deposit or other evidence of indebtedness selected by a Participating Exchange as an underlying security. The term "debt option" means an option on a debt security.

- (37) **Cash Equivalents**—The term "cash equivalents" means those instruments referred to in §220.8(a)(3)(ii) of Regulation T of the Board of Governors of the Federal Reserve System.
- (38) **Paired Security**—The term "Paired Security" means a security which is the subject of securities trading on the Exchange and Exchange option trading, provided, however, that the term "Paired Security" shall not mean an Exchange-Traded Fund Share or Trust Issued Receipt which is the subject of securities trading on the Exchange and Exchange option trading if the Exchange-Traded Fund Share or Trust Issued Receipt meet the criteria set forth in Commentary .03(a) to Amex Rule 1000 or Commentary .02(a) to Amex Rule 1000A or approved by the Securities and Exchange Commission as eligible for trading arrangements under Rule 175(c)(2) and Rule 958(e).
- (39) **Related Security**—For purposes of this Chapter, the term "Related Security" means:
- (i) in the case of an equity option, the stock or Exchange-Traded Fund Share underlying such option; and
 - (ii) in the case of a stock or an Exchange-Traded Fund Share, the option overlying such stock or Exchange-Traded Fund Share.
- (40) **Designated Options Area**—The term "Designated Options Area" means that area of the Exchange trading floor in which an option on a Paired Security is traded. Such Designated Options Area shall be physically separated from the Designated Stock Area.
- (41) **Designated Stock Area**—The term "Designated Stock Area" means that area of the Exchange trading floor in which the stock of a Paired Security is traded. Such Designated Stock Area shall be physically separated from the Designated Options Area.
- (42) **Exchange-Traded Fund Share**—For purposes of this Chapter, the term Exchange-Traded Fund Share shall include Exchange-listed securities representing interests in open end unit investment trusts or open-end management investment companies that hold securities based on an index or a portfolio of securities.
- (43) **Foreign Broker/Dealer**— The term "foreign broker/dealer" means any person or entity that is registered, authorized or licensed by a foreign governmental agency or foreign regulatory organization (or should be so registered, authorized or licensed) to perform the function of a broker or dealer in securities, or both. The term "broker" and "dealer" mean the same as set out in Sections 3 (a)(4) and 3 (a)(5) of the Securities and Exchange Act of 1934, provided that a "broker" or "dealer" may be a bank.

(44) **Short Term Option Series**— A Short Term Option Series is a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Friday that is a business day and that expires at the close of business on the next Friday that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday. Short Term Option Series shall be P.M.-settled, except for Short Term Option Series on indexes. Short Term Option Series on indexes shall be A.M.-settled.

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

(c) **References**—Exchange Contracts as defined in the Rules, include option contracts purchased or sold in Exchange option transactions.

(d) **Local Time**—All times are stated in these Rules in terms of the local time in effect in New York City.

••• *Commentary* -----

.01 The term "security", when used in the Rules of the Exchange, shall be deemed to include certificates of deposit unless the context otherwise requires]

Section 2. Underlying Securities

[Rule 918. Trading Rotations, Halts and Suspensions

a) Trading rotations—For each class of option contracts that has been approved for trading on the Exchange shall be employed:

- (1) at the opening of each business day promptly following the opening of the underlying security (if the underlying security is a stock, Exchange-Traded Fund Share or Trust Issued Receipt), or following the availability of opening quotations on the quotation display mechanism(s) approved by the Exchange (if the underlying security is a Government security or a certificate of deposit);
- (2) upon the resumption of trading in option contracts of a class or series of options that has been the subject of a halt or suspension by the Exchange;
- (3) when two (2) Floor Officials determine that other unusual market conditions are present which necessitate such a trading rotation in the interest of providing a fair and orderly market; and

(4) at the close of trading on the last trading day with respect to expiring option contracts in accordance with Rule 903(b).

(b) **Trading Halts**—Trading on the Exchange in any option contract shall be halted or suspended whenever the Exchange deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that:

- (1) trading in the underlying stock, Exchange-Traded Fund Share or Trust Issued Receipt has been halted or suspended in the trading markets and/or primary listed market,
- (2) the opening of such underlying stock, Exchange-Traded Fund Share or Trust Issued Receipt in the trading markets and/or primary listed market has been delayed because of unusual circumstances,
- (3) the Exchange has been advised that the issuer of the underlying stock, Exchange-Traded Fund Share or Trust Issued Receipt is about to make an important announcement affecting such issuer, or
- (4) other unusual conditions or circumstances are present.

Trading in option contracts of a class or series of options that has been the subject of a halt or suspension by the Exchange may be resumed upon a determination by the Exchange that the conditions which led to the halt or suspension are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading.

(c) **Supervision of Trading**—Floor Officials shall, pursuant to the provisions of Rule 22, have the same authority to supervise trading of option contracts as with respect to other securities, including the authority to delay the opening of a particular class or series of options or to halt, and reopen after a halt, trading in a particular class or series of options, or to initiate a trading rotation or implement a modified trading rotation in a particular class or series of options whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

• • • *Commentary* -----

.01 Trading rotations, which shall be conducted by the Specialist acting in such specialty options, shall be conducted in the following manner:

- (a) **Opening Rotations**—An opening trading rotation is a series of very brief time periods during which bids, offers and transactions in only a single, specified contract can be made. Taking each class of options in which he is acting in turn, the Specialist should generally first open the one or more series of options

of a given class having the nearest expiration, then proceed to series of options having the next most distant expiration, and so forth, until all series have been opened. Except as otherwise provided by the Exchange, if both puts and calls covering the same underlying security are traded, the Specialist shall determine which type of option should open first, and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions.

(b) **Modified trading rotations**—A modified rotation is an opening rotation in which each option series opens in the same manner and sequence as during a regular trading rotation stated above in paragraph (a), but is permitted to freely trade once all option series with the same expiration month have been opened. Unless otherwise approved by two Floor Officials, a modified trading rotation shall be employed in connection with all delayed openings, halts or suspensions of the underlying stock or Exchange-Traded Fund Share and after delayed openings, halts or suspensions of any option series listed for trading on the Exchange. In addition, a modified rotation may be employed in other circumstances or employed in a different manner and sequence of trading than described above provided two Floor Officials determine that such procedure should be implemented due to unusual market conditions such as a heavy influx of orders.

(c) **Closing rotations in expiring options.**—The closing rotation in each series of options subject to Rule 918(a)(4) shall commence at or as soon as practicable after 4:02 p.m. or 4:15 p.m. for options on Exchange-Traded Fund Shares, when the underlying Fund Shares themselves cease trading at 4:15 p.m., but not until a final price for the underlying stock or Exchange-Traded Fund Share is established in the trading markets and/or primary listed market for such security. Orders may be entered, modified or cancelled in a particular series of options until the commencement of rotation in such series. The Specialist shall proceed in the following manner: Taking each class of option contracts in which he is acting in turn, the Specialist should generally close the one or more series of each class having the lowest exercise price; then proceed to those series having the highest exercise price and so forth, until all series have been closed. Except as otherwise provided by the Exchange if both puts and calls covering the same underlying security are traded, the specialist may determine which type of option should close first, and may alternate the closing of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions.

.02 In conducting an opening or modified rotation pursuant to this Rule, the Specialist shall announce to the trading crowd (i) prior to opening the first option series, any material imbalances in any series to be opened, and (ii) prior to opening each options series, any material imbalance in each such series.

.03 Prior to effecting a transaction in an options series during a rotation, the Specialist

shall announce to the trading crowd a price indication which is at the following minimum price variation ("MPV"): (a) for option issues quoted under \$3 a contract, \$.05 MPV; (b) for options issues quoted at \$3 a contract or greater, \$0.10 MPV. (See Rule 952(a).)

.04 Except as otherwise provided as to Registered Options Traders in Rule 950(b)(1), orders may be entered, modified or cancelled in a particular series of options until the commencement of rotation in such series.

.05 In the event that trading in an underlying security has not opened within a reasonable time after 9:30 A.M. if the underlying security is a stock, Exchange-Traded Fund Share or Trust Issued Receipt, or after 9:00 A.M., if the underlying security is a Government security or certificate of deposit, the specialist shall report the delay to a Floor Official assigned to his zone and appropriate steps will be taken to determine the cause for the delay. The opening of trading in such options shall be delayed until the underlying security has opened unless the Senior Supervisory Officer on the Floor shall determine that the interests of a fair and orderly market are best served by opening trading in such options. Trading for a Government security or a certificate of deposit shall be deemed to have opened when opening quotations for the security become available on the quotation display mechanism(s) approved by the Exchange.]

Section 3. Conduct of Accounts for Options Trading

[Rule 933. Automatic Execution of Options Orders

(a) Only non-broker/dealer customer orders shall be eligible for execution on the Exchange's Automatic Execution System (Auto-Ex), except that the Options Floor Trading Committee ("Floor Committee") may determine, on an issue-by-issue basis, to allow the following types of orders to be executed on Auto-Ex:

- (1) Broker-dealer orders; or
- (2) Broker-dealer orders that are not for the accounts of market makers or specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

For the purposes of this Rule, the term broker/dealer includes foreign broker/dealers.

(b) Broker-dealer orders entered through the Exchange's order routing system will not be automatically executed against orders in the limit order book. Broker-dealer orders may interact with orders in the limit order book only after being re-routed to the NYSE Alternext Options Display Book (AODB) for execution.

(c) If the Floor Committee permits broker-dealer orders to be automatically executed in an issue pursuant to this Rule, then it may also permit the following with respect to such orders:

- (1) The maximum order size eligibility for broker-dealer orders may be less than the applicable order size eligibility for non-broker-dealer customer orders; and
- (2) Non-broker-dealer customer orders may be eligible for automatic execution at the current best bid or offer displayed by another options exchange pursuant to Commentary .01 while broker-dealer orders are not so eligible.

(d) Exchange Registered Options Traders must assure that orders for their own accounts are not entered on the Exchange and represented or executed in violation of the following provisions: Rule 157 (Orders With More Than One Broker), Rule 103(b) (Initiation of Transaction for Joint Acct), Rule 111(c) (Concurrent Representation), and Section 9 of the Securities Exchange Act of 1934 (Wash Sales).

(e) The Exchange shall determine the size parameters of orders eligible for entry into its Automatic Execution System (Auto-Ex). An Auto-Ex eligible order for any account in which the same person is directly or indirectly interested may only be entered at intervals of no less than 15 seconds between entry of each such order in a call class and/or a put class for the same option issue. Members and member organizations are responsible for establishing procedures to prevent orders in a call class and/or a put class for the same option issue for any account in which the same person is directly or indirectly interested from being entered at intervals of less than 15 seconds.

(f) (i) Auto-Ex may be disengaged or operated in a manner other than the normal manner in the following circumstances:

- A. Temporary Disengagement of Auto-Ex During Market Data Delays— Senior Market Operations staff, in conjunction with a Senior Supervisory Officer or Senior Floor Official, may determine to disengage Auto-Ex due to market data dissemination delays at the Options Price Reporting Authority ("OPRA") or internally at the Exchange. Auto-Ex may be disengaged for one option class, a group of option classes, or all option classes floor-wide;
- B. Temporary Disengagement of Auto-Ex Pursuant to Unusual Market Exception—Pursuant to procedures set forth in Rule 958A(d), the Market Operations Division in consultation with a Floor Official may determine to disengage Auto-Ex if the Exchange is unable to accurately collect, process, and/or disseminate quotation data owing to the high level of trading activity or the existence of unusual market conditions which result in the suspension of firm quote rule obligations on the Exchange and its members and member organizations as set forth in Exchange Rule 958A(d) and Rule 11Ac1-1(b)(3) under the Securities Exchange Act of 1934;
- C. Temporary Disengagement of Auto-Ex During Unusual Market Conditions— The Market Operations Division, with Senior Supervisory Officer or Senior Floor Official approval, may disengage Auto-Ex during unusual market conditions in respect of an option class(es) or their underlying security(ies).

Unusual market conditions may include (i) significant or market disruptive order imbalances in the option class or series, or the underlying security; or (ii) unusually wide or market disrupting spreads between the bid and the offer in the underlying security.

D. Temporary Disengagement of Auto-Ex as the Result of Systems

Malfunctions—The Market Operations Division, with Senior Floor Official or Senior Supervisory Official approval, may disengage Auto-Ex as the result of systems malfunctions that affect the Exchange's ability to (i) disseminate or update market quotes; or (ii) deliver orders to the trading floor in a timely manner;

E. Automatic Disengagement of Auto-Ex Due to an Influx of Order Executions—

In certain option classes or series, Auto-Ex may be disengaged when a specified number of automatic executions occur in that option class or series. The Auto-Ex Enhancement Committee will, upon the request of the specialist in a specific option class or series, review and designate whether to allow Auto-Ex to be automatically disengaged due to the influx of order executions in that class or series and the number of automatic order executions that need to occur before Auto-Ex is automatically disengaged. Use of this feature does not relieve the specialist or registered options traders, as the responsible broker or dealer, from their obligations under Rule 958A and Rule 11Ac1-1 under the Securities Exchange Act of 1934. Once the disengagement occurs the specialist and the Exchange's Post Supervisor are notified immediately and Auto-Ex is generally re-engaged within one to five minutes. However, Market Operations staff will re-engage Auto-Ex within three minutes unless the specialist has obtained additional approvals. Any extended use of the by-pass feature will need Floor Official approval and must meet the standards for either a market data delay, an Unusual Market Exception, unusual market conditions or systems malfunctions; and

F. Automatic By-Pass of Auto-Ex in response to Certain Market Activity—Orders

otherwise eligible for Auto-Ex may be by-passed during certain market situations and sent to the specialist for execution. Such situations include: (i) whenever the bid or offer in a specific option series represents a limit order on the specialist's book; (ii) whenever a crossed or locked market causes an inversion in the quote; or (iii) whenever a better bid or offer is being disseminated by another options exchange and the order is not eligible for automatic price matching as set forth in Commentary .01(b);

(ii) In all situations set forth in (c)(i) above, the Exchange will document in either the Systems Support Log or the Service Desk Log any action taken to disengage Auto-Ex or to operate Auto-Ex in a manner other than normal, the action taken, the time of the action, the option class(es) affected, the identity of the Exchange or Floor Official approving the action and a brief summary of the reason for the decision. Auto-Ex will generally be re-engaged when Market

Operations determines that the cause of its disengagement has ceased. The Log(s) will indicate when Auto-Ex is re-engaged, if such re-engagement occurred during the same trading day. If no time of re-engagement is shown on the Log(s) that indicates Auto-Ex was disengaged for the remainder of the trading day. The Exchange will also document the reason for and the Exchange or Floor Official approving the re-engagement if such re-engagement was for a reason other than the cessation of the condition that led to the disengagement.

(g) On occasion the Exchange must make the determination that the quotes being disseminated by another options exchange are not reliable and exclude those quotes from the calculation of its NBBO. A Senior Floor Official or Exchange Official may make this determination based on one of the following circumstances: (i) the other options exchange's quotes are not firm based upon direct communication from that exchange or the dissemination through OPRA of a message indicating the quotes are not firm; or (ii) the other options exchange has directly communicated or otherwise confirmed that it is experiencing systems or other problems affecting the reliability of its disseminated quotes. In all cases where a Senior Floor Official or Exchange Official excludes an exchange or any of its quotes from the Auto-Ex determination of the NBBO due to quote unreliability, Market Operations staff will promptly notify the exchange of the action, continue to monitor the reliability of the excluded quotes in consultation with the Senior Floor Official or Exchange Official, and maintain records showing the date, time, duration, and reasons for each such action, as well as the identity of the Senior Floor Official or Exchange Official who authorized the action. Any determination to exclude a market or any of its quotes from the Auto-Ex determination of the NBBO pursuant to the above will expire at the end of the trading day, or at such time as the quotes are confirmed by the exchange to be reliable again—whichever occurs first. Exclusion of an exchange or its quotes from the Auto-Ex determination of the NBBO will be reported to Exchange member firms.

(h)(i) Options orders executed through Auto-Ex shall be automatically allocated on a rotating basis to the specialist and to each trader that has signed on to Auto-Ex. Auto-Ex trades of ten contracts or less are allocated to each Auto-Ex participant as set forth below. If an Auto-Ex trade is greater than ten contracts, the Auto-Ex system divides the execution into lots of ten or fewer contracts and allocates a lot to each Auto-Ex participant. Each lot is considered a separate trade for purposes of allocating trades within Auto-Ex. The rotation is designed to provide that the allocation of Auto-Ex trades between the specialist and traders signed on to Auto-Ex in a given equity option class is as follows:

| Number of Traders Signed on to Auto-Ex | Approximate Number of Trades Allocated to the Specialist | Approximate Number of Trades Allocated to the Traders Signed on to Auto-Ex (as a group) |
|---|---|--|
| 1 | 60% | 40% |
| 2 | 40% | 60% |
| 3 or more | 30% | 70% |

In addition, for options on Exchange Traded Funds, Trust Issued Receipts and Indexes, the allocation of Auto-Ex trades between the specialist and traders signed on to Auto-Ex is as follows:

| Number of Traders Signed on to Auto-Ex | Approximate Number of Trades Allocated to the Specialist | Approximate Number of Trades Allocated to the Traders Signed on to Auto-Ex (as a group) |
|---|---|--|
| 1 | 60% | 40% |
| 2 | 40% | 60% |
| 3 - 7 | 30% | 70% |
| 8 or more | 25% | 75% |

(ii) Notwithstanding the foregoing, in the event the Exchange establishes a payment for order flow program, in which it collects a fee from the registered options traders, the rotation designed to provide that the allocation of Auto-Ex trades between the specialist and traders signed on to Auto-Ex in those option classes in which it collects the payment for order flow fee is as follows:

| Number of Traders Signed on to Auto-Ex | Approximate Number of Trades Allocated to the Specialist | Approximate Number of Trades Allocated to the Traders Signed on to Auto-Ex (as a group) |
|---|---|--|
| 1 | 60% | 40% |
| 2 - 4 | 40% | 60% |
| 3 - 7 | 30% | 70% |

| | | |
|------------|-----|-----|
| 8 - 15 | 25% | 75% |
| 16 or more | 20% | 80% |

••• *Commentary* -----

.01 (a) Orders to buy or sell options that are multiply traded on one or more options exchanges in addition to the Exchange will not be automatically executed at prices inferior to the current best bid or offer displayed by any other options exchange, as such best bids or offers are identified by the Exchange's order routing system.

(b) Customer orders in those series of options that have been specifically designated by the Auto-Ex Enhancements Committee ("automatic price matching series"), under circumstances where the Exchange's best bid or offer is inferior to the current best bid or offer displayed by another options exchange by no more than the "price matching amount," as defined below, will be automatically executed at the current best bid or offer displayed by the other options exchange. If the Exchange's best bid or offer is inferior to the current best bid or offer displayed by another options exchange by more than the price matching amount, the order will be routed to the specialist and not automatically executed. Only customer orders within the order size parameters established by the Auto-Ex Enhancements Committee will be eligible for automatic price matching. A customer order that exceeds the established order size parameter will be routed to the specialist and not automatically executed.

(c) Customer orders in those series of options that have been specifically designated by the Auto-Ex Enhancements Committee ("automatic price improvement series") will be automatically executed when the Exchange's best bid or offer is equal to the current best bid or offer on another options exchange, at a price which improves the Exchange's best bid or offer by the price improvement amount, as defined below. Only customer orders within the order size parameters established by the Auto-Ex Enhancements Committee will be eligible for automatic price improvement. A customer order that exceeds the established order size parameter will be either automatically executed at the Exchange's best bid or offer if it is within the Auto-Ex order size parameters, or it will be routed to the specialist and not automatically executed.

(d) Notwithstanding paragraphs (b) and (c) above, orders for automatic price matching series or automatic price improvement series will be routed to the specialist and not automatically executed in situations where: (i) the current best bid or offer for one of the series is crossed (e.g., 4.20 bid, 4 asked) or locked (e.g., 4 bid, 4 asked); (ii) the specialist in conjunction with two Floor Officials determined quotes in such options or options exchange(s) are not reliable; or (iii) the Exchange is experiencing communications or systems problems, "fast markets," or delays in the dissemination of quotes by the Options Price Reporting Authority ("OPRA"). Members and member organizations will be notified when the Exchange has determined that quotes are not reliable and prior to one or both Auto-Ex Enhancements being shut off and customer orders being routed to the specialist for execution. The specialist will report the execution or non-execution of such orders to the firm that originally forwarded the order to Auto-Ex.

(e) As used in this Commentary, the term "price matching amount" shall mean the minimum increment for options of that series established pursuant to Rule 952, or any greater amount established by the Auto-Ex Enhancements Committee in respect of specified automatic price matching series of options. As used in this Commentary, the term "price improvement amount" shall mean the minimum increment for options of that series established pursuant to Rule 952, or any greater amount established by the specialist in respect of specified automatic price improvement series of options.

.02 Auto-Ex eligible orders must be market or marketable limit orders for five hundred (500) or fewer contracts for series subject to Auto-Ex except in the case of options on the Nasdaq-100 Tracking Stock (QQQ) which is limited to 2,000 or fewer contracts in the first two (2) near term expiration months and 1,000 or fewer contracts for all other expiration months. Contract limits will be established on a case by case basis for an individual option class or for all options classes upon the approval of two Senior Floor Officials. Notice concerning applicable size and types of Auto-Ex eligible orders will be provided to members periodically via Exchange circulars and/or posted on the Exchange's web site.

.03 Notwithstanding the provisions of Commentary .02 above, the size of auto-ex eligible orders in one or more classes of multiply-traded options may be increased to the extent necessary to match the size of orders in options of the same class or classes eligible for entry into the automatic execution system of any other options exchange, provided that the effectiveness of any such increase shall be conditioned upon its having been filed with the Securities and Exchange Commission pursuant to Section 19(b)(3)(A) of the Securities Exchange Act of 1934.

.04 The Exchange has adopted an options market data size mitigation policy ("Options Size Mitigation") on a pilot basis that will expire on March 5, 2007. Under Options Size Mitigation, during high options quote volume periods and peaks, incoming market data will be filtered prior to being forwarded to Exchange floor trading systems. When in effect, Options Size Mitigation will filter market data by not processing incoming quotes with size changes below a variable percent. Exchange systems will always maintain and display Exchange quotations with accurate size regardless of whether Options Size Mitigation is in effect. In addition, the Exchange will also ensure that all options market data (including filtered quotes) is available for regulatory and surveillance purposes.

The filtering level will be set on an Exchange-wide basis, based on either the number of messages per second exceeding a pre-defined amount or when a delay of a pre-determined length occurs in the processing of market data. The Exchange will make an announcement on the trading floor advising members regarding the level of filtering when Options Size Mitigation is in effect. The initial Options Size Mitigation filtering level will be set at 10% with the ability to increase the initial filtering level in 10% increments as warranted. The appropriate filtering levels will be determined by the Exchange's head of Floor Operations (or his designee) in conjunction with two (2) Senior Floor Officials.

Rule 934. Limitation on Orders

- (a) Limit Orders—Members or member organizations shall not enter orders into the Exchange's order routing system, as principal or agent, limit orders in the same option series, for the account or accounts of the same or related beneficial owner, in such a manner that the member or beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such option contract on a regular or continuous basis. In determining whether a member or beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things, the simultaneous or near-simultaneous entry of limit orders to buy and sell the same option contract; the multiple acquisition and liquidation of positions in the same option series during the same day; and the entry of multiple limit orders at different prices in the same option series.

Rule 936. Cancellation and Adjustment of Equity Options Transactions

This Rule governs the cancellation and adjustment of transactions involving equity options. Rules 936C and 936C—ANTE govern the cancellation and adjustment of transactions involving options on indexes, exchange-traded funds ("ETFs") and trust issued receipts ("TIRs"). Paragraphs (a)(1) and (2) of this Rule have no applicability to trades executed in open outcry.

- (a) Trades Subject to Review. A member or person associated with a member may have a trade cancelled or adjusted if, in addition to satisfying the procedural requirements of paragraph (b) below, one of the following conditions is satisfied:

- (1) Obvious Price Error. An obvious pricing error occurs when the execution price of an electronic transaction is above or below the Theoretical Price for the series by an amount equal to at least the amount shown below:

| Theoretical Price | Minimum Amount |
|--------------------------|-----------------------|
| Below \$2 | \$0.25 |
| \$2 to \$5 | 0.40 |
| Above \$5 to \$10 | 0.50 |
| Above \$10 to \$20 | 0.80 |
| Above \$20 | 1.00 |

Definition of Theoretical Price. For purposes of this Rule only, the Theoretical Price of an option series is, for series traded on at least one other options exchange, the mid-point of the national best bid and national best offer, just prior to the trade. The Theoretical Price will not include the national best bid (in the case of a request for review by a seller)

or the national best offer (in the case of a request for review by a buyer) of the competing options exchange(s) if such competing options exchange(s) widened its quote(s) to incorporate the prior erroneous quote of the Exchange. In such a case, the Theoretical Price shall be the mid-point of the national best bid and national best offer just prior to the trade that does not reflect the erroneous quote. If there are no competing options exchanges left without an erroneous quote, the Theoretical Price shall be the mid-point of the national best bid and national best offer after the transaction(s) in question that does not reflect the erroneous quote. For this purpose, an erroneous quote is a bid and/or offer that is above or below the midpoint of the national best bid and national best offer immediately preceding the quote by at least the amount set forth in the chart above (Rule 936(a)(1)). If there are no quotes for comparison, designated Trading Officials will determine the Theoretical Price. For transactions occurring as part of an opening, the Theoretical Price shall be the mid-point of the national best bid and national best offer after the transaction(s) in question that does not reflect the erroneous transaction(s).

(i) Cancellation or Price Adjustment. Obvious Pricing Errors will be cancelled or adjusted as follows.

- Transactions Between Exchange specialists/registered options traders (ROTs): Where both parties to the transaction are Exchange specialists/ROTs, the execution price of the transaction will be adjusted by Trading Officials to the prices provided in Paragraphs (A) and (B) below, minus (plus) an adjustment penalty ("adjustment penalty"), unless both parties agree to adjust the transaction to a different price or agree to cancel the trade within fifteen (15) minutes of being notified by Trading Officials of the Obvious Error.

(A) Erroneous buy transactions will be adjusted to their Theoretical Price plus an adjustment penalty of either \$.15 if the Theoretical Price is under \$3 or \$.30 if the Theoretical Price is at or above \$3.

(B) Erroneous sell transactions will be adjusted to their Theoretical Price minus an adjustment penalty of either \$.15 if the Theoretical Price is under \$3 or \$.30 if the Theoretical Price is at or above \$3.

- Transactions Involving at least one non-Exchange specialist/ROT: Where one of the parties to the transaction is not an Exchange specialist/ROT, the transactions will be cancelled by Trading Officials unless both parties agree to an adjustment price for the transaction within thirty (30) minutes of being notified by Trading Officials of the Obvious Error.

(2) No Bid Series. Electronic transactions in series quoted no bid will be cancelled provided at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution.

(3) Verifiable Disruptions or Malfunctions of Exchange Systems. Electronic or open outcry transactions arising out of a "verifiable disruption or malfunction" in the use or operation of any Exchange (a) automated quotation, dissemination, execution, or

communication system that caused a quote/order to trade in excess of its disseminated size (e.g., a quote/order that is frozen because of an Exchange system error and is repeatedly traded) in which case trades in excess of the disseminated size may be nullified; or (b) automated quotation, dissemination or communication system that prevented a member from updating or canceling a quote/order for which the member is responsible, provided there is Exchange documentation reflecting that the member sought to update or cancel the quote/order. With respect to verifiable disruptions or malfunctions of the Exchange's automated quotation system, documentation of the existence of the disruption or malfunction will be sufficient provided the automated quotation system was programmed to update or cancel a quote based upon specific changes in the underlying, those changes occurred and due to the disruption or malfunction the quote was not updated or cancelled. Unless the parties agree to a price adjustment, the transaction will be cancelled.

(4) **Erroneous Print in Underlying.** A trade resulting from an erroneous print disseminated by the underlying market which is later cancelled or corrected by that underlying market may be cancelled. In order to be cancelled, however, the trade must be the result of an erroneous print that is higher or lower than the average trade in the underlying security during a two minute period before and after the erroneous print by an amount at least five times greater than the average quote width for such underlying security during the same period. For purposes of this Rule, the average trade in the underlying security shall be determined by adding the prices of each trade during the four minute time period referenced above (excluding the trade in question) and dividing by the number of trades during such time period (excluding the trade in question). For purposes of this Rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing by the number of quotes during such time period (excluding the quote in question).

(5) **Erroneous Quote in Underlying.** (i) Electronic trades (this provision does not apply to trades executed in open outcry) resulting from an erroneous quote in the underlying security may be adjusted or canceled as set forth in paragraph (a)(1) above. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security on the primary market (as defined in Rule 900 (b)(26)) during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this Rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing the number of quotes during such time period (excluding the quote in question).

(ii) Electronic trades resulting from an erroneous quote in the underlying security may also be adjusted or cancelled as set forth in paragraph (a)(1)(i) above when (i) a national securities exchange or the Nasdaq Stock Market, Inc.'s quotes are not firm based upon direct communication from that market or dissemination of a message indicating the quotes are not firm or (ii) a national securities exchange or the Nasdaq Stock Market, Inc.

has directly communicated or otherwise confirmed that it is experiencing systems or other problems affecting the reliability of its disseminated quotes

(6) Transactions Executed Outside of Trading Hours. All equity options transactions that occur outside of the trading hours of the Exchange will be cancelled if it is determined by the Trading Officials that the transaction occurred outside of the Exchange's trading hours, except as set forth in Commentary .02 to Exchange Rule 1.

(b) Procedures for Reviewing Transactions

(1) Notification. Any member or person associated with a member that believes it participated in a transaction that may be cancelled or adjusted in accordance with paragraph (a) must notify any Trading Official promptly but not later than fifteen (15) minutes after execution in question. Absent unusual circumstances, Trading Officials shall not grant relief under this Rule unless notification is made within the prescribed time periods. In the absence of unusual circumstances, Trading Officials (either on their own motion or upon request of a member) must initiate action pursuant to paragraph (a)(3) above within sixty (60) minutes of the occurrence of the verifiable disruption or malfunction. When Trading Officials take action pursuant to paragraph (a)(3), the members involved in the transaction(s) shall receive verbal notification as soon as is practicable.

(2) Review and Determination. Once a party to a transaction has applied to a Trading Official for review, the transaction shall be reviewed and a determination rendered, unless both parties to the transaction agree to withdraw the application for review prior to the time a decision is rendered. Absent unusual circumstances (e.g., a large number of disputed transactions arising out of the same incident), Trading Officials must render a determination within sixty (60) minutes of receiving notification pursuant to paragraph (b)(1) above. Trading Officials shall promptly provide verbal notification of a determination to the members involved in the disputed transaction and to the Exchange's Service Desk.

(c) Obvious Error Panel

(1) Composition. An Obvious Error Panel will be comprised of at least one (1) member of the Regulatory staff and four (4) Floor Officials. Fifty percent of the number of Floor Officials on the Obvious Error Panel must be directly engaged in market making activity and fifty percent of the number of Floor Officials on the Obvious Error Panel must act in the capacity of a non-specialist floor broker.

(2) Scope of Review. If a party affected by a determination made under this Rule so requests within the time permitted in paragraph (b), an Obvious Error Panel will review decisions made by the Trading Officials under this Rule, including whether an obvious error occurred, whether the correct Theoretical Price was used, and whether the correct adjustment was made at the correct price. A party may also request that the Obvious Error Panel provide relief as required in this Rule in cases where the party failed to

provide the notification required in paragraph (b) and the Trading Officials declined to grant an extension, but unusual circumstances must merit special consideration.

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

(4) Panel Decision. The Obvious Error Panel may overturn or modify an action taken by the Trading Officials under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Obvious Error Panel may be appealed in accordance with paragraph (d) of this rule.

(d) Review of Rulings. A member affected by a determination made under this rule may appeal such determination to a Review Panel of at least three (3) Exchange Officials who have not already ruled on the matter. A request for review must be made in writing (in a form and manner prescribed by the Exchange) no later than the close of trading on the next trade date after the member receives verbal notification of such determination by Trading Officials. Notwithstanding other Exchange rules to the contrary (e.g., Rule 22(d)), decisions of the Review Panel are binding on members, subject to any right of appeal pursuant to the Exchange Rules. The parties may also elect to submit the matter to arbitration pursuant to the Arbitration Rules of the Exchange.

(e) Negotiated Trade Cancellation. A trade may be cancelled if the parties to the trade agree to the cancellation. When all parties to a trade have agreed to a trade cancellation one party must promptly disseminate cancellation information in OPRA format.

••• *Commentary* -----

.01 The term "Trading Officials" means two Exchange members designated as Floor Officials and one member of the Regulatory staff.

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

.03 Applicability: Trading Officials may also allow for the execution of opening trades that were not executed on the opening but that should have been executed had the specialist opened the series at the non-erroneous price. The Exchange will endeavor to notify its members as soon as practicable after the correction of an erroneous print and will indicate that this may result in the adjustment of trades executed during the opening rotation. The only trades that will be adjusted are those that were executed on the opening

or those that should have executed on the opening. All adjustments will be made during the day when the correction of the erroneous print occurred.]

Section 4. Options Intermarket Linkage Program

[Rule 941. Operation of the Linkage

By subscribing to the Plan, the Exchange has agreed to comply with, and enforce compliance by its Members with, the Plan. In this regard, the following shall apply:

(a) *Pricing.* Members may send P/A Orders and Principal Orders through the Linkage only if such orders are priced at the NBBO.

(b) *P/A Orders.*

(1) *Sending of P/A Orders for Sizes No Larger than the Firm Customer Quote Size.* A specialist may send through the Linkage a P/A Order that is equal to or less than the size of the Firm Customer Quote Size for automatic execution, if available.

(2) *Sending of P/A Orders for Sizes Larger than the Firm Customer Quote Size.* If the size of a P/A Order is larger than the Firm Customer Quote Size, a specialist may send through the Linkage such P/A Order in one of two ways:

(i) The specialist may send a P/A Order representing the entire Public Customer Order. If a receiving Participant Exchange's disseminated quotation is equal to or better than the Reference Price when the P/A Order arrives at that market, that exchange will execute the P/A Order at its disseminated quotation for at least the Firm Customer Quote Size (an automatic execution is not required if the P/A Order is larger than the Firm Customer Quote Size). Within 15 seconds of receipt of such order, the receiving Participant Exchange will inform the specialist of the amount of the order executed and the amount, if any, that was canceled.

(ii) Alternatively, the specialist may send an initial P/A Order for the Firm Customer Quote Size pursuant to subparagraph (b)(1) above. If one or more of the Participant Exchange that executed the P/A Order continues to disseminate the same quotation at the NBBO after reporting the execution of the initial P/A Order, the specialist may send an additional P/A Order to such Participant Exchange. If sent, such additional P/A Order must be for at least the lesser of:

- the size of the disseminated quotation;
- 100 contracts; or
- the entire remainder of the Public Customer order.

If the sending Participant Exchange initially sent P/A Orders to more than one Participant Exchange for up to the Firm Customer Quote Size, the sending Participant Exchange may send additional P/A Orders to the same Participant Exchanges as long as such orders are, in the aggregate, for at least the lesser of 100 contracts or the entire remainder of the Customer Order; provided, that the sending Participant Exchange may limit the size of any single additional P/A Order to the size of the Participant Exchange's currently-disseminated quotation.

In any situation where a receiving Participant Exchange does not execute a P/A Order in full, such exchange is required to move its quotation to a price inferior to the Reference Price of the P/A Order.

(c) Principal Orders.

An Eligible Market Maker may send a Principal Order through the Linkage at a price equal to the NBBO. If the Principal Order is not larger than the Firm Principal Quote Size, the receiving Participant Exchange will execute the order in its automatic execution system, if available, if its disseminated quotation is equal to or better than the price specified in the Principal Order when that order arrives at the receiving Participant Exchange. If the Principal Order is larger than the Firm Principal Quote Size, the receiving Participant Exchange will (a) execute the Principal Order at its disseminated quotation for at least the Firm Principal Quote Size and (b) within 15 seconds of receipt of such order, reply to the sending Participant Exchange, informing such Participant Exchange of the amount of the order that was executed and the amount, if any, canceled. If the receiving Participant Exchange does not execute the Principal Order in full, it will move its quote to a price inferior to the Reference Price of the Principal Order.

(d) Responses to Linkage Orders.

(1) *Failure to Receive a Timely Response.* A Member who does not receive a response to a P Order or a P/A Order within 20 seconds of sending the order may reject any response received thereafter purporting to report an execution of all or part of that order. The Member so rejecting the response shall inform the Participant Exchange sending that response of the rejection within 15 seconds of receipt of the response.

(2) *Failure to Send a Timely Response.* If a Member responds to a P Order or P/A Order more than 20 seconds after receipt of that order, and the Participant Exchange to whom the Member responded cancels such response, the Member shall cancel any trade resulting from such order and shall report the cancellation to OPRA.

(e) Receipt of Linkage Orders. The Exchange will provide for the execution of P/A Orders and Principal Orders if its disseminated quotation is (i) equal to or better than the Reference Price, and (ii) equal to the then current NBBO. Subject to paragraph (c) above,

if the size of a P/A Order or Principal Order is not larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, the Exchange will provide for the execution of the entire order, and shall execute such order in its automatic execution system if that system is available. Subject to paragraph (c) above, if the size of a P/A Order or Principal Order is larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, or if the Linkage Order received is not eligible to be executed automatically because the Exchange's automatic execution system has been disengaged or is operating in a manner other than the normal manner for the reasons outlined in Rule 933(f)(i), the specialist must address the order within 15 seconds to provide an execution for at least the Firm Customer Quote Size or Firm Principal Quote Size, respectively. For purposes of this Rule, the Exchange may provide an automatic execution for Linkage Orders even though the Exchange's automatic execution system has been disengaged due to an influx of orders pursuant to Rule 933(f)(i)(E) or by-passed when a locked market has caused an inversion in the quote as set forth in Rule 933(f)(i)(F). If the order is not executed in full, the Exchange will move its disseminated quotation to a price inferior to the Reference Price.

Rule 942. Order Protection

(a) *Avoidance and Satisfaction of Trade-Throughs.*

(1) *General Provisions.* Absent reasonable justification and during normal market conditions, Members and the Exchange should not effect Trade-Throughs. Except as provided in paragraph (b) below, if a Member or the Exchange effects a Trade-Through with respect to the bid or offer of a Participant Exchange in an Eligible Option Class and the Exchange receives a Satisfaction Order from an Aggrieved Party, either:

- (i) the party who initiated the Trade-Through shall satisfy, or cause to be satisfied, the Aggrieved Party by filling the Satisfaction Order in accordance with subparagraph (a)(2) below; or
- (ii) if the Member or the Exchange elects not to do so (and, in the case of Third Participating Market Center Trade-Through, the Member or the Exchange obtains the agreement of the contra party that received the Linkage Order that caused the Trade-Through), then the price of the transaction that constituted the Trade-Through shall be corrected to a price at which a Trade-Through would not have occurred. If the price of the transaction is corrected, the party correcting the price shall report the corrected price to OPRA, notify the Aggrieved Party of the correction and cancel the Satisfaction Order.

(2) *Price and Size.* The price and size at which a Satisfaction Order shall be filled is as follows:

- (i) *Price.* A Satisfaction Order shall be filled at the Reference Price. However, if the Reference Price is the price of an apparent Block Trade that caused the Trade-Through, and such trade was not, in fact, a Block Trade, then the

Member or the Exchange may cancel the Satisfaction Order. In that case, the Member or the Exchange shall inform the Aggrieved Party within three minutes of receipt of the Satisfaction Order the reason for the cancellation. Within three minutes of receipt of such cancellation, the Aggrieved Party may resend the Satisfaction Order with a Reference Price of the bid or offer that was traded through.

(ii) *Size.* An Aggrieved Party may send a Satisfaction Order up to the lesser of the size of the Verifiable Number of Customer Contracts that were included in the disseminated bid or offer that was traded through and the size of the transaction that caused the Trade-Through. Subject to subparagraph (2)(i) above and paragraph (b) below, a Member or the Exchange shall fill in full all Satisfaction Orders it receives following a Trade-Through, subject to the following limitations:

(A) If the transaction that caused the Trade-Through was for a size larger than the Firm Customer Quote Size with respect to any of the Participant Exchange(s) traded through, the total number of contracts to be filled, with respect to all Satisfaction Orders received in connection with any one transaction that caused a Trade-Through, shall not exceed the size of the transaction. In that case, the Member or the Exchange shall fill the Satisfaction Orders pro rata based on the Verifiable Number of Customer Contracts traded through on each Participant Exchange, and shall cancel the remainder of such Satisfaction Order(s); and

(B) Notwithstanding paragraph (A) above, for a pilot period beginning on February 1, 2005 and ending on January 31, 2006, if the transaction that caused the Trade-Through occurred in the period between five minutes prior to the regularly-scheduled close of trading in the principal market in which the underlying security is traded and the close of trading in the Options Class, the maximum number of contracts to be satisfied with respect to any Satisfaction Order from any Participant Exchange is 50 contracts.

(3) *Change in Status of Underlying Customer Order.* During the time period that a Satisfaction Order is pending at another Participant Exchange, a Member or the Exchange shall cancel such Satisfaction Order as soon as practical if (1) the order(s) for the customer contracts underlying the Satisfaction Order are filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order are canceled (either being a "change in status of the underlying customer order(s)"). Notwithstanding this obligation to cancel the Satisfaction Order, within 30 seconds of receipt of notification that a Participant Exchange has filled a Satisfaction Order, the Participant that sent the Satisfaction Order may reject such fill if there has been a change in status of the underlying customer order(s), provided that the status change of the customer order occurred prior to the receipt of the Satisfaction Order fill report.

However, if the underlying customer order(s) has been executed against the sender of the Satisfaction Order, the Satisfaction Order fill report may not be rejected.

(4) *Protection of Customers.* Whenever subparagraph (a)(1) applies, if Public Customer orders (or P/A Orders representing Public Customer orders) constituted either or both sides of the transaction involved in the Trade-Through, each such Public Customer order (or P/A Order) shall receive:

- (i) the price that caused the Trade-Through; or
- (ii) the price at which the bid or offer traded through was satisfied, if it was satisfied pursuant to subparagraph (a)(1)(i), or the adjusted price, if there was an adjustment, pursuant to subparagraph (a)(1)(ii),

whichever price is most beneficial to the Customer order. Resulting differences in prices shall be the responsibility of the party who initiated the Trade-Through.

(b) *Exceptions to Trade-Through Liability.* The provisions of paragraph (a) pertaining to the satisfaction of Trade-Throughs shall not apply under the following circumstances:

- (1) the party who initiated the Trade-Through made every reasonable effort to avoid the Trade-Through, but was unable to do so because of a systems/equipment failure or malfunction;
- (2) the Member or the Exchange trades through the market of a Participant Exchange to which the Member or the Exchange had sent a P/A Order or Principal Order, and within 3 seconds of sending such order the receiving Participant Exchange had neither executed the order in full nor adjusted the quotation traded through to a price inferior to the Reference Price of the P/A Order or Principal Order;
- (3) the bid or offer traded through was being disseminated from a Participant Exchange whose quotes were Non-Firm with respect to such Eligible Option Class;
- (4) the Trade-Through was other than a Third Participating Market Center Trade-Through and occurred during a period when, with respect to the Eligible Option Class, the Exchange's quotes were Non-Firm; provided, however, that, unless one of the other conditions of this paragraph (b) applies, during any such period: (i) all parties shall make every reasonable effort to avoid trading through the firm quotes of another Participant Exchange; and (ii) it will not be considered an exception to paragraph (a) if a Member or the Exchange regularly trades through the firm quotes of another Participant Exchange during such period;

- (5) the bid or offer traded through was being disseminated by a Participant Exchange during a trading rotation in the Eligible Option Class;
- (6) the transaction that caused the Trade-Through occurred during a trading rotation;
- (7) the transaction that caused the Trade-Through was the execution of a Complex Trade;
- (8) in the case of a Trade-Through other than a Third Participating Market Center Trade-Through, a Satisfaction Order with respect to the Trade-Through was not received by the Exchange from the Aggrieved Party promptly following the Trade-Through and, in any event, (i) except in the final five minutes of trading, within three minutes from the time the report of the transaction(s) that constituted the Trade-Through was disseminated over OPRA, and (ii) in the final five minutes of trading, within one minute from the time the report of the transaction(s) that constituted the Trade-Through was disseminated over OPRA; or
- (9) in the case of a Third Participating Market Center Trade-Through, a Satisfaction Order with respect to the Trade-Through was not received by the Exchange promptly following the Trade-Through. In applying this provision, the Aggrieved Party must send the Exchange a Satisfaction Order within three minutes from the time the report of the transaction that constituted the Trade-Through was disseminated over OPRA. To avoid liability for the Trade-Through, the party receiving such Satisfaction Order must cancel the Satisfaction Order and inform the Aggrieved Party of the identity of the Participant Exchange that initiated the Trade-Through within three minutes of the receipt of such Satisfaction Order (within one minute in the final five minutes of trading). The Aggrieved Party then must send to the Participant Exchange that initiated the Trade-Through, a Satisfaction Order within three minutes of receipt of the cancellation of the initial Satisfaction Order (within one minute in the final five minutes of trading).

(c) *Responsibilities and Rights Following Receipt of Satisfaction Orders.*

- (1) When a Member or the Exchange receives a Satisfaction Order, that Member or the Exchange shall respond as promptly as practicable pursuant to Exchange procedures by either:
 - (i) specifying that one of the exceptions to Trade-Through liability specified in paragraph (b) above is applicable and identifying that particular exception; or
 - (ii) taking the appropriate corrective action pursuant to paragraph (a) above.

(2) If the party who initiated the Trade-Through fails to respond to a Satisfaction Order or otherwise fails to take the corrective action required under paragraph (a) within three minutes of receiving the notice of a Satisfaction Order, and the Exchange determines that:

(i) there was a Trade-Through; and

(ii) none of the exceptions to Trade-Through liability specified in paragraph (b) above were applicable;

then, subject to the next paragraph, the party who initiated the Trade-Through shall be liable to the Aggrieved Party for the amount of the actual loss resulting from non-compliance with paragraph (a) and caused by the Trade-Through.

If either (a) the Aggrieved Party does not establish the actual loss within 30 seconds from the time the Aggrieved Party received the response to its Satisfaction Order (or, in the event that it did not receive a response, within four minutes from the time the Aggrieved Party sent the Satisfaction Order) or (b) the Aggrieved Party does not notify the Exchange Participant that initiated the Trade-Through of the amount of such loss within one minute of establishing the loss, then the liability shall be the lesser of the actual loss or the loss caused by the Trade-Through that the Aggrieved Party would have suffered had that party purchased or sold the option series subject to the Trade-Through at the "mitigation price."

The "mitigation price" is the highest reported bid (in the case where an offer was traded through) or the lowest reported offer (in the case where a bid was traded through), in the series in question 30 seconds from the time the Aggrieved Party received the response to its Satisfaction Order (or, in the event that it did not receive a response, four minutes from the time the Aggrieved Party sent the Satisfaction Order). If the Participant Exchange receives a Satisfaction Order within the final four minutes of trading (on any day except the last day of trading prior to the expiration of the series which is the subject of the Trade-Through), then the mitigation price shall be the price established at the opening of trading in that series on the Aggrieved Party's Participant Exchange on the next trading day. However, if the price of the opening transaction is below the opening bid or above the opening offer as established during the opening rotation, then the mitigation price shall be the opening bid (in the case where an offer was traded through) or opening offer (in the case where a bid was traded through). If the Trade-Through involves a series that expires on the day following the day of the Trade-Through and the Satisfaction Order is received within the four minutes of trading, the "mitigation price" shall be the final bid (in the case where an offer was traded through) or offer (in the case where a bid was traded through) on the day of the trade that resulted in the Trade-Through.

(3) A Member that is an Aggrieved Party under the rules of another Participant

Exchange governing Trade-Through liability (or the Exchange) must take steps to establish and mitigate any loss such Member (or the Exchange) might incur as a result of the Trade-Through of the Member's bid or offer (or an order on the Exchange's limit order book). In addition, the Member (or the Exchange) shall give prompt notice to the other Participant Exchange of any such action in accordance with subparagraph (c)(2) above.

(d) *Limitations on Trade-Throughs.* Members and the Exchange may not engage in a pattern or practice of trading through better prices available on other exchanges, whether or not the exchange or exchanges whose quotations are traded through are Participant Exchanges, unless one or more of the provisions of paragraph (b) above are applicable. In applying this provision:

- (1) The Exchange will consider there to have been a Trade-Through if a trade is executed at a price inferior to the NBBO even if the Exchange does not receive a Satisfaction Order from an Aggrieved Party pursuant to subparagraph (a)(1);
- (2) The Exchange will not consider there to have been a Trade-Through if a Block Trade is executed at a price inferior to the NBBO if all Aggrieved Parties are satisfied pursuant to subparagraph (a)(2) following the execution of the Block Trade; and
- (3) The Exchange will not consider there to have been a Trade-Through if a trade is executed at a price inferior to the quotation being disseminated by an exchange that is not a Participant Exchange a good faith effort was made to trade against the superior quotation of the non-Participant Exchange prior to trading through that quotation. A "good faith effort" to reach a non-Participant Exchange's quotation requires that a Member or the Exchange at least had sent an order that day to the non-Participant Exchange in the class of options in which there is a Trade-Through, at a time at which such Non-Participant Exchange was not relieved of its obligation to be firm for its quotations pursuant to Rule 11Ac1-1 under the Exchange Act, and such Non-Participant Exchange neither executed that order nor moved its quotation to a price inferior to the price of the order within 3 seconds of receipt of that order.

Rule 943. Locked Markets

(a) *Eligible Market Maker Locking or Crossing a Market.* An Eligible Market Maker that creates a Locked Market or a Crossed Market will unlock (uncross) that market or shall direct a Principal Order through the Linkage to trade against the bid or offer that the Eligible Market Maker locked (crossed).

(b) *Members Other than an Eligible Market Maker Locking or Crossing a Market.* A Member other than an Eligible Market Maker that creates a Locked Market or a Crossed Market shall unlock (uncross) the market.

(c) The provisions of this Rule 943 do not apply to situations where a Member books an

order that would lock a market and contemporaneously sends through the Linkage a P/A Order or Principal Order for the full size of the bid or offer that was locked.

Rule 944. Limitation on Principal Order Access

A specialist or registered options trader shall not be permitted to send Principal Orders in an Eligible Option Class through the Linkage for a given calendar quarter if the specialist or registered options trader effected less than 80 percent of its volume in that Eligible Option Class on the Exchange in the previous calendar quarter (that is, the specialist or registered options trader effected 20 percent or more of its volume by sending Principal Orders through the Linkage). This restriction shall apply only if the specialist or registered options trader had total contract volume in the Eligible Option Class of at least 1000 contracts in the previous calendar quarter. This "80/20" is represented as follows:

$$\begin{array}{c} X \\ \text{-----} \\ X + Y \end{array}$$

"X" equals the total contract volume the specialist or registered options trader effects in an Eligible Option Class against orders of Public Customers on the Exchange during a calendar quarter (a) including contract volume effected by executing P/A Orders sent to the Exchange through the Linkage, but (b) excluding contract volume effected by sending P/A Orders through the Linkage for execution on another Participant Exchange. "Y" equals the total contract volume the specialist or registered options trader effects in such Eligible Option Class by sending Principal Orders through the Linkage during that calendar quarter.]

Section 5. Floor Rules Applicable to Options

[Rule 950. Rules of General Applicability

(a) The following Floor Rules shall apply to Exchange option transactions and other transactions on the Exchange in option contracts: 100, 101, 104, 105, 106, 110, 112, 117, 123, 129, 130, 150, 151, 152, 153, 155, 157, 172, 173, 174, 175, 176, 177, 180, 181, 183, 184, 185, 192 and 193. Unless the context otherwise requires, the term "stock" wherever used in the foregoing Rules shall be deemed to include option contracts. Except as otherwise provided in this Rule, all other Floor Rules (series 100 et seq.) shall not be applicable to Exchange option transactions.

(b) The provisions of Rule 108 together with the following additional provisions shall apply to Exchange option transactions in connection with an opening:

(i) After an opening indication has been communicated by the Specialist in the

first option series to be opened, Registered Options Traders shall not leave with the Specialist any market or limit orders in any option series of the same underlying security or modify any orders previously left with the Specialist, until the commencement of free trading in that series. This shall not prohibit the cancellation or withdrawal of Registered Options Trader orders previously left with the Specialist.

- (ii) Market orders of Registered Options Traders left with the Specialist prior to the opening shall take precedence over bids and offers of Registered Options Traders in the crowd.
- (iii) Opening market orders of Registered Options Traders entrusted to or left with the Specialist prior to the indication in the first option series to be opened shall be deemed "at the opening only orders" and will be cancelled to the extent not completed at the opening.

(c) The provisions of Rule 111 and Commentary thereto, with the exception of paragraphs (a)(1), (b) and (e) of such Rule and the Commentary insofar as it relates to such paragraphs, shall apply to Exchange option transactions. In addition, the following commentary shall also apply:

••• *Commentary* -----

.01 With respect to an order in a class of options also traded on another exchange which is placed for an account in which a market maker in options registered as such on such other exchange has an interest (a "covered account"):

- (a) No member or member organization shall place, or permit to be placed, an order on the Exchange which establishes or increases a position in a class of options for a covered account (other than an order specified by subparagraph (b) of this Commentary) unless such order yields priority and parity to all other off-Floor orders; and
- (b) No member or member organization shall place, or permit to be placed, an order which establishes or increases a position in a series of options with a specialist on the Exchange for a covered account without so identifying that order to the specialist. Such order shall be deemed to be an on-Floor order for the account of a Registered Trader until the intervention of two trades in the same series of options; provided however, that the provisions of paragraphs (a), (b), (c) and (e) of Rule 111 shall not apply to that order.

.02 The number of Registered Options Traders in a trading crowd who are establishing or increasing a position for accounts in which they have an interest may temporarily be limited when, in the judgment of two Floor Officials, the interests of a fair and orderly market are served by such limitation.

.03 A Registered Options Trader, in establishing or increasing a position, may retain priority over or have parity with an off-Floor order for the account of a member or broker/dealer which is establishing or increasing a position in the trading crowd. Orders of broker/dealers must be appropriately identified. For purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

(d) The provisions of Rule 126, with the exception of subparagraphs (a) and (b) thereof, shall apply to Exchange option transactions and the following additional commentary shall also apply:

••• Commentary -----

.01 When a member holding a spread order, a straddle order, ratio order, or a combination order and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with or within the bids and offers established in the marketplace, then the order may be executed as a spread, straddle, or combination at the total credit or debit with one other member without giving priority to either bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that, (i) in executing a spread order, the member does not buy at the established bid for the option contract to be bought and sell at the established offer for the option contract to be sold or, (ii) in executing a straddle or combination order, the member does not either buy both sides of the order at the established bids or sell both sides of the order at the established offers.

.02 A member who holds both an order for a public customer of a member organization and a facilitation order may cross such orders if:

- (a) the member organization discloses on its order ticket for the public customer order which is subject to facilitation, all the terms of such order, including, if applicable, any contingency involving other options, underlying securities, or related securities; and
- (b) the member requests bids and offers for the option series subject to facilitation, then discloses the public customer order and any contingency respecting such order which is subject to facilitation and identifies the order as being subject to facilitation; and
- (c) after providing an opportunity for such bids and offers to be made, the member, on behalf of the public customer whose order is subject to facilitation, either bids above the highest bid or offers below the lowest offer in the market. After all other market participants are given an opportunity to accept the bid or offer made on behalf of the public customer whose order is subject to facilitation, the member may cross all or any remaining part of such order and the facilitation order at such customer's bid or offer by announcing in public outcry that (s)he is crossing such orders stating the quantity and price(s).

- (d)
- (1) notwithstanding paragraph (c) above, a member firm seeking to facilitate its own public customer's equity option order or index option order for the eligible order size will be permitted to participate in the firm's proprietary account as the contra-side of that order to the extent of 40% of the remaining contracts, provided the order trades at or between the best bid or offer given by the trading crowd in response to the floor broker's request for a market.
 - (2) the eligible order size shall be 400 contracts or larger, unless the Exchange has established a smaller eligible order size, however, the eligible order size shall not be smaller than 50 contracts.
 - (3) if a facilitation transaction pursuant to this subparagraph (d) occurs at the specialist's bid or offer, the specialist's participation allocation shall only apply to the number of contracts remaining after all public customer orders and the member firm's facilitation order have been satisfied. Specialists are not entitled to any guaranteed participation for trades occurring pursuant to this paragraph (d) unless the floor broker crosses less than its guaranteed 40%. The total number of contracts guaranteed to be allocated to the member firm and the specialist in the aggregate shall not exceed 40% of the facilitation transaction. If the facilitation transaction occurs at a price at which the specialist is not on parity, the specialist is entitled to no guaranteed participation allocation.
 - (4) nothing in this subparagraph (d) is intended to prohibit a member firm or specialist from trading more than their guaranteed participation allocations if the other members of the trading crowd choose not to trade the remaining portion of the facilitation order.

When accepting a bid or offer made on behalf of a public customer whose order is subject to facilitation, all contingencies of the public customer order must be satisfied. Once the bid or offer has been made on behalf of the public customer whose order is subject to facilitation, such order has precedence over any other bid or offer in the crowd to trade immediately with the facilitation order.

For purposes of this Rule and Rule 950(e)(iv) the term "public customer of a member organization" means a customer that is neither a member nor a broker/dealer.

.03 A member or member organization representing an order in options ("originating order") may solicit another member, member organization or non-member broker dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided the member or member organization, upon entering the trading crowd to execute the transaction announces to the trading crowd the same terms and conditions about the originating order as disclosed to the solicited party and bids at the price he is prepared to buy from the solicited party or offers at the price he is prepared to

sell to the solicited party.

After all other market participants are given a reasonable opportunity to accept the bid or offer, the solicited party may accept all or any remaining part of such order or the member may cross all or any remaining part of the originating order with the solicited party at such bid or offer by announcing that the member is crossing the orders stating the quantity and price. Non-solicited market participants and floor brokers holding non-solicited discretionary orders in the trading crowd will have priority over the solicited party or the solicited order to trade with the original order at the best bid or offer price subject to the precedence rules set forth in Rule 155.

All orders subject to solicitation pursuant to this Commentary, and all tickets reflecting orders solicited pursuant to this Commentary, must be marked as specified by the Exchange. For purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

.04 It may be considered conduct inconsistent with just and equitable principles of trade for any member or person associated with a member, who has knowledge of all material terms and conditions of (i) an originating order and a solicited order, (ii) an order being facilitated, or (iii) orders being crossed, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option of the same class as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (i) all the terms of the originating order and any changes in the terms and conditions of the order of which that member or associated person has knowledge are disclosed to the trading crowd or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. For purposes of this Commentary .04, an order to buy or sell a "related instrument," means, in reference to an index option, an order to buy or sell securities comprising ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index.

.05 (a) Purchase or Sale Priority. If a member purchases (sells) one or more option contracts of a particular series at a particular price or prices such member shall, at the next lower (higher) price at which a member other than a floor broker or specialist representing a customer agency order entitled to priority pursuant to Rule 950(c), have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). This paragraph only applies to transactions effected in open outcry.

(b) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) fifty or more options contracts of a particular series at a particular price or prices, such member shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he

purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). The Options Trading Committee may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. This paragraph only applies to transactions effected in open outcry.

(c) Two or more members entitled to priority. If the bids or offers of two or more members are both entitled to priority in accordance with paragraph (a) or paragraph (b), it shall be afforded them insofar as practicable, on a pro-rata basis.

(d) Floor brokers are able to achieve split price priority in accordance with paragraphs (a) and (b) above. Provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Exchange member broker-dealer ("Exchange member BD") must ensure that the Exchange member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.

.06 (i)(A) When two or more bids (offers) are made simultaneously by the specialist dealing for his own account and by registered options traders, all such bids (offers) shall be on parity and any contracts sold (bought) in execution of such bids (offers) shall be divided among the specialist and registered options trader(s) so that the specialist shall receive the following percentage of contracts executed and the registered options traders shall divide the remainder in accordance with Rule 950(n), Commentary .03(a)(iii): The following percentages shall be in effect for equity option classes:

| Number of Traders on Parity | Approximate Percentage of Contracts Allocated to the Specialist | Approximate Percentage of Contracts Allocated to the Traders (as a group) |
|------------------------------------|--|--|
| 1 | 60% | 40% |
| 2 | 40% | 60% |
| 3 or more | 30% | 70% |

In addition, the following percentages shall be in effect for options on Exchange Traded Funds, Trust Issued Receipts and Indexes:

| Number of Traders on Parity | Approximate Percentage of Contracts Allocated to the Specialist | Approximate Percentage of Contracts Allocated to the Traders (as a group) |
|------------------------------------|--|--|
| 1 | 60% | 40% |
| 2 | 40% | 60% |
| 3 - 7 | 30% | 70% |
| 8 or more | 25% | 75% |

Notwithstanding the foregoing, neither the specialist nor a registered options trader will

be allocated more executed contracts than the number of contracts representing the specialist's or registered options trader's portion of the aggregate quotation size, as that term is used in Rule 958A, except, when the number of executed contracts to be allocated exceeds the aggregate quotation size disseminated for that options series.

(B) In the event, the Exchange establishes a payment for order flow program, in which it collects a fee from the registered options traders, when two or more bids (offers) are made simultaneously by the specialist dealing for his own account and by registered options traders, all such bids (offers) shall be on parity and any contracts sold (bought) in execution of such bids (offers) shall be divided among the specialist and registered options trader(s) so that the specialist shall receive a percentage of the contracts executed and the registered options traders shall divide the remainder in accordance with Rule 950(n), Commentary .03(a)(iii). The following percentages shall be in effect for those equity option classes in which it collects the payment for order flow fee:

| <i>Number of Traders Signed on Parity</i> | <i>Approximate Percentage of Contracts Allocated to the Specialist</i> | <i>Approximate Percentage of Contracts Allocated to the Traders (as a group)</i> |
|---|--|--|
| 1 | 60% | 40% |
| 2 – 4 | 40% | 60% |
| 5 – 7 | 30% | 70% |
| 8 – 15 | 25% | 75% |
| 16 or more | 20% | 80% |

Notwithstanding the foregoing, neither the specialist nor a registered options trader will be allocated more executed contracts than the number of contracts representing the specialist's or registered options trader's portion of the aggregate quotation size, as that term is used in Rule 958A, except, when the number of executed contracts to be allocated exceeds the aggregate quotation size disseminated for that options series.

(ii) The above provision applies only when the specialist and registered options trader(s) are on parity and does not include situations where a customer order is also on parity with the specialist and registered options traders. When a customer is on parity with the specialist and registered options traders, the specialist will allocate executed contracts (1) to the customer and to those registered options traders or specialist on parity with the customer on equal basis subject to 950(n), Commentary .03(a)(v); and then (2) to the specialist and the registered options traders in accordance with Rule 950(n), Commentary .03(a)(iii). The following rules set forth provisions regarding priority and parity of registered options traders and specialists when customer orders are involved: Rule 111, Commentary .07, which is made applicable to options trading by Rule 950(c), provides that registered options traders in establishing or increasing a position may not retain priority over or have parity with a customer order, and Rule 155, which is made applicable to options trading by Rule 950(a), requires a specialist to yield precedence to orders entrusted to him as agent before executing a purchase or sale at the same price for an account in which he has an interest.

.07 (i) The Exchange's automated allocation system, known as Quick Trade, when activated for a particular transaction in a given options series, will provide for the automatic allocation on a rotating basis of executed orders to the specialist and participating registered options traders. Executed orders of ten contracts or less are allocated to Quick Trade participants as set forth below. If an executed order is greater than ten contracts, Quick Trade divides the execution into ten or less lots and allocates a lot to each participant. Each lot is considered a separate trade for purposes of allocating trades within Quick Trade. The rotation is designed to provide that the allocation of trades between the specialist and traders signed on to Quick Trade in a given equity option class is as follows:

| Number of Traders Signed on to Quick Trade | Approximate Number of Trades Allocated to the Specialist | Approximate Number of Trades Allocated to the Traders Signed on to Quick Trade (as a group) |
|---|---|--|
| 1 | 60% | 40% |
| 2 | 40% | 60% |
| 3 or more | 30% | 70% |

In addition, for options on Exchange Traded Funds, Trust Issued Receipts and Indexes, the allocation of trades between the specialist and traders signed on to Quick Trade is as follows:

| Number of Traders Signed on to Quick Trade | Approximate Number of Trades Allocated to the Specialist | Approximate Number of Trades Allocated to the Traders Signed on to Quick Trade (as a group) |
|---|---|--|
| 1 | 60% | 40% |
| 2 | 40% | 60% |
| 3 - 7 | 30% | 70% |
| 8 or more | 25% | 75% |

(ii) Notwithstanding the foregoing, in the event the Exchange establishes a payment for order flow program, in which it collects a fee from the registered options traders, the rotation designed to provide that the allocation of trades between the specialist and traders signed on to Quick Trade in a given option class in which it collects the payment for order flow fee is as follows:

| ALLOCATION RATIO | | |
|--|--|---|
| <i>Number of Traders Signed on to Quick Trade</i> | <i>Approximate Number of Trades Allocated to the Specialist</i> | <i>Approximate Number of Trades Allocated to the Traders Signed on to Quick Trade (as a group)</i> |
| 1 | 60% | 40% |
| 2 - 4 | 40% | 60% |

| | | |
|------------|-----|-----|
| 5 – 7 | 30% | 70% |
| 8 – 15 | 25% | 75% |
| 16 or more | 20% | 80% |

(e) The types of orders specified in Rule 131 and the following additional types of orders shall be applicable to Exchange option transactions:

(i) **Spread Order**—A spread order is an order to buy a stated number of option contracts and to sell the same number of option contracts, or contracts representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a Government security or a certificate of deposit), in a different series of the same class of options.

(ii) **Straddle Order**—A straddle order is an order to buy a number of call option contracts and the same number of put option contracts with respect to the same underlying security, or put and call option contracts representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a Government security or a certificate of deposit), and having the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts with respect to the same underlying security, or put and call option contracts representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a Government security or a certificate of deposit), and having the same exercise price and expiration date. (E.g., an order to buy two XYZ July 50 calls and to buy two XYZ July 50 puts is a straddle order; or an order to buy ten March 90 calls on Treasury bonds whose underlying principal value is \$20,000 and to buy two March 90 puts on Treasury bonds whose underlying principal value is \$100,000 is a straddle order). In the case of adjusted option contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares at option.

(iii) **Combination Order**—A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security and representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a government security). In the case of adjusted option contracts, a combination order need not consist of the same number of put and call contracts if such contracts represent the same number of shares at option.

(iv) **Facilitation Order**.—A facilitation order is an order which is only executed, in whole or in part, in a cross transaction with an order for a public customer of the member organization. All facilitation orders must be marked as required by the Exchange.

(v) **Ratio Order.**—A Ratio Order is a spread, straddle, or combination order in which the stated number of option contracts to buy (sell) is not equal to the stated number of option contracts to sell (buy), provided that the number of contracts differ by a permissible ratio. For purposes of this section, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.00) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

••• *Commentary* -----

.01 An at the opening or at the opening only order in an option is a market or limited price order which is to be executed during the opening rotation in the option on the Exchange or not at all, and any such order or the portion thereof not so executed is to be treated as cancelled.

(f) The provisions of Rule 154 and Commentary thereto, with the exception of paragraphs .11 and .13 of such Commentary, shall apply to Exchange option transactions and the following additional Commentary shall also apply:

••• *Commentary* -----

.01 Unless the Exchange otherwise directs, a specialist shall accept stop orders and stop limit orders in option contracts in which he is so registered. A specialist shall not accept spread orders or straddle orders in option contracts in which he is so registered. In the case of stop limit orders, the stop price and limit price need not be identical.

.02 A stop order and a stop limit order in option contracts shall be elected as set forth in Rule 154 Commentary .04, and shall also be elected by a quotation as follows:

A stop order to buy becomes a market order when the bid price in the options series is at or above the stop price, after the order is represented in the Trading Crowd. A stop order to sell becomes a market order when the offer price in the option series is at or below the stop price, after the order is represented in the Trading Crowd.

A stop limit order to buy becomes a limit order executable at the limit price or at a better price, if obtainable, when the bid price in the option series is at or above the stop price, after the order is represented in the Trading Crowd.

A stop limit order to sell becomes a limit order executable at the limit price or at a better price, if obtainable, when the offer price in the option series is at or below the stop price, after the order is represented in the Trading Crowd.

No stop order or stop limit order elected by a quotation may be executed without prior approval of a Floor Official.

.03 Open limited price orders, stop limit orders and stop orders for one or more option

contracts, held by a specialist prior to the effective date of an adjustment by the Options Clearing Corporation to the terms of a class of options pursuant to the rules of the Options Clearing Corporation, shall be adjusted by the specialist on the "ex-date" by such amount as the Options Clearing Corporation shall specify, unless he is otherwise instructed by the member or member organization that entrusted the order to him.

.04 In the case of option contracts, after a transaction in an underlying stock is reported disclosing a price change from the last previous reported transaction in such stock of \$2 or more in the case of a stock selling at a price below \$20, or \$2.50 or more in the case of a stock selling at a price of \$20 or more (but less than \$50), or \$3 or more in the case of a stock selling at a price of \$50 or more, no transaction in the class of options related to that underlying stock may be effected without the prior approval of a Floor Official. The reference to a "reported transaction in an underlying stock" shall mean a transaction effected in the primary market for such underlying stock and reported by such market in accordance with the provisions of SEC Rule 11Aa3-1.

(g) The provisions of Rule 156, together with the following additional provision, shall apply to Exchange option transactions:

A broker who has been given a spread order, or a straddle order or a combination order shall not be held responsible for an execution based upon transaction prices that are established at the opening or close of trading.

••• Commentary -----

.01 The specialist shall maintain and keep active the limit order quote assist feature. The Exchange will establish the time frame within which the quote assist feature will display eligible customer limit orders, which in no event will be longer than 30 seconds. Use of the quote assist feature will be on a pilot program basis until April 30, 2006, or until all option classes have begun trading on the Exchange's new trading system known as ANTE, whichever occurs first.

(h) The provisions of Rule 171 and Commentary thereto shall apply to the trading of option contracts, however, the option specialist financial requirement shall be equal to a minimum of \$1,000,000 plus \$25,000 for each option issue in excess of the initial twenty-five issues in which such specialist is registered.

••• Commentary -----

.01 For an option specialist that is also an equity security specialist subject to the requirements of Rule 171, the minimum \$1,000,000 referred to in Rule 171 shall apply to the entirety of the specialist's business, in both equities and options. For example, a specialist maintaining a book in both equity securities and options that is allocated only one equity security and one option (assuming the cost to carry 60 units of the equity stock does not exceed \$1,000,000) would be required to satisfy the minimum financial requirement of \$1,000,000.

(i) The provisions of Rule 186 shall apply to the trading of option contracts with the addition of the following Commentary:

••• *Commentary* -----

.01 With respect to a specialist registered in one or more classes of options:

Paragraph (a) of this Rule shall be deemed to prohibit the holding of any office or directorship of the corporation which is the issuer of the underlying stock that is the subject of any such class of options.

Paragraph (b) of this Rule shall be deemed to prohibit the nomination of any person to, and the representation by a nominee on, the Board of Directors of the corporation which is the issuer of the underlying stock that is the subject of any such class of options.

Paragraph (c) of this Rule shall be deemed to prohibit the solicitation of proxies in respect of the underlying stock that is the subject of any such class of options.

Paragraph (d) of this Rule shall be deemed to prohibit, in any proxy contest involving the underlying stock that is the subject of any such class of options, the voting of any such stock in which the persons or parties specified in paragraph (a) have a beneficial interest.

.02 The term "corporation which has a security admitted to trading on the Exchange" as used in paragraph (a) of this Rule shall not be deemed to include the Options Clearing Corporation.

(j) Rescinded effective September 29, 1976.

(k) The provisions of Rule 190 shall apply to the trading of option contracts with the addition of the following Commentary:

••• *Commentary* -----

.02 With respect to a specialist registered in one or more classes of options:

(1) Paragraph (a) of this Rule shall be deemed to prohibit any material business transactions with the company which is the issuer of the underlying stock that is the subject of any such class of options or with any officer, director or 10% stockholder of any such company. A material transaction for purposes of this Commentary .02 is one which is material in value either to the issuer or the specialist; would provide access to material non-public information relating to the issuer; or would give rise to a control relationship between the issuer and the specialist.

(2) Paragraph (b) of this Rule shall be deemed to prohibit the acceptance of any order for the purchase or sale of an option contract of any such class directly (1) from the company which is the issuer of the underlying stock that is the subject of any such class of options, (2) from any officer, director or 10% stockholder of any such company, (3) from any pension or profit-sharing fund with assets exceeding \$5,000,000, or (4) from any bank,

trust company, insurance company, investment company or similar institution. This Rule shall not be deemed to prohibit the acceptance of orders for the purchase or sale of the underlying stock from pension and profit-sharing funds, banks, trust companies, investment companies and similar institutions.

.03 It is contrary to good business practice for a specialist or his member organization, or any member, officer, employee or approved person therein to make any recommendation in any stock underlying an equity option in which such specialist is registered or to make public statements, oral or written, for the purpose of encouraging or discouraging the purchase or sale of any such stock. Notwithstanding the foregoing, a member organization which is or is associated with a registered options specialist may publish or distribute information, an opinion or a recommendation regarding securities of the issuer of the stock underlying its specialty option provided:

- (1) Such information, opinion or recommendation is contained in a publication which:
 - (i) Is distributed with reasonable regularity in the normal course of business, and
 - (ii) Includes similar information, opinions or recommendations with respect to a substantial number of companies in the issuer's industry or sub-industry, or contains a comprehensive list of securities it is currently recommending.
 - (2) Such information, opinion or recommendation:
 - (i) Is given no materially greater space or prominence in such publication than that given to other securities or issuers; and
 - (3) Projections of the issuer's sales or earnings are not included unless they are also included with respect to either a substantial number of companies in the issuer's industry or sub-industry or all companies in a comprehensive list which is contained in the publication, and cover the same periods with respect to such companies as with respect to the issuer; and
 - (4) Appropriate disclosure is made relating to potential conflicts of interest, as follows:
 - (a) The member organization is, or is associated with, a specialist who makes a market in the option;
 - (b) At any given time, the specialist may have an inventory position, either "long" or "short," in the option; and
 - (c) As a result of the specialist's function as such, such specialist may be on the opposite side of orders executed on the Floor of the Exchange in the option.
- (l) The provisions of Rule 191 and Commentary thereto shall apply to Exchange option

transactions with the following amendments to the Commentary:

••• *Commentary* -----

.01 For purposes of the reporting requirements under paragraph (b) of this Rule, a security directly related to a security (other than a class of options traded on the Exchange) in which a Specialist is registered would include all securities of the same issuer, and a security directly related to a class of options traded on the Exchange in which a Specialist is registered would include:

- (i) if the class of options relates to an underlying stock, such underlying stock and all other securities of the issuer thereof convertible into or exchangeable for shares of the underlying stock, or
- (ii) if the class of options relates to an underlying Treasury bond or Treasury note, such Treasury bond or Treasury note, or
- (iii) if the class of options relates to an underlying Treasury bill or certificate of deposit, every Treasury bill or certificate of deposit, respectively, which is, or could be in the future, deliverable in connection with the exercise of an option in such class.

Securities indirectly related to a security (other than a class of options traded on the Exchange) in which a Specialist is registered would include any securities of an issuer other than the issuer of such security which, because of merger or acquisition plans or intercorporate relationships, can reasonably be expected to have a price relationship to the security in which the Specialist is registered.

.02 Each specialist in an option contract shall file with the Exchange, on a daily basis, reports containing the information required pursuant to paragraph (b) under Rule 191 with respect to transactions in any contract for the future delivery of a Government security or certificate of deposit which permits delivery of the security underlying the option contract in which the specialist is registered, and any option contract which, following exercise, would require the delivery of such a futures contract.

.03 The Exchange may, from time to time, request reports of transactions in various Government securities by Specialists who are registered in options on other Government securities. Therefore, each Specialist who is registered in an option covering a Treasury bond, Treasury note, or Treasury bill shall keep records of his transactions in all Treasury bonds, Treasury notes or Treasury bills, as the case may be, which records shall contain the categories of information required pursuant to paragraph (b) under Rule 191.

(m) The provisions of Rule 116, with the exception of subparagraphs (d) and (e) thereof, shall apply to Exchange option transactions executed through the Opening Automated Report Service ("OARS" or the "Service") and the following Commentary shall also apply:

••• *Commentary* -----

.01 Reporting and Comparison:

With respect to any order submitted by a member organization and stored and executed within the Service, such member organization shall receive "ASE" (or such other universal contra as the Exchange may designate) as the contra party on the report of execution. Such member organization shall submit or cause to be submitted to the Exchange the trade data regarding its side of the contract as part of its normal comparison data with ASE as the contra party.

Each member whose order or bid or offer was paired-off against an imbalance in the Service pursuant to subparagraph (d)(2) of Rule 116, shall report the transaction to the Exchange with "AUTO" (or such other universal contra as the Exchange may designate) as the contra party. The clearing member or member organization who receives such report shall submit the trade data to the Exchange as part of its normal comparison data with AUTO as the contra party.

The specialist shall submit, or cause to be submitted, trade data to the Exchange on behalf of AUTO.

.02 Differences and Omissions:

When a member organization which is a clearing member of The Options Clearing Corporation is advised by the Exchange, through an Advisory, that the member organization failed to submit comparison data or submitted incorrect data for which ASE was the contra party, such member organization shall acknowledge such transaction by submitting the correct comparison data to the Exchange for processing in the final comparison pass performed prior to the submission of data to The Options Clearing Corporation on the evening of the day of the transaction. If the member organization fails to submit or correct the item in question prior to the final comparison pass, the Exchange's automated comparison system will generate the appropriate trade comparison entry on behalf of the member organization.

When a specialist is notified by the Exchange that a member or member organization failed to submit comparison data or submitted data which was different from data submitted by the specialist on behalf of AUTO, such specialist shall research such item as soon as possible but no later than prior to the final comparison pass performed prior to the submission of data to The Options Clearing Corporation on the evening of the day of the transaction. For items not resolved within such period, the automated comparison system will generate the appropriate trade comparison entry on behalf of the specialist in order to accommodate the imbalance and such comparison entry shall be deemed to be an acceptance of the transaction by the specialist for his own account. However, the specialist's right to subsequently resolve the transaction with the member he knows as the contra party to the trade will not be prejudiced.

(n) The provisions of Rule 170 and Commentaries .03 and .04 thereto, shall apply to exchange option transactions. In addition, the following Commentary shall also apply:

••• *Commentary* -----

.01 A specialist in the course of maintaining a fair and orderly market shall adhere to the maximum permissible bid/ask differentials set forth in Rule 958(c).

.02 Specialists and registered options traders are required to compete with each other to improve the quoted markets in all series of option classes which they trade. Unless otherwise provided for in Exchange rules, it shall be a violation of just and equitable principles of trade for specialists and registered options traders to determine by agreement the spreads or prices at which they will trade any option class, or the allocation of orders in any option class. In complying with this Rule, the specialist and registered options traders must make independent decisions to determine the spreads or prices at which they will quote and trade any option class. There are, however, certain specific circumstances where to make fair and orderly markets that are competitive with other exchanges and responsive to the needs and expectations of investors, some communication among the specialist and traders may be necessary and appropriate. Therefore, notwithstanding the foregoing:

- (a) Specialists are expected to participate in and support Exchange-sponsored automated systems such as automatic quote and execution systems or Exchange-approved equivalents. The variables in the formula used to generate automatically updated quotations for each option class and or series will be determined independently by the specialist. The specialist shall disclose to all registered options traders in an option class the following variables of the formula used to generate automatically updated market quotations for each option class and/or series: option pricing calculation model, volatility, interest rate, and dividends (both declared and anticipated). The specialist may receive input from the registered options traders on any one or all of these variables provided, however, it is within the specialist's sole discretion to make the final, independent decision in determining the variables to be used in the automated quote system. The registered options traders, however, are not required to give input on the variables to the specialist. The Exchange shall have the discretion to exempt specialists using an Exchange-approved proprietary automated quotation updating system from having to disclose proprietary information concerning the variables (but not the variables themselves) used by those systems;
- (b) The obligation of the specialists to make competitive markets does not preclude the specialists and registered options traders from making a collective response to a request for a market, provided the member representing such order requests such response and the size of the order is larger than the greater of the size communicated or disseminated pursuant to Rule 958A or the Auto-Ex eligible size parameter. In addition, the specialist may unilaterally give a single bid (offer) in response to a request for a market and subsequently discuss with the registered options traders whether they wish to participate in contracts executed in accordance with that bid (offer). The allocation of contracts executed in accordance with this paragraph will be done in accordance with the Exchange's specialist and registered options trader participation policy; and

(c) In conjunction with their obligation as the responsible broker or dealer pursuant to Exchange Rule 958A and Rule 11Ac1-1 under the Securities Exchange Act of 1934, specialists and registered options traders may collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to paragraph (c)(i) of Rule 958A.

.03 (a) It is the responsibility of the specialist to allocate executed contracts among all participants to a trade.

- (i) In order for specialists to fulfill this function, registered options traders must announce either at the start of the trading day, upon entry into the trading crowd or prior to the dissemination of a quotation, the number of contracts for each option series in which they are willing to participate. The specialist may not assume a size for any registered options trader and only those registered options traders that have announced their sizes as discussed above will be allocated any executed contracts.
- (ii) The registered options traders announced sizes shall be promptly communicated to the Exchange as required by Rule 958A(c)(i).
- (iii) As transactions occur the specialist shall allocate to the extent mathematically possible (A) the portion of the executed contracts that the customer is entitled to and the portion of the executed contracts to those on parity with the customer on an equal basis subject to subparagraph (v) of this paragraph (a); (B) the portion of the executed contracts that the specialist is entitled to pursuant to the participation percentages set forth in Rule 950(d), Commentary .06; and then (C) the portion of the executed contracts participating registered options traders are entitled to individually. The allocation pursuant to (C) is subject to the following provisions:
 - 1. where all participants have equal stated sizes, their participations shall be equal;
 - 2. where participants' stated sizes are not equal, their participations will depend upon whether the number of executed contracts left to be allocated exceeds the participants' aggregate stated sizes;
 - 3. if the number of executed contracts left to be allocated does not exceed the participants' aggregate stated sizes, the specialist will allocate the executed contracts equally, unless a participant's stated size is for an amount less than an equal allocation, then the smallest sizes will be allocated first, until the number of executed contracts remaining to be allocated requires an equal allocation.
 - 4. if the number of executed contracts left to be allocated does exceed the participants' aggregate stated sizes, the specialist will allocate the executed contracts by first allocating to each participant the number of executed

contracts equal to each participant's stated size with the remainder being allocated based on the percentage a participant's stated size is of the participants' aggregate stated size.

5. The following chart illustrates how different numbers of executed contracts will be allocated to participants whose aggregate stated size is 100 contracts:

| <i>Each Participant's Stated Size</i> | 200 | 90 | 70 | 50 |
|---------------------------------------|------------|-----------|-----------|-----------|
| 50 | 100 | 40 | 25 | 17 |
| 30 | 60 | 30 | 25 | 17 |
| 20 | 40 | 20 | 20 | 16 |

(iv) In the event a specialist or registered options trader declines to accept any portion of the available contracts, any remaining contracts shall be apportioned among the remaining participants who bid or offered at the best price at the time the market was established in accordance paragraph (iii) above, until all contracts have been allocated.

(v) Specialists and registered options traders may direct some or all of their participation amount to competing public orders in the trading crowd.

(b) Notwithstanding the foregoing, when the transaction occurs without the participation of the specialist (either as principal or agent), the floor broker representing the contra-side of the trade shall distribute the executed contracts equally among the participating registered options traders, unless a registered options trader's portion of the disseminated size is less than an equal distribution. That registered options trader will be given a less than equal distribution and the remaining contracts will be allocated equally among the remaining participants to the trade. In addition, if neither the specialist nor a floor broker representing a customer as the contra-side of the trade is participating in the trade, the participating registered options traders shall allocate the executed contracts among themselves and other participants on parity in accordance with subparagraph (a)(iii) above.

(o) The provisions of Rule 109 and Commentary thereto except for those provisions which provide for "stopping" in markets with the minimum spread between the bid and offer shall apply to Exchange options transactions.

(p) The provisions of Rule 103, with the exception of subparagraphs (c)(2) and (3) and Commentaries .01-.03 thereto, shall apply to Exchange option transactions.

Rule 951. Premium Bids and Offers

(a) All bids or offers made on the Floor for option contracts shall be deemed to be for one option contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract shall be deemed to be for the amount thereof or a smaller number of option contracts.

(b) Except as provided in paragraph (c), all bids or offers made on the Floor for option contracts relating to an underlying stock or Exchange-Traded Fund Share shall be expressed in terms of dollars per share of the underlying stock or Exchange-Traded Fund Share (e.g., a bid of "5" shall represent a bid to pay a premium of \$500 for an option contract having a unit of trading consisting of 100 shares of an underlying stock or Exchange-Traded Fund, or a bid to pay a premium of \$5000 for an option contract having a unit of trading consisting of 1000 shares of an underlying stock or Exchange-Traded Fund).

(c) All bids or offers for an option contract for which The Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraph (c) and (d) of Section 11 of Article VI of the By-laws of The Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading (e.g., where the adjusted unit of trading of an option contract consists of 110 shares of an underlying stock or Exchange-Traded Fund plus 15 rights, a bid of "5" shall represent a bid to pay a premium of \$550 for each option contract covering both the shares of underlying stock or Exchange-Traded Fund and the rights).

(d) All bids or offers made on the Floor for option contracts relating to an underlying Treasury bill shall be expressed as a percentage of an amount which shall be determined by multiplying the principal amount of the underlying Treasury bill by a fraction whose numerator shall be the number of weeks to maturity of the underlying Treasury bill and whose denominator shall be 52.

(e) All bids or offers made on the Floor for option contracts relating to an underlying Treasury bond or Treasury note shall be expressed as a percentage of the principal amount of the underlying Treasury bond or Treasury note.

(f) All bids or offers made on the Floor for option contracts relating to an underlying certificate of deposit shall be expressed as a percentage of \$250,000 (e.g., a bid of "1" shall represent a bid to pay a premium of 1% of \$250,000—i.e., \$2,500—for an option contract).

••• *Commentary* -----

.01 The bid and offer of a Specialist or Registered Trader for a Treasury bill option contract covering \$1,000,000 principal amount of underlying 13-week Treasury bills automatically shall include a bid and offer for another Treasury bill option contract identical to the first contract in all respects except that it shall cover \$200,000 principal amount of underlying 13-week Treasury bills. The bid and offer for the smaller sized option contract shall be no wider than .01 less on the bid and .01 more on the offer than the stated bid and offer for the larger sized option contract.

.02 The bid and offer of a Specialist or Registered Trader for a Treasury note option contract covering \$100,000 principal amount of underlying Treasury notes automatically shall include a bid and offer for another Treasury note option contract identical to the first

contract in all respects, except that it shall cover \$20,000 principal amount of underlying Treasury notes. The bid and offer for the smaller sized option contract shall be no wider than $1/32$ less on the bid and $1/32$ more on the offer than the stated bid and offer for the larger sized option contract.

.03 The quotations disseminated by the Exchange for options on a particular Treasury bill or Treasury note shall be for the largest size option contract traded on the Exchange covering that Treasury bill or Treasury note.

Rule 952. Minimum Price Variations

(a) The Exchange's Board of Directors may establish the minimum price variation ("MPV") for dealings on the Exchange in option contracts for which the underlying security is a stock. When the Board of Directors determines to change the quoting increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of Rule 952 within the meaning of subparagraph (3)(A) of subsection 19(b) of the Securities Exchange Act of 1934 and will file a rule change to be effective upon filing with the Securities and Exchange Commission; The Board has determined that the MPV for an option on a stock or Exchange-Traded Fund Share shall be as follows: (a) for option issues quoted under \$3 a contract, \$.05 MPV; (b) for option issues quoted at \$3 a contract or greater, \$0.10 MPV.

(b) The minimum fractional change for dealing on the Exchange in option contracts for which the underlying security is a Treasury bill shall be one-hundredth of one percent (0.01%) of the amount determined by multiplying the principal amount of the underlying Treasury bill by a fraction whose numerator shall be the number of weeks to maturity of the underlying Treasury bill and whose denominator shall be 52.

(c) The minimum fractional change for dealing on the Exchange in option contracts for which the underlying security is a Treasury bond or Treasury note shall be one thirty-second of one percent ($1/32\%$) of the principal amount of the underlying Treasury bond or note.

(d) The minimum fractional change for dealing on the Exchange in option contracts for which the underlying security is a certificate of deposit shall be one-hundredth of one percent (0.01%) of \$250,000 (i.e., \$25.00).

SR-2007-096 Pilot Program extended until March 27, 2009.

••• Commentary -----

.01 In connection with those options classes on a stock or Exchange-Traded Fund Share included within the Penny Quoting Pilot Program as set forth in a Regulatory Circular filed with the Commission pursuant to Rule 19b-4 under the Securities Exchange Act of 1934 and distributed to members, the MPV shall be as follows: (a) for option issues quoted under \$3 a contract, \$.01 MPV; (b) for option issues quoted at \$3 a contract or greater, \$0.05 MPV. However, options on the QQQQ will trade at an MPV of \$0.01 for all options premiums.

Rule 953. Acceptance of Bid or Offer

All bids or offers for option contracts dealt in on the Exchange made and accepted in accordance with these Rules shall constitute binding contracts between the parties thereto but shall be subject to the exercise by the Board of Directors of the powers in respect thereto vested in said Board by the Rules, and to the Rules of the Exchange, and said contracts shall also be subject to the rules of The Options Clearing Corporation and to the exercise by The Options Clearing Corporation of the powers reserved to it in the rules of The Options Clearing Corporation.

Rule 954. Units of Trading

The unit of trading in each series of options dealt in on the Exchange shall be the unit of trading established for that series by The Options Clearing Corporation pursuant to the rules of The Options Clearing Corporation.

Rule 955. Floor Reports of Exchange Option Transactions

(a) If a specialist shall fail to send a report with respect to an option contract order which he executed or should have executed and the member or member organization giving the Specialist such order shall have made a written request to the Specialist for a report by one hour prior to the opening of trading on the following business day, the specialist shall be responsible for any loss which may be sustained until such time as he answers the request.

••• Commentary -----

.01 A report shall be deemed to have been sent by a specialist if he prepares and has available a commission stub or original order, both of which must bear the date the report was sent. The date stamp shall be in such form as may be authorized by the Exchange.

.02 Members and member organizations expecting reports should make written requests for reports promptly; a duplicate copy of such request must be stamped and retained by the member or member organization as a record that the request has been made.

.03 In the event a report has not been sent by a Specialist with respect to an option contract order which he executed or should have executed and the member or member organization leaving such order with the Specialist for execution makes a written request to the Specialist for a report later than one hour prior to the opening of trading on the business day following the day on which such order was executed or should have been executed, the Specialist shall not, without his consent, be responsible for any loss sustained.

Rule 956. Open Orders on "Ex-Date"

Open orders for one or more option contracts dealt in on the Exchange held by members or member organizations prior to the effective date of an adjustment by The Options Clearing Corporation to the terms of a class of options pursuant to the rules of The

Options Clearing Corporation shall be adjusted on the "ex-date" by such amount as The Options Clearing Corporation shall specify, unless otherwise instructed by the customer.

Rule 957. Accounts, Orders and Records of Registered Traders, Designated NYSE Alternext Remote Traders, Specialists and Associated Persons

(a) **Associated Persons.—Identification of Accounts**—Each Specialist, Designated NYSE Alternext Remote Trader and Registered Trader in the Exchange-Traded Fund Shares as defined in Commentary .06 to Rule 915, is obligated to conduct all trading in the Exchange-Traded Fund Shares in account(s) that have been reported to the Exchange. In addition, in a manner prescribed by the Exchange, each Specialist, Designated NYSE Alternext Remote Trader and Registered Trader engaging in options trading shall file with the Exchange and keep current a list identifying all accounts for stock, option, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, any other derivatives based on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and other related trading in which the Specialist, Designated NYSE Alternext Remote Trader or Registered Trader may, directly or indirectly, engage in trading activities or over which he exercises investment discretion. No Specialist, Designated Amex Remote Trader or Registered Trader shall engage in stock, option, non- U.S. currency, non-U.S. currency option, futures, options on futures on such currency, any other derivatives based on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity or other related trading in an account which has not been reported pursuant to this Rule.

(b) **Reports of Orders**.—In a manner prescribed by the Exchange, each Specialist or Registered Trader engaging in options trading shall, on the business day following order entry date, report to the Exchange every order entered by the Specialist or Registered Trader for the purchase or sale of a security underlying options traded on the Exchange or a security convertible into or exchangeable for such underlying security as well as opening and closing positions in all such securities held in each account reported pursuant to this Rule. The report pertaining to orders must include the terms of each order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times reports of executions were received and, if all or part of the order was executed, the quantity and execution price.

(c) No specialist or Registered Trader in options on a Government security or certificate of deposit shall fail to make available to the Exchange such books, records or other information maintained by or in the possession of such person, or any corporation or partnership associated with such person's member organization, pertaining to transactions by such person, corporation or partnership for its own account in Government securities or certificates of deposit, respectively, Government securities or certificate of deposit futures, respectively, or Government securities or certificate of deposit options, respectively, (including options on Government securities futures and options on certificate of deposit futures) as may be called for under the Rules of the Exchange or as may be requested by the Exchange in the course of any investigation or examination.

(d) Reporting Requirements Applicable to Short Sales in National Market

Securities—No member shall initiate, accept or transmit for execution, or execute a sale of a National Market security ("NM security") for its own account or for the account of another member unless the sale is clearly identified in a form and manner prescribed by the Exchange as a long sale, short sale or short exempt sale.

(1) For purposes of this rule, a short sale shall have the same meaning as set forth in Rule 200 of Regulation SHO under the Securities Exchange Act of 1934.

(2) A short sale may be designated as short exempt if:

(a) The sale qualifies for an exemption from the short sale bid test established in the FINRA Rules of Fair Practice; or

(b)

(i) During an eighteen-month period commencing with the effective date of this Rule, if the sale is by or for the account of an options specialist or registered options trader, provided the short sale is an exempt hedge transaction in a NM security underlying a class of stock options or included in an index underlying a class of index options in which the specialist is allocated pursuant to the procedures of the Exchange's Options Allocation Committee or the registered options trader is assigned pursuant to Exchange Rule 958.

(ii) For purposes of this subparagraph (2)(b), an "exempt hedge transaction" shall mean a short sale in a NM security that was effected to hedge, and in fact serves to hedge, an existing offsetting options position or an offsetting options position that was created in one or more transactions contemporaneous * with the short sale, provided, in the case of a stock option, when establishing the short position the specialist or registered trader receives or is eligible to receive good faith margin pursuant to Section 220.12 of Regulation T under the Securities Exchange Act of 1934 for that transaction, and provided further that, in the case of an index option, (A) the NM security sold short is a component security of the index underlying such option, (B) at least 10% of the value of the index underlying such option is represented by one or more NM securities, and (C) the current aggregate value of the NM securities sold short does not exceed the aggregate current index value of the index options position being hedged. Notwithstanding the foregoing, a transaction unrelated to normal options market making activity, such as index arbitrage or risk arbitrage that in either case is independent of a specialist's or registered trader's market making functions, will not be considered an "exempt hedge transaction."

(iii) An options specialist or registered options trader shall be considered a "qualified options market maker" as that term is defined in Article III,

Section 46 of the FINRA Rules of Fair Practice in options on those NM securities or index of NM securities in which the specialist has been allocated or in which the registered options trader has been assigned for purposes of the exemption for qualified options market makers from the bid test established in Article III. Section 46, provided that the status of such specialist or registered options trader as a qualified options market maker may be withdrawn, suspended or modified by the Exchange as the result of action by the Exchange pursuant to Rule 590.

(iv) Short sales of a security of a company involved in a publicly announced merger or acquisition by or for the account of a specialist or registered options traders will be deemed to be an exempt hedge transaction qualifying for designation as short exempt pursuant to this subparagraph (b)(iv) if the short sale was made to hedge existing or prospective positions (based on communicated indications of interest) in options on a security of another company involved in the merger or acquisition, where the options positions are or will be in a class of options for which the specialist is registered or the registered options trader is assigned and were or will be an exempt hedge transaction as defined in subparagraph (b)(ii) of this Rule.

(3) This Rule may be modified or withdrawn upon termination of the eighteen-month period noted in subparagraph (2)(b)(i) above, provided that if the exemption for options specialists and registered traders from the short sale bid test contained in the FINRA Rules of Fair Practice continues in effect, this rule will also continue in effect until it is modified or withdrawn.

(4) It will not be deemed a violation of this Rule 957(d) when a member designates a sale for an account in which the member has no interest as a long sale where the member does not know or have reason to know that the beneficial owner of the account has, or as a result of such sale would have, a short position in the security, or where a member designates such a sale as a short exempt sale where the member does not know or have reason to know that the criteria for designating such sale as short exempt are not satisfied.

(5) If a member initiates, accepts for execution, transmits for execution or executes a short sale of a NM security without clearly and properly identifying it as required by this Rule 957(d), or if a member designates a short sale as a short exempt sale under paragraph (2) but fails to satisfy all of the conditions to such designation, or even if all such conditions are satisfied, if the sale is made for the purpose of disrupting or manipulating the market in the security that is the subject of the sale or a related option, such sale may constitute a violation of Exchange Rules 4, 16 and 958, as well as this Rule.

••• *Commentary* -----

.01 Reports of accounts and orders required to be filed with the Exchange pursuant to

paragraphs (a) and (b) of this Rule relate only to accounts in which a Specialist, Designated NYSE Alternext Remote Trader or Registered Trader, as an individual directly or indirectly, controls trading activities or has a direct interest in the profits or losses of such accounts. Reports are required for accounts over which a Specialist, Designated NYSE Alternext Remote Trader or Registered Trader exercises investment discretion as well as his proprietary accounts. For purposes of this Rule, the types of trading which shall be considered to be related to an option on a particular underlying security shall include trading in (i) securities convertible into or exchangeable for such underlying security, (ii) any contract calling for the future delivery of a security which permits delivery of such underlying security, and (iii) any option contract which, following exercise, would require the delivery of such a futures contract.

.02 Once an underlying index has satisfied the 10% test of clause (B) of the second proviso in subparagraph (2)(b)(ii), the continued qualification of the index shall be reviewed at the end of each calendar quarter, and the index shall cease to qualify if the value of the index represented by one or more NM securities is less than 8% at the end of any subsequent calendar quarter.

.03 In addition to the existing obligations under Exchange rules regarding the production of books and records, a specialist, Designated NYSE Alternext Remote Trader or Registered Trader in non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable non-U.S. currency, non-U.S.-currency options, futures, or options on futures on such currency, or any other derivatives on such currency, as may be requested by the Exchange.

.04 In addition to the existing obligations under Exchange rules regarding the production of books and records, a specialist, Designated NYSE Alternext Remote Trader or Registered Trader in commodity futures contracts, options on commodity futures contracts or any other derivatives based on such commodity, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable physical commodity, physical commodity options, commodity futures contracts, options on commodity futures contracts, or any other derivatives on such commodity, as may be requested by the Exchange.

* Transactions will be considered to be "contemporaneous" if they occur simultaneously within the same brief period of time.

Rule 958. Options Transactions of Registered Traders

No Registered Trader shall initiate an Exchange option transaction on the Floor for any account in which he has an interest except in accordance with following provisions:

(a) Each Registered Trader electing to engage in Exchange option transactions shall be assigned by the Exchange one or more classes of options, and Exchange option transactions initiated by such Registered Trader on the Floor for any account in which he

has an interest shall to the extent prescribed by the Exchange be in such assigned classes.

(b) Exchange option transaction of a Registered Trader should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market and no Registered Trader should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

(c) With respect to each class of options as to which he is assigned by the Exchange, a Registered Trader, whenever he enters the trading crowd in other than a floor brokerage capacity, or is called upon by a Floor Official or a Floor Broker acting in an agency capacity, is required to make competitive bids and offers as reasonably necessary to contribute to the maintenance of a fair and orderly market and shall engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists a lack of price continuity, a temporary disparity between the supply of and demand for option contracts of a particular series, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Registered Trader is expected to perform the following activities in the course of maintaining a fair and orderly market:

(i) If the underlying security is a stock or Exchange-Traded Fund Share, bidding and offering so as to create differences of no more than \$0.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2, no more than \$0.40 where the prevailing bid is \$2 but does not exceed \$5, no more than \$0.50 where the prevailing bid is more than \$5 but does not exceed \$10, no more than \$0.80 where the prevailing bid is more than \$10 but does not exceed \$20, and no more than \$1 where the last prevailing bid is more than \$20. In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth herein, the permissible price differential for any in-the-money option series may be identical to those in the underlying security market.

If the underlying security is a Treasury bill or certificate of deposit, bidding and offering so as to create differences in premium quotations of no more than 0.06 between the bid and the offer for each option contract for which the last preceding transaction price was 0.12 or less, no more than 0.12 where the last preceding transaction price was more than 0.12 but did not exceed 1.20, and no more than 0.16 where the last preceding transaction price was more than 1.20; and

If the underlying security is a Treasury bond or Treasury note, bidding and offering so as to create differences of no more than 1/8% of the principal amount of the underlying security between the bid and the offer for each option contract for which the last preceding transaction price was 1/4% or less, no more than 1/4% where the last preceding transaction price was more than 1/4% but did not exceed 4%, and no more than 3/8% where the last preceding transaction price was more than 4%;

Provided that the Exchange may establish differences other than the above for one or more series or classes of options.

- (ii) If the underlying security is a stock or an Exchange-Traded Fund Share, bidding no more than \$1 lower and/or offering no more than \$1 higher than the last preceding transaction price for the particular option contract; if the underlying security is a Treasury bill or certificate of deposit, bidding no more than 0.09 lower and/or offering no more than 0.09 higher than the last preceding transaction price for the particular option contract; if the underlying security is a Treasury note or Treasury bond, bidding no more than 3/8% lower and/or offering no more than 3/8% higher than the last preceding transaction price for the particular option contract.

However, this standard shall not ordinarily apply if the price per share of an underlying stock or Exchange-Traded Fund Share has changed by more than \$1, or if the annualized discount or annualized yield of the underlying Treasury bills or certificates of deposit, respectively, in the cash market has changed by more than 0.09, or if the price of an underlying Treasury bond or note has changed by more than 3/8%, since the last preceding transaction for the particular option contract.

- (d) With respect to classes of options other than those to which he has been assigned, a Registered Trader, whenever he enters the trading crowd or is called upon by a Floor Official, shall undertake the obligations specified in paragraph (c) of this Rule.
- (e) No equity specialist, odd-lot-dealer or NASDAQ marketmaker may act as a registered trader in a class of stock options on a stock in which he is registered in the primary market therefor, provided, however, that an equity specialist may act as a registered trader in a class of stock options on an Exchange-Traded Fund Share or a Trust Issued Receipt in which he is registered in the primary market therefor if the Exchange-Traded Fund Share or Trust Issued Receipt meets the criteria set forth in Commentary .03(a) to Exchange Rule 1000 or Commentary .02(a) to Exchange Rule 1000A or approved by the Securities and Exchange Commission as eligible for trading arrangements under this paragraph and Rule 175(c)(2).
- (f) No member while acting as a Registered Options Trader if he is also registered as a Registered Equity Trader or Registered Equity Marketmaker shall execute a proprietary Exchange option transaction on a Paired Security if during the preceding 60 minutes he has been in the Designated Stock Area where the related security is traded.
- (g) A Registered Trader, when establishing or increasing an options position for any account in which he has an interest, must initiate such transactions on the floor for those transactions to be considered registered trader transactions. Except as otherwise determined by the Exchange, a minimum of 25% of a Registered Trader's option contract volume and a minimum of 25% of a Registered Trader's total number of options transactions in any calendar quarter must be executed in person and not through the use of orders, provided, however, that for any calendar quarter in which a Registered Trader

receives Registered Trader treatment for off-floor orders in accordance with Commentary .01 of this Rule, in addition to satisfying the requirements of Commentary .03 of this Rule 958, the Registered Trader must execute in person, and not through the use of orders, at least 80% of his total transactions and option contract volume.

(h) Registered options traders and specialists are required to compete with each other to improve the quoted markets in all series of option classes which they trade. Unless otherwise provided for in Exchange rules, it shall be a violation of just and equitable principles of trade for registered options traders and specialists to determine by agreement the spreads or prices at which they will trade any option class, or the allocation of orders in any option class. In complying with this Rule, the registered option traders and specialist must make independent decisions to determine the spreads or prices at which they will quote and trade any option class. There are, however, certain specific circumstances where to make fair and orderly markets that are competitive with other exchanges and responsive to the needs and expectations of investors, some communication among the specialist and registered options traders may be necessary and appropriate. Therefore, notwithstanding the foregoing:

- (i) Registered options traders are expected to participate in and support Exchange-sponsored automated systems such as automatic quote and execution systems or Exchange-approved equivalents. The variables in the formula used to generate automatically updated quotations for each option class and or series will be determined by the specialist. The specialist shall disclose to all registered option traders in an option class the following variables of the formula used to generate automatically updated market quotation for each option class and/or series: option pricing calculation model, volatility, interest rate, and dividends (both declared and anticipated). The specialist may receive input from the registered options traders on any one or all of these variables, provided, however, that it is within the specialist's sole discretion to make the final, independent decision in determining the variables to be used in the automated quote system. The registered options traders, however, are not required to give input on the variables to the specialist. The Exchange shall have the discretion to exempt specialists using an Exchange-approved proprietary automated quotation updating system from having to disclose proprietary information concerning the variables (but not the variables themselves) used by those systems;
- (ii) The obligation of registered options traders to make competitive markets does not preclude registered options traders and specialists from making a collective response to a request for a market provided the member representing such order requests such response and the size of the order is larger than the greater of the size communicated or disseminated pursuant to Rule 958A or the Auto-Ex eligible size parameter. In addition, the specialist may unilaterally give a single bid (offer) in response to a request for a market and subsequently discuss with the registered options traders whether they wish to participate in contracts executed in accordance with that bid (offer). The allocation of contracts executed in accordance with this paragraph will be done in accordance with the

Exchange's specialist and registered options trader participation policy; and

- (iii) In conjunction with their obligation as the responsible broker or dealer pursuant to Exchange Rule 958A and Rule 11Ac1-1 under the Securities Exchange Act of 1934, specialists and registered options traders may collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to paragraph (c)(i) of Rule 958A.

••• *Commentary* -----

.01 (a) A Registered Trader electing to engage in Exchange options transactions is designated as a Specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions (i) initiated and effected by him on the floor in his capacity as a Registered Trader; and (ii) initiated from off the floor by him when he elects to receive Registered Trader treatment for off-floor orders and thereby becomes subject to the 80% in person requirement described in paragraph (g) of this Rule and to the requirement that 75% of the Registered Traders activity (measured in terms of contract volume) be in the Registered Trader's assigned classes. The off-floor orders for which the Registered Trader receives Registered Trader treatment shall be subject to the obligations of Rule 958 and shall be effected only for the purpose of hedging, reducing risk of, rebalancing or liquidating options positions of the Registered Trader.

(b) For purposes of this rule and commentary, the term "on the floor" is defined as the area or areas designated by the Exchange as the place or places for the trading of stocks, bonds, options or other securities.

.02 The Exchange has determined that the limitations of paragraph (c)(ii) of this Rule should not be carried over from one day to the next, and therefore are not applicable to the opening of option contracts on the Exchange.

.03 The Exchange has determined for purposes of paragraph (a) of this Rule that, except for unusual circumstances at least 50% of the trading activity in any quarter (measured in terms of contract volume) of a Registered Trader shall ordinarily be in classes of options to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a Floor Official in non-assigned classes of options shall not be deemed trading in non-assigned option contracts. The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts. Registered Traders receiving Registered Trader treatment for off-floor orders in accordance with Commentary .01 of this Rule, must have at least 75% of their trading activity (measured in terms of contract volume) in the classes of options in which they are assigned.

.04 The obligations of a Registered Trader with respect to those classes of options to which he is assigned shall take precedence over his other Registered Trader activities.

.05 The Exchange will assign Registered Traders to act in one or more classes of option

contracts. In making such assignments, the Exchange shall give attention to (a) the preference of applicants; (b) assuring that financial resources available to a Registered Trader enable him to satisfy the obligations set forth in Rule 958 with respect to each class of option contracts to which he is assigned; (c) the applicant's expertise in option trading; and (d) the applicant's prior market performance. The Exchange may suspend or terminate any assignment of a Registered Trader under this Rule and may make additional assignments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action.

.06 Rule 111 as modified by Rule 950(c) also applies to Exchange option transactions effected by Registered Traders.

.07 A Floor Broker representing a customer's order in options shall, prior to executing such order, ascertain that at least one Registered Trader (who has elected to engage in Exchange option transactions) is present in the trading crowd at the post when such order is executed.

.08 The maximum permissible bid/ask differentials set forth in subparagraph (ii) of paragraph (c) of Rule 958 in respect of Treasury bill and Treasury note options shall apply to "large" sized option contracts, covering \$1,000,000 underlying principal amount in the case of options on 13-week Treasury bills and \$100,000 underlying principal amount in the case of options on Treasury notes. A Registered Trader shall be deemed to be in compliance with these requirements with respect to his quotations for the smaller sized 13-week Treasury bill and Treasury note option contracts (covering \$200,000 and \$20,000 underlying principal amount, respectively), if those quotations meet the requirements of Commentaries .01 and .02, respectively, under Rule 951; i.e., no wider than .01 less on the bid and .01 more on the offer than the quotation for the corresponding larger sized contract, in the case of a 13-week Treasury bill option, and no wider than 1/32 less on the bid and 1/32 more on the offer than the quotation for the corresponding larger sized contract, in the case of a Treasury note option.

.09 A Registered Trader (or a commission broker representing a Registered Trader, pursuant to Rule 111 Commentary .04), prior to executing an order for an account in which he has an interest, must announce whether the order is a "trader opening" or "trader closing" order.

.10 (a) Transactions on the Floor in index warrants, currency warrants, securities listed pursuant to Section 107 of the Company Guide ("Other Securities"), Trust Issued Receipts listed pursuant to Rules 1200 et seq. and Partnership Units listed pursuant to Rules 1500 et seq. which are otherwise traded under the Exchange's equity trading rules, shall be effected in accordance with the provisions of this rule, and shall only be effected by 86 Trinity Permit Holders authorized to be Registered Traders. Transactions by Registered Traders on the Floor in derivative products which are otherwise traded under the Exchange's equity trading rules, shall be effected in accordance with the provisions of this rule. In addition, Rule 111, Commentary .01 shall not apply to such transactions. (See Rule 111, Commentary .12, and Rule 114, Commentary .14.)

(b) A Registered Trader who is logged onto Auto-Ex shall only sign onto Auto-Ex for Portfolio Depository Receipts, Index Fund Shares, Trust Issued Receipts and Partnership Units (collectively "Exchange Traded Funds" or "ETFs") traded on the same or contiguous panels, i.e. ETFs traded by two adjoining Specialists, or ETFs traded by the same Specialist for a maximum of three (3) panels. A Registered Trader also shall not sign onto Auto-Ex for more than fifteen (15) ETFs. A Senior Floor Official may modify the foregoing restrictions if he determines that a Registered Trader is able to appropriately fulfill his obligations to the market due to the level of activity in the ETFs and their proximity.

Rule 958A. Application of the Firm Quote Rule

(a) *Definitions*—(i) For purposes of this rule the terms "aggregate quotation size", "best bid and best offer", "bid and offer", "quotation size", "quotation vendor", "reported security", "listed option", "option class", "option series" and "trading rotation" shall have the meanings set forth in SEC Rule 11Ac1-1.

(ii) For purposes of this rule and SEC Rule 11Ac1-1 as applied to the Exchange and its members, the term "responsible broker or dealer" shall mean, with respect to any bid or offer for any listed option made available by the Exchange to quotation vendors, the specialist and any registered options traders constituting the trading crowd in such option series shall collectively be the responsible broker or dealer to the extent of the aggregate quotation size specified. In conjunction with their obligation as the responsible broker or dealer, specialists and registered options traders may collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to paragraph (c)(i) of this rule. The allocation of contracts executed in accordance with this rule will be done pursuant to the Exchange's specialist and registered options traders participation policy.

(b) *Dissemination Requirements of the Exchange*—(i) with respect to paragraph (b) of SEC Rule 11Ac1-1, the Exchange shall, at all times it is open for trading, (A) collect, process and make available to quotation vendors the best bid, the best offer, quotation sizes and aggregate quotation sizes associated therewith for each option series that is a reported security and for which a responsible broker or dealer is obligated to execute any customer order as set forth in paragraph (c)(i)(A) below; and (B) shall for each listed option class, establish and periodically publish the quotation size for which the responsible broker or dealer is obligated to execute an order for the account of a U.S. registered or foreign registered broker or dealer to buy or sell an option series that is a reported security at its published bid or offer as set forth in paragraph (c)(i)(B) below. The Exchange may collect, process and make available to quotation vendors a best bid or best offer determined by an automated quotation system.

(ii) The Exchange's obligation to collect, process and make available data as set forth above shall not include (A) collecting, processing or making available any such bid or offer which is executed immediately after being made in the crowd and any such bid or

offer which is cancelled or withdrawn if not executed immediately after being made; or (B) data communicated during any period when trading in such reported security has been suspended or halted; prior to the commencement of trading in such reported security on any trading day; or during a trading rotation.

(c) *Obligations of a Responsible Broker or Dealer*—(i) Pursuant to SEC Rule 11Ac1-1 each responsible broker or dealer for each series of each listed option class shall promptly communicate to the Exchange its best bid, best offer, quotation size and aggregate quotation size. No responsible broker or dealer shall communicate a quotation size or aggregate quotation size for less than ten contracts with the exception that the size of customer limit orders representing the best bid or offer may be disseminated at less than ten (10) contracts, even though the responsible broker or dealer continues to have the obligation to quote a ten contract minimum. This obligation may be fulfilled by the use of an automated quotation system.

(A) Subject to the provisions of paragraph (d) of this rule, each responsible broker or dealer shall be obligated to execute any customer order in an option series in an amount up to its published quotation size.

(B) Subject to the provisions of paragraph (d) of this rule, each responsible broker or dealer shall be obligated to execute any order for the account of a U.S. registered or foreign broker or dealer in a listed option in an amount up to the quotation size established and periodically published by the Exchange which quotation size shall be for at least one contract.

(C) Subject to the provisions of paragraph (d) of this Rule, each responsible broker or dealer shall comply with the Thirty Second Response provisions set forth in paragraph (d)(3) of SEC Rule 11Ac1-1.

(ii) No responsible broker or dealer shall be obligated to execute a transaction for any listed option as provided in paragraph (c)(i) when:

(A) (1) Prior to the presentation of an order to sell (buy), a responsible broker or dealer has communicated to the exchange, a revised quotation size;

(2) At the time an order to sell (buy) is presented, a responsible broker or dealer is in the process of effecting a transaction in such series of option, and immediately after the completion of such transaction it communicates to the Exchange a revised quotation size, such responsible broker or dealer shall not be obligated by paragraph (c)(i) if this Rule to sell (buy) that option in an amount greater than such revised quotation size;

(3) Before the order sought to be executed is presented, a responsible broker or dealer has communicated to the Exchange a revised bid or offer; or

(4) At the time the order sought to be executed is presented, a responsible broker or dealer is in the process of effecting a transaction in such series of option,

and, immediately after the completion of such transaction, a responsible broker or dealer communicates to the exchange a revised bid or offer; provided, however, that the responsible broker or dealer shall nonetheless be obligated to execute any such order as provided in paragraph (c)(i) at its revised bid or offer in any amount up to its published quotation size or revised quotation size; or

(B) The order for the purchase or sale of a listed option is presented during a trading rotation in that listed option.

(d) *Use of Unusual Market Exception*—Notwithstanding paragraphs (b) and (c) above and pursuant to paragraph (b)(3) of SEC Rule 11Ac1-1, if the Exchange determines, in accordance with the procedures set forth below, that the level of trading activity or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing and making available quotation data in a manner which accurately reflects the current state of the market at the Exchange, the Exchange shall immediately notify the persons specified in paragraph (b)(3) of SEC Rule 11Ac1-1 and, upon such notification, the obligation imposed upon Exchange members under paragraph (c)(2) of SEC Rule 11Ac1-1 and the Exchange under paragraphs (b)(1) and (2) of SEC Rule 11Ac1-1 shall be suspended, until a determination by the Exchange that the unusual market activity or condition has terminated and the specified persons have been notified that the unusual market activity or condition has terminated:

- (i) If a responsible broker or dealer is unable to update his quotations on a timely basis due to the high level of trading activity or the existence of an unusual market condition, he shall promptly notify a Floor Official.
- (ii) Upon notification by a responsible broker or dealer, the Floor Official, with the advice and participation of a member of the regulatory staff, shall promptly verify the existence of the unusual market activity or condition and if, in his judgment, the responsible broker or dealer is unable to update his quotations on a timely basis, the Floor Official shall promptly notify the Market Operations Division of the Exchange. If a Floor Official, independent of notification by a responsible broker or dealer, becomes aware of any unusual market activity or condition which adversely affects a responsible broker or dealer's ability to promptly communicate quotation data, he shall likewise, with the advice and participation of a member of the regulatory staff, promptly advise the Market Operations Division.
- (iii) If the Exchange is unable to accurately collect, process, and/or disseminate quotation data owing to the high level of trading activity or the existence of unusual market conditions, the Market Operations Division of the Exchange, after consultation with a Floor Official, shall make a determination that this is the case.
- (iv) The Market Operations Division, after receiving notification from a Floor Official pursuant to either subparagraphs (i) and (iii) above, shall notify the persons specified in paragraph (b)(3) of SEC Rule 11Ac1-1 regarding the

Exchange's inability to accurately collect, process, and make available the quotation data required by SEC Rule 11Ac1-1. The Exchange shall append to each quotation made available to a quotation vendor an identifier which will indicate that the obligation imposed upon Exchange members and the Exchange by SEC Rule 11Ac1-1 has been suspended.

- (v) The Floor Official, with the advice and participation of a member of the regulatory staff, or the Market Operations Division (as the case may be) shall monitor the unusual market activity or condition until it has terminated. Thereupon, the Market Operations Division shall immediately notify the persons specified in paragraph (b)(3) of SEC Rule 11Ac1-1 that the Exchange is once again capable of disseminating the quotation data required by Rule SEC 11Ac1-1 and responsible brokers or dealers shall be once again obligated under SEC Rule 11Ac1-1 as made applicable to Exchange members pursuant to this Rule 958A.
- (e) Customer Limit Orders: (1) Specialists shall publish immediately upon receipt the price and size of each customer options limit order held by the specialist that is at a price or size that would improve the displayed bid or offer in the option that is the subject of the limit order. "Immediately upon receipt" shall mean, under normal market conditions, as soon as practicable but no later than 30 seconds after receipt.
- (2) The requirement in subparagraph (1) shall not apply to any customer options limit order that: (i) is executed upon receipt of the order; (ii) is placed by a customer that expressly requests, either at the time that the order is placed or prior thereto pursuant to an individually negotiated agreement with respect to each customer's order, that the order not be displayed and upon receipt of the order, the specialist announces to the trading crowd the information concerning the order that would be displayed absent the customer's request; (iii) is in excess of 100 contracts, unless the customer placing the order requests the order be displayed; (iv) is received prior to or during the opening trading rotation whether at the beginning of the trading day or after a trading halt, provided the order is displayed immediately upon the conclusion of the trading rotation; (v) is an order type set forth in Rules 131 (c), (e), (i), (k), (q), (r) and (s), 950(e) and 950—ANTE (e); or (vi) the terms of which are delivered by the specialist to another exchange for execution.
- (3) For purposes of this rule, the term "customer options limit order" shall mean an order to buy or sell an option at a specified price and size that is for the account of a customer as defined in paragraph (a)(26) of Rule 11Ac1-1 under the Securities Exchange Act of 1934.

••• *Commentary* -----

.01 No specialist or registered options trader shall be deemed to be a responsible broker or dealer with respect to a published bid or offer that is erroneous as a result of an error or

omission made by the Exchange or any quotation vendor. If a published bid or published offer is accurate but the published quotation size (or published aggregate quotation size, as the case may be) associated with it is erroneous as a result of an error or omission made by the Exchange or any quotation vendor, then the specialist and registered options traders responsible for the published bid or published offer shall be obligated as set forth in paragraph (c) of Rule 11Ac1-1 but only to the extent of ten contracts or in cases where the best bid or offer is represented by a customer limit order the actual size of such order(s) if less than ten contracts.

.02 Absent unusual market conditions, the responsible broker or dealer shall honor any bid or offer then being displayed by quotation vendors which is erroneous, up to the quotation size then being so displayed, which has been displayed for six minutes or more. Provided, however, that the responsible broker or dealer shall not be required to honor such a bid or offer which is erroneous as to either price or size or both if:

- (i) as a matter of record, an execution, cancellation or update of such bid or offer was in effect or in process;
- (ii) in honoring such a bid or offer, the resulting transaction would violate applicable Exchange rules or federal regulations;
- (iii) equipment failure prevents the specialist from monitoring such bid or offer;
or
- (iv) the price sought upon such quotation is above the current bid or below the current offer, on the Floor, by (a) \$.25 or more in the case of a reported security trading at \$3 or less or (b) \$.50 or more in the case of a reported security trading at more than \$3.

Rule 959. Accommodation Transactions

(a) Cabinet trading under the following terms and conditions shall be available for each series of option contracts open for trading on the Exchange:

- (i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein or unless the context otherwise requires.
- (ii) The specialist registered in each class of option contracts shall supervise the operation of the cabinet for that class.
- (iii) Only limit orders at a price of \$1 per option contract may be placed in the cabinet.
- (iv) All orders placed in the cabinet shall be assigned priority based upon the sequence in which such orders are received by the specialist.
- (v) All closing bids and offers must be submitted to the specialist in writing, and the specialist shall effect all closing cabinet transactions by pairing such orders

placed with him. Bids or offers for opening transactions may be made at \$1 per option contract, but such orders may not be placed in, and must yield to all orders in, the cabinet.

(vi) Specialists shall effect all cabinet transactions by pairing closing purchase or sale orders which have been placed in the cabinet or, provided there are no closing purchase or sale orders in the cabinet to be paired, by pairing closing purchase or sale orders in the cabinet with opening purchase or sale orders. In the absence of closing purchase or sale orders in the cabinet, opening or closing purchase and sell orders may be executed in the crowd.

(vii) Specialists shall not be subject to the requirements of Rule 170 and Registered Traders shall not be subject to the requirements of Rule 958 in respect of orders placed pursuant to this Rule. The provisions of Rule 951(b) and (c), Rule 952 and Rule 956 shall not apply to orders placed in the cabinet. Cabinet transactions shall not be reported on the ticker.

(viii) All cabinet transactions shall be so marked and reported to the Exchange following the close of each business day.

(b) Any member, member organization or other person who is a non-member broker or dealer and who directly or indirectly controls, is controlled by, or is under common control with, a member, member organization (any such other person referred to as an affiliated person) may effect any transaction as principal in the over-the-counter market in any class of option contracts listed on the Exchange for a premium not in excess of \$1.00 per contract.

(c) Registered traders seeking to liquidate all or nearly all of their option positions may transfer such positions on the floor of the Exchange as set forth below provided the transfer results in the discontinuation of management or ownership of all or substantially all of the registered trader's assets or options positions. This procedure may be used for lengthy absences from the trading floor such as an extended vacation and are not to be used repeatedly or routinely in circumvention of the normal auction market process.

(i) **Positions Subject to Transfer Procedure**—In addition to option positions, the registered trader may specify any positions in other securities traded on an exchange or whose bids and offers are reported on the automated quotation system operated by the FINRA ("Transfer Positions") to be transferred pursuant to the provisions of this Rule, where those positions are being transferred pursuant to a discontinuation of the management or ownership of the option positions. In offering these transfer portions on the floor, the transferor may offer the transfer positions in any combination of instruments subject to the limitations of a "Transfer Package" below provided that each combination has at least one (1) option position required to be transferred pursuant to paragraph (c) that is a material part of such combination. Such offers must be made in a form and manner as prescribed by the Exchange from time to time.

A "Transfer Package" is the set of options or other financial products being offered as a package, to be bid upon at a net debit or credit. Each Transfer Package may include positions in only one option class. The options position must be a material part of Transfer Package. A Transferor may offer multiple Transfer Packages using these procedures at the same time or on the same trading day.

A "Transferor" is the member or member organization submitting the Transfer Package(s) to the floor.

(ii) **Transfer Procedures—**

- (1) Any Transfer Package consisting of positions in one option class and does not include stock or other securities, shall be offered by the Transferor at the post at which that option class is traded ("Post-Specific Transfer Packages"). Components of "Post-Specific Transfer Packages" should be individually priced and reported and are subject to the ordinary procedures for trading options, and not those set forth in this paragraph, unless a bid or offer is made for a combination of Transfer Packages pursuant to paragraph (8) of this Rule.
- (2) Any Transfer Package consisting of positions in one option class as well as other financial instruments must be offered at the FLEX post. In addition, notice must be given to the specialist(s) trading the options component(s) of the Transfer Package.
- (3) The specialist or registered trader submitting a Transfer Package or a person associated with the specialist or registered trader must be available on the floor of the Exchange to answer questions regarding the Transfer Package throughout the Request Response Time.
- (4) To the extent applicable and as modified pursuant to this paragraph, Transfer Packages offered at the FLEX post will be subject to the procedures set forth in Rule 904G (FLEX Trading Procedures and Principles), paragraphs (a) through (c).
- (5) Acceptance of the best bid or offer ("BBO") creates a binding contract under Rule 153. The Transferor, however, is not obligated to accept the BBO. In the event the Transferor does not accept the BBO, the Transferor may offer the Transfer Package(s) (or the Transfer Positions in any other allowable combination) on the floor the next business day pursuant to the procedures in this Rule. In the event the Transferor decides not to accept a BBO on the second day, the Transferor must request permission from a Senior Supervisory Officer or the Chief Executive Officer of the Exchange to offer the Transfer Positions on any subsequent business day.
- (6) The "Request Response Time" for a "Request for Quotes" ("RFQ") for Transfer Packages shall be two hours. The Transferor may apply to a Senior

Supervisory Officer or the Chief Executive Officer of the Exchange to have a Request Response Time for a transfer procedure that is less than two hours, where the Transfer Package is not complicated, or that is greater than two hours, where the complexity of the particular Transfer Package warrants additional time.

- (7) Any Request for Quotes that is to be submitted later than 2:00 p.m. must have the approval of a Senior Supervisory Officer or the Chief Executive Officer of the Exchange to have a Request Response Time of less than two hours. In no event may a Request for Quotes be submitted to the floor later than 3:30 p.m.
- (8) The Transferor may accept a bid or offer for any combination of the Transfer Packages he has offered on the floor, if the accepted bid or offer for a combination of the Transfer Packages is better than (i) the aggregate of the individual BBOs for the particular Transfer Packages bid for and (ii) any bid or offer for the same combination of Transfer Packages.
- (9) In the event the Transfer Package includes stock positions or other positions that must be transacted on another exchange pursuant to applicable law or regulation ("Off Floor Positions"), then any accepted quote for the Transfer Package shall give rise to a contract for the option portion of the Transfer Package the price of which is contingent upon the price at which those other portions of the transaction may be done. The price at which the option position shall be transacted is the price that is required to have the entire Transfer Package trade at the agreed upon net debit or credit, taking into consideration the prices at which the Off Floor Positions have been transacted. All transactions required to be completed in order to effectuate transfer of the Transfer Package must be completed in time that the option portion may be transacted by the end of the trading day.
- (10) In the event that a transaction in an Off-Floor Position of the Transfer Package can not be completed in a timely manner due to a trading halt, some other operational problem outside the control of the parties, or the closing of the market before the transaction can be completed, the trade for the option portion of the trade may be canceled at the election of any member that is a party to that trade.
- (11) In the event that equal bids or offers are received for a Transfer Package at a price accepted by the Transferor, the Transfer Package will be split equally among all members submitting such bids or offers to the extent possible or shall be split in such other manner as may be agreed upon by the parties submitting such bids or offers. Resolution of disputes in the manner of the distribution of the Transfer Package shall be determined by two Floor Officials.

(d) Notwithstanding the requirements set forth in paragraph (c) of this Rule, the following

transfers involving a member's positions may be effected off the floor: (i) the dissolution of a joint account in which the remaining member assumes the positions of the joint account; (ii) the dissolution of a corporation or partnership in which a former nominee of the corporation or partnership assumes the positions; (iii) positions transferred as part of a member's capital contribution to a new joint account, partnership, or corporation; (iv) the donation of positions to a not-for-profit corporation; (v) the transfer of positions to a minor under the "Uniform Gifts to Minor" law; and (vi) a merger or acquisition where continuity of ownership or management results. In addition, the Chief Executive Officer of the Exchange or his designee may grant an exemption from the requirement of this paragraph on his own motion or upon application of the Transferor, when, in the judgment of the Chief Executive Officer of the Exchange or his designee, the market value of the Transferor's business will be comprised by having to comply with this requirement or when market conditions make transfer on the floor impractical.

••• *Commentary* -----

.01 For each transaction executed by a member organization or affiliated person pursuant to paragraph (b), a record of such transaction shall be maintained by the member or member organization and shall be available for inspection by the Exchange for a period of three years. Such record shall include the circumstances under which the transaction was executed in conformity with this rule.

.02 Unless the context otherwise requires, all other rules of the Exchange shall apply to the transfer procedures set forth in this Rule 959, including Commentary .03 to Rule 950 (d), which provides for solicited transactions. The following rules do not apply to the transfer procedures or are superseded by this Rule: Rule 950 (d) (except Commentary .03); Rule 951 (Premium Bids and Offers) and Rule 951C (Premium Bids and Offers). There may be other rules of the Exchange that do not, by their terms, apply to the transfer procedure set forth in this Rule 959.

.03 Acquisitions and dissolutions in which all or substantially all of the assets of one entity are acquired by another where there remains no continuity of ownership or management are examples of situations that normally would be required to be subjected to the transfer process set forth in the Rule. This list is not meant to be exhaustive, however, there may be other situations in which there is a discontinuation of ownership or management of the positions that may be required to be brought to the floor. Questions about whether a transfer should be brought to the floor may be directed to the Exchange's Member Firm Regulation Department.]

Section 9. Miscellaneous Provisions Applicable to Options

[Rule 992. Exchange Options Market Data System

(a) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure the transaction is reported within 90 seconds of the execution to the Exchange Options Market Data System for dissemination to the

Options Price Reporting Authority.

(b) Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered inconsistent with just and equitable principles of trade.]

Section 11. Stock Index Options

[Rule 918C. Trading Rotations, Halts and Suspensions

(a) Opening trading rotations for a class of stock index options shall commence as set forth in the Commentary below. One and one-half hours after the opening rotation, trading in a class of stock index options shall become subject to the provisions of paragraph (b) of this Rule, unless the Exchange determines it is in the public interest to halt trading at an earlier time.

(b) Trading on the Exchange in options on a stock index group shall be halted or suspended whenever two Senior Floor Officials and a senior executive officer of the Exchange deem such action appropriate in the interest of a fair and orderly market or to protect investors. Among the factors that the Exchange may consider in exercising its discretion to halt or suspend trading in options on a stock index group are that:

- (1) the current calculation of the numerical index value derived from the current market prices of the underlying stocks in such stock index group is not available;
- (2) trading in one or more of the underlying stocks comprising such stock index group has been halted in the primary market(s) under circumstances which indicate that such stock or stocks will likely re-open at a price or prices significantly different than the price or prices at which such stock or stocks last traded prior to the trading halt;
- (3) the extent to which trading is not occurring in stocks underlying the index; or
- (4) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

Trading in any class or series of stock index options that has been the subject of a halt or suspension by the Exchange may be resumed upon a determination by two Senior Floor Officials in consultation with a senior executive officer of the Exchange that in their best judgment such a resumption would be in the interests of a fair and orderly market.

Among the factors to be considered in this determination are whether the conditions which led to the halt or suspension are no longer present and the extent to which trading is occurring in stocks underlying the index.

••• *Commentary* -----

.01 For the purposes of this Rule, trading in an underlying stock which is not subject to real-time last sales reporting shall be deemed to be halted when the dissemination of quotations for such stock on an inter-dealer communications system has been halted.

.02 For purposes of this Rule, an underlying stock shall be deemed to have opened in the primary market where it is traded on any trading day if such primary market has (i) reported a transaction in such stock or (ii) reported a bid and asked price for such stock and not given any indication of a delayed opening.

.03 In the case of options on the Major Market Index, an opening trading rotation shall commence at or as soon as practicable after 9:30 a.m.

.04 In the case of options on the Amex Market Value Index, an opening trading rotation may be delayed whenever in the judgment of two floor officials such action is appropriate in the interests of a fair and orderly market. In making such determination, the floor officials may consider the extent to which either there has been a delay in opening or trading is not occurring in stocks underlying the index's value. The trading of options on the Amex Market Value Index is subject to the provisions of paragraph (a) of this Rule.

.05 In the case of options on a stock index industry group, an opening trading rotation may be delayed whenever in the judgment of two floor officials such action is appropriate in the interests of a fair and orderly market. In making such judgment, the floor officials may consider the extent to which either there has been a delay in opening or trading is not occurring in stocks underlying the index's value. The trading of stock index industry group options is subject to the provisions of paragraph (a) of this Rule. Trading in the affected options may be resumed following such a halt upon a determination by the Exchange that a resumption of trading would be consistent with the maintenance of a fair and orderly market and the protection of investors. The Exchange may make this determination at any time after the initiation of such a trading halt; i.e., the resumption of trading of the underlying stock(s) whose halt or suspension directly caused the options trading halt shall not be a prerequisite to a resumption of options trading.

.06 In the case of European style options on a broad stock index group, an opening trading rotation shall commence at or as soon as practicable after 9:30 A.M.]

[ANTE Rules

Rule 900—ANTE Applicability, Definitions and References

(a) **Applicability**— The Exchange's new trading system (known as the ANTE System or ANTE) will be rolled-out over a period of time (approximately eighteen months) on a specialist post-by-specialist post basis. The roll-out began on May 25, 2004 and will continue until June 30, 2006 at which time all equity and index option classes traded by

the Exchange will be on the ANTE System. Therefore, during the roll-out period, while the Exchange has option classes trading on both systems, current rules (as they are amended from time to time) will apply to those option classes continuing to trade on its current system while the following ANTE rules will apply to those option classes trading on the new trading system. Once the roll-out of ANTE is complete, the amendments to the Exchange's options rules reflecting the implementation of ANTE set forth below will replace, where applicable, the corresponding provisions in Rules 900 through 958A. The following Trading of Option Contracts Rules shall apply to the trading of option contracts on the ANTE System: 901, 902, 903, 904, 905, 906, 907, 908, 909, 915, 916, 917, 920, 921, 922, 923, 924, 925, 926, 927, 928, 930, 932, 940, 942, 943, 944, 952, 954, 956, 957, 959, 960, 961, 962, 963, 964, 965, 966, 967, 970, 971, 972, 980, 981, 982, 990, 991, and 992. In addition, the following Trading of Option Contract Rules, which have been amended to reflect usage in the ANTE System, shall apply to the trading of options contracts on the ANTE System.

Moreover, the Rules in this Chapter (Trading of Options Contracts) shall be applicable to (i) the trading on and through the facilities of the Exchange of option contracts issued by the Options Clearing Corporation and the terms and conditions thereof; and (ii) the exercise and settlement, the handling of orders, and the conduct of accounts and other matters, relating to option contracts dealt in by any member or member organization. Except to the extent that specific Rules in this Chapter 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 option contracts. Option contracts (as defined below) are included within the definition of "security" or "securities" as such terms are used in the Rules of the Exchange.

(b) **Definitions**—The following terms as used in the Rules in this Chapter shall, unless the context otherwise indicates, have the meanings herein specified:

- (1) **Options Clearing Corporation**—The term "Options Clearing Corporation" means The Options Clearing Corporation, a subsidiary of the Participating Exchanges.
- (2) **Rules of the Options Clearing Corporation**—The term "rules of the Options Clearing Corporation" means the by-laws and the rules of the Options Clearing Corporation, and all written interpretations thereof, as the same may be in effect from time to time.
- (3) **Clearing Member**—The term "clearing member" means an Exchange member or member organization who or which has been admitted to membership in the Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.
- (4) **Participating Exchange**—The term "Participating Exchange" means a national securities exchange which has qualified for participation in the

Options Clearing Corporation pursuant to the provisions of the rules of the Options Clearing Corporation.

- (5) **Option Contract**—The term "option contract" means a put or a call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the rules of the Options Clearing Corporation.
- (6) **Exchange Option Transaction**—The term "Exchange option transaction" means a transaction effected on the Floor and through the facilities of the Exchange between Exchange members for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract.
- (7) **Type of Option**—The term "type of option" means the classification of an option contract as either a put or a call.
- (8) **Call**—The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from The Options Clearing Corporation the number of shares (if the underlying security is a stock or an Exchange-Traded Fund Share) or the principal amount (if the underlying security is a Government security or certificate of deposit) of the underlying security covered by the option contract.
- (9) **Put**—The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to The Options Clearing Corporation the number of shares (if the underlying security is a stock or an Exchange-Traded Fund Share) or the principal amount (if the underlying security is a Government security or certificate of deposit) of the underlying security covered by the option contract.
- (10) **Class of Options**—The term "class of options" means all option contracts of the same type of option covering the same underlying security.
- (11) **Series of Options**—The term "series of options" means all option contracts of the same class of options having the same expiration date, exercise price and unit of trading.
- (12) **Underlying Security**—The term "underlying security" in respect of an option contract means the security which the Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase in the case of a put) upon the valid exercise of such option contract.
- (13) **Exercise Price**—The term "exercise price" in respect of an option contract means at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.
 - (i) if the underlying security is a stock, the stated price per share, or

- (ii) if the underlying security is a Government security other than a Treasury bill, the specified percentage of the principal amount, or
- (iii) if the underlying security is a Treasury bill, the specified complement of the annualized discount, or
- (iv) if the underlying security is a certificate of deposit, the specified complement of the annualized yield, at which the underlying security may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(14) **Aggregate Exercise Price**—The term "aggregate exercise price" in respect of an option contract means:

- (i) if the underlying security is a stock or an Exchange-Traded Fund Share, the exercise price of the option contract multiplied by the number of shares of the underlying stock or Exchange-Traded Fund covered by such option contract; or
- (ii) if the underlying security is a Government security (other than a Treasury bill), (a) the exercise price of the option contract multiplied by the principal amount of the underlying security covered by such option contract, plus (b) accrued interest computed in accordance with the provisions of Rule 859; or
- (iii) if the underlying security is a Treasury bill, the difference between the principal amount of such Treasury bill and the Aggregate Discount Amount. The "Aggregate Discount Amount" in respect of an option contract covering a Treasury bill shall be the principal amount of the underlying Treasury bill (a) multiplied by the annualized discount (100% minus the exercise price of the option contract), and (b) further multiplied by a fraction having a numerator equal to the number of days to maturity of the underlying Treasury bill on the earliest date on which it could be delivered pursuant to the rules of the Options Clearing Corporation in connection with the exercise of the option (normally 91 or 182 days), and a denominator of 360; or
- (iv) if the underlying security is a certificate of deposit, the principal amount specified in the option contract multiplied by the fraction $\frac{360 + R_1 L_1}{360 + R_2 L_2}$, where

R_1 = The stated interest rate of the particular certificate of deposit delivered in connection with the exercise of the option,

L_1 = The original maturity of such certificate of deposit, i.e, the number of days to maturity on the date it was issued,

$R_2 = 100$ minus the exercise price of the option contract, and

$L_2 =$ The remaining maturity, i.e., the number of days to maturity of the certificate of deposit on the exercise settlement date.

- (15) **Expiration Month**—The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.
- (16) **Expiration Date**—The term "expiration date" in respect of an option contract means the day and time fixed by the rules of the Options Clearing Corporation for the expiration of all option contracts covering the same underlying security and having the same expiration month as such option contract.
- (17) **Long Position**—The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).
- (18) **Short Position**—The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).
- (19) **Opening Purchase Transaction**—The term "opening purchase transaction" means an Exchange option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.
- (20) **Opening Writing Transaction**—The term "opening writing transaction" means an Exchange option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.
- (21) **Closing Sale Transaction**—The term "closing sale transaction" means an Exchange option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.
- (22) **Closing Purchase Transaction**—The term "closing purchase transaction" means an Exchange option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.
- (23) **Covered**—
 - (i) The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Rule 610(f) or 610(h), respectively, of the rules of The Options Clearing Corporation, or an index

option escrow receipt in a form satisfactory to the Exchange, or the writer holds in the same account as the short position on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), or on the basis of a matching principal amount (if the underlying security is a Government security or a certificate of deposit), a long position either in the underlying security or in an option contract of the same class of options having an exercise price equal to or less than the exercise price of the option contract in such short position. For purposes of the definition set forth in this paragraph (b)(23)(i), the term underlying security, when used with reference to an option relating to a Treasury bill or certificate of deposit, shall include any Treasury bill or certificate of deposit, respectively, which but for its maturity date, would be deliverable in accordance with the rules of the Exchange and The Options Clearing Corporation in connection with the exercise of the option.

(ii) The term "covered" in respect of a short position in a put option contract means the writer's obligation is secured by an option guarantee letter in a form satisfactory to the Exchange, or the writer holds in the same account as the short position, on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), or on the basis of a matching principal amount (if the underlying security is a Government security or a certificate of deposit), a long position in an option contract of the same class of options having an exercise price equal to or greater than the exercise price of the option contract in such short position.

(24) **Uncovered**—The term "uncovered" in respect of a short position in an option contract means that the short position is not covered.

(25) **Outstanding**—The term "outstanding" in respect of an option contract means an option contract which has been issued by the Options Clearing Corporation and has neither been the subject of a closing sale transaction on the Exchange or a comparable closing transaction on another Participating Exchange nor been exercised nor reached its expiration date.

(26) **Primary Market**—The term "primary market" means (a) in respect of an underlying security which is principally traded on a national securities exchange, the principal exchange market in which the underlying security is traded, and (b) in respect of an underlying security which is principally traded in the over-the-counter market, in the case of equity securities, the market reflected by the National Association of Securities Dealers Automated Quotation system ("NASDAQ"), and in the case of all other securities, the market reflected by any widely recognized quotation dissemination system or service.

(27) **Options Trading**—The term "options trading", when not preceded by the word "Exchange", means trading in any option issued by the Options Clearing

Corporation, whether or not of a class or series which has been approved for trading on the Exchange.

- (28) **Government Security**—The term "Government security" means a bond, note, bill, or other evidence of indebtedness that is a direct obligation of, or an obligation guaranteed as to principal and interest by, the United States or a corporation in which the United States has a direct or indirect interest.
- (29) **Treasury Bill**—The term "Treasury bill" means a Government security sold by the United States Treasury Department at a discount from principal amount, bearing no interest payment, and with a term to maturity of not more than one year.
- (30) **Treasury Note**—The term "Treasury note" means a Government security sold by the United States Treasury Department with a term to maturity of at least one year but not more than ten years at the time of original issuance.
- (31) **Treasury Bond**—The term "Treasury bond" means a Government security sold by the United States Treasury Department with a term to maturity of more than ten years at the time of original issuance.
- (32) **Certificate of Deposit**—The term "certificate of deposit" means a negotiable instrument, having a denomination of \$100,000 or more, issued by a bank at a fixed rate of interest for a fixed period of time, with both principal and interest payable at maturity.
- (33) **Annualized Discount**—The term "annualized discount" in respect of a Treasury bill means the percent discount from principal amount at which the Treasury bill may be purchased or sold, expressed as a discount for a term to maturity of 360 days.
- (34) **Annualized Yield**—The term "annualized yield" in respect of a certificate of deposit means the yield at which a certificate of deposit may be purchased or sold, expressed as a yield for a term to maturity of 360 days.
- (35) **Complement**—The term "complement", when used with reference to an annualized discount or annualized yield, means the difference between 100% and the annualized discount or annualized yield.
- (36) **Debt Security and Debt Option**—The term "debt security" in respect of an option contract means any bill, note, bond, certificate of deposit or other evidence of indebtedness selected by a Participating Exchange as an underlying security. The term "debt option" means an option on a debt security.

- (37) **Cash Equivalents**—The term "cash equivalents" means those instruments referred to in §220.8(a)(3)(ii) of Regulation T of the Board of Governors of the Federal Reserve System.
- (38) **Paired Security**—The term "Paired Security" means a security which is the subject of securities trading on the Exchange and Exchange option trading, provided, however, that the term "Paired Security" shall not mean an Exchange-Traded Fund Share or Trust Issued Receipt which is the subject of securities trading on the Exchange and Exchange option trading if the Exchange-Traded Fund Share or Trust Issued Receipt meet the criteria set forth in Commentary .03(a) to Rule 1000 or Commentary .02(a) to Rule 1000A or approved by the Securities and Exchange Commission as eligible for trading arrangements under Rule 175(c)(2) and Rule 958—ANTE (e).
- (39) **Related Security**—For purposes of this Chapter, the term "Related Security" means:
- (i) in the case of an equity option, the stock or Exchange-Traded Fund Share underlying such option; and
 - (ii) in the case of a stock or an Exchange-Traded Fund Share, the option overlying such stock or Exchange-Traded Fund Share.
- (40) **Designated Options Area**—The term "Designated Options Area" means that area of the Exchange's physical trading floor in which an option on a Paired Security is traded. Such Designated Options Area shall be physically separated from the Designated Stock Area.
- (41) **Designated Stock Area**—The term "Designated Stock Area" means that area of the Exchange's physical trading floor in which the stock of a Paired Security is traded. Such Designated Stock Area shall be physically separated from the Designated Options Area.
- (42) **Exchange-Traded Fund Share**—For purposes of this Chapter, the term "Exchange-Traded Fund Share" shall include Exchange-listed securities representing interests in open end unit investment trusts or open-end management investment companies that hold securities based on an index or a portfolio of securities.
- (43) **Foreign Broker/Dealer**—The term "foreign broker/dealer" means any person or entity that is registered, authorized or licensed by a foreign governmental agency or foreign regulatory organization (or should be so registered, authorized or licensed) to perform the function of a broker or dealer in securities, or both. The term "broker" and "dealer" mean the same as set out in Sections 3 (a)(4) and 3 (a)(5) of the Securities and Exchange Act of 1934, provided that a "broker" or "dealer" may be a bank.

- (44) **ANTE System**—The term "ANTE System" shall mean the trading system used by the Exchange to trade options contracts. The ANTE System will provide for the automatic match and execution of orders and the collection and dissemination of quotes from specialists and registered options traders.
- (45) **ANTE Participant**—The term "ANTE Participant" means the specialist, registered options trader(s), Supplemental Registered Options Trader and/or Remote Registered Options Trader assigned to trade a specific options class on the ANTE System.
- (46) **Outside the ANTE System**—The term "Outside the Ante System" shall mean orders executed in the trading crowd including, but not limited to orders of size, spread, straddle and combination orders, solicited orders, facilitation orders and other types of orders as determined by the order flow providers.
- (47) **Public Customer**—The term "Public Customer" means an individual or organization that is neither a member nor a U.S. registered nor foreign broker-dealer.
- (48) **Away Market Maker**—The term "Away Market Maker" means a market maker, as defined in Section 3(a)(38) of the Securities Exchange Act of 1934, in options registered as such on such other national securities exchange.
- (49) **Registered Options Trader** —The term "Registered Options Trader" or "ROT" means a member of the Exchange, located on the trading floor who has permission to trade in options for his or her own account in accordance with Rule 958-ANTE.
- (50) **Supplemental Registered Options Trader** —The term "Supplemental Registered Options Trader" or "SROT" means a ROT that is a member organization so designated by the Exchange which shall be granted remote quoting rights to enter bids and offers electronically from off the Exchange's physical trading floor. SROTs shall be subject to the obligations set forth under Rule 993 - ANTE. General Rules applicable to ROTs shall not apply to SROTs unless specified.
- (51) **Remote Registered Options Trader**—The term "Remote Registered Options Trader" or "RROT" means a ROT that is member or member organization so designated by the Exchange which shall be awarded remote quoting rights to enter bids and offers electronically from locations other than the trading crowd where the applicable options class is traded on the Exchange's physical trading floor. RROTs shall be subject to the obligations set forth under Rule 994—ANTE. Exchange rules applicable to ROTs will not apply to RROTs unless specified.

(c) **References**—Exchange Contracts as defined in the Rules, include option contracts purchased or sold in Exchange option transactions.

(d) **Local Time**—All times are stated in these Rules in terms of the local time in effect in New York City.

••• *Commentary* -----

.01 The term "security", when used in the Rules of the Exchange, shall be deemed to include certificates of deposit unless the context otherwise requires.]

[Rule 918—ANTE Trading Rotations, Halts and Suspensions

(a) **Automatic Trading Rotations**—For each class of option contracts that has been approved for trading on the Exchange shall be employed:

- (1) at the opening of each business day promptly following the opening of the underlying security (if the underlying security is a stock, Exchange-Traded Fund Share or Trust Issued Receipt), or following the availability of opening quotations on the quotation display mechanism(s) approved by the Exchange (if the underlying security is a Government security or a certificate of deposit);
- (2) upon the resumption of trading in option contracts of a class or series of options that has been the subject of a halt or suspension by the Exchange;
- (3) when two (2) Floor Officials determine that other unusual market conditions are present which necessitate such a trading rotation in the interest of providing a fair and orderly market; and
- (4) promptly after the close of trading on each trading day for every option series in which market-on-close and /or limit-on-close orders have been received and after a final price has been established for the underlying security.

(b) **Trading Halts**—Trading on the Exchange in any option contract shall be halted or suspended whenever the Exchange deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that:

- (1) trading in the underlying stock, Exchange-Traded Fund Share or Trust Issued Receipt has been halted or suspended in the trading markets and/or primary listed market,

- (2) the opening of such underlying stock, Exchange-Traded Fund Share or Trust Issued Receipt in the trading markets and/or primary listed market has been delayed because of unusual circumstances,
- (3) the Exchange has been advised that the issuer of the underlying stock, Exchange-Traded Fund Share or Trust Issued Receipt is about to make an important announcement affecting such issuer, or
- (4) other unusual conditions or circumstances are present.

Trading in option contracts of a class or series of options that has been the subject of a halt or suspension by the Exchange may be resumed upon a determination by the Exchange that the conditions which led to the halt or suspension are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading.

(c) **Supervision of Trading**—Floor Officials shall, pursuant to the provisions of Rule 22, have the same authority to supervise trading of option contracts as with respect to other securities, including the authority to delay the opening of a particular class or series of options or to halt, and reopen after a halt, trading in a particular class or series of options, or to initiate a trading rotation or implement a modified trading rotation in a particular class or series of options whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

••• *Commentary* -----

.01 Automatic trading rotations shall be conducted in the following manner:

- (a) **Automated Opening Rotations**—Prior to the opening of trading, beginning at 8:00 a.m. each trading day, 7:30 a.m. on Expiration Fridays or at such other time as established by the Exchange and announced to the members and member organizations through an Information Circular or through other appropriate means of communication, the ANTE System will accept orders and quotes for inclusion in the automated opening rotation process. Limit orders remaining on the specialist's book from the previous trading day or session will also be included in the opening rotation process. All ANTE Participants will be able to view the above order and quote information for each class and series they trade. Spread orders and contingency orders will not participate in the automated opening rotation process.
- (b) Registered options traders will be able to either use an Exchange provided or proprietary automated quote calculation system to calculate and submit quotes in some or all of his assigned classes for use during the automated opening rotation or may join the specialist's theoretical quote with the ability to submit limit orders on a series-by-series basis for those classes in which the registered

options trader has chosen not to use an automated quote calculation system. Registered options traders may not submit market orders in the automated opening rotation.

- (c) SROT's and RROT's may not submit market orders prior to the opening. SROT's and RROT's may submit quotes or limit orders prior to the opening.
- (d) At 9:30 a.m. (or at such appropriate time after a re-opening) and once the opening trade or opening quote is disseminated, the specialist shall begin the automated opening rotation using the quotes and orders previously submitted into the ANTE System. The specialist is required to submit a two-sided quotation in each option series for use in the automated opening rotation. Once the opening rotation process begins, no additional orders, cancellations, modifications or quotes will be accepted for inclusion in the opening rotation. Quotes submitted and orders entered, modified or cancelled during the opening rotation will be held in the ANTE System until the completion of the opening rotation in that series, at which point the quotes, orders, modifications or cancellations will be entered into the market.
- (e) The ANTE System automatically pairs-off the opening orders at an opening price. The opening price will always be on or between the specialist's bid and offer and will be the price at which the maximum number of contracts may be executed within the established market based upon previous day and pre-opening limit orders, and the specialist's and registered options traders' orders and quotes. If the above results in more than one price, then the price that will result in the smallest number of limit orders remaining unexecuted will be used as the opening price. Notwithstanding the foregoing, if the ANTE System is unable to come up with a single opening price, then the series is presented to the specialist for manual handling. Once the paired-off orders have been executed, free trading in each option series will begin. Following the opening any unexecuted orders will be represented as bids and offers on the Exchange.
- (f) If, as noted above, the ANTE System is unable to establish an appropriate opening price, that is, the opening orders can be executed at more than one opening price, then the specialist shall manually set an opening price based upon previous day and pre-opening limit orders, and the specialist's and registered options traders quotes. The specialist will establish an opening price by either modifying the price so that no market or marketable limit imbalance occurs or providing that any imbalance is allocated to the specialist and any participating registered options traders.
- (g) **Automated Closing Rotations**—The automated closing rotation in each series of options subject to Rule 918—ANTE (a)(4) shall commence at or as soon as practicable after 4:00 p.m. or 4:15 p.m. for options on Exchange-Traded Fund Shares, when the underlying Fund Shares themselves cease trading at 4:15 p.m., but not until a final price for the underlying stock,

Exchange-Traded Fund Share or Trust Issued Receipt is established in the trading markets and/or primary listed market for such security. Orders may be entered modified or cancelled up to either 4:00 p.m. or 4:15 for options on Exchange-Traded Fund Shares, when the underlying Fund Shares themselves cease trading at 4:15 p.m. Quotes may be submitted in a particular series of options until the commencement of the closing rotation in such series. The automated closing rotation shall be conducted in the same manner as the automated opening rotation. The specialist is required to submit a two-sided quotation in each option series for use in the automated closing rotation. In addition to the quotes and orders described in paragraph (a) and (b), quotes existing at the close of trading in each option series shall be included in the closing rotation.

.02 Rules regarding priority and parity at openings is set forth in Rule 108 and made applicable to options trading in Rule 950—ANTE (b).

.03 In the event that trading in an underlying security has not opened within a reasonable time after 9:30 A.M. if the underlying security is a stock, Exchange-Traded Fund Share or Trust Issued Receipt, or after 9:00 A.M., if the underlying security is a Government security or certificate of deposit, the specialist shall report the delay to a Floor Official assigned to his zone and appropriate steps will be taken to determine the cause for the delay. The opening of trading in such options shall be delayed until the underlying security has opened unless the Senior Supervisory Officer on the Floor shall determine that the interests of a fair and orderly market are best served by opening trading in such options. Trading for a Government security or a certificate of deposit shall be deemed to have opened when opening quotations for the security become available on the quotation display mechanism(s) approved by the Exchange.

.04 A specialist may send a P/A Order to another options exchange through the Options Linkage, and execute the related Public Customer order upon the execution of such P/A Order, prior to the initiating trading in an options class through a trading rotation.

Rule 933—ANTE Automatic Matching and Execution of Options Orders

(a) The ANTE System will provide for the automatic matching and execution of market and marketable limit orders that are within the eligible size limit established by the Options Trading Committee (referred to hereinafter as the "auto-match size"). The auto-match size is the maximum order size that can be automatically matched with orders on the book or the disseminated quote. An order less than or equal to the auto-match size will be automatically matched at the disseminated price up to the disseminated size. Any contracts remaining in a partially executed order will be handled by the specialist. An order greater than the established auto-match size will be routed for an execution by the specialist at the disseminated price up to the disseminated size.

(b) Except for Linkage Orders as defined in Rule 940(b), only non-broker/dealer customer orders shall be eligible for automatic execution and automatic matching against

orders on the limit order book except that the Options Trading Committee may determine, on a class-by-class basis, to allow the following types of orders to be eligible for an automatic execution and automatic matching:

- (1) Orders for the accounts of broker-dealers; or
- (2) Orders for the accounts of broker-dealers, excluding those for the accounts of market makers or specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

For the purposes of this Rule, the term broker-dealer includes foreign broker-dealers. For those classes in which the Committee has determined not to allow automatic executions and automatic matching, broker-dealer orders may interact with orders in the limit order book only after being re-routed to the Display Book for execution.

(c) If the Options Trading Committee permits broker-dealer orders to be automatically executed and automatically matched in a class pursuant to this Rule, then it may also permit the following with respect to such orders:

- (1) The maximum order size eligibility for broker-dealer orders may be less than the applicable order size eligibility for non-broker-dealer customer orders; and
- (2) Non-broker-dealer customer orders may be eligible for automatic matching and execution at the current best bid or offer displayed by another options exchange (automatic price matching) and automatic price improvement pursuant to Commentary .01 while broker-dealer orders are not so eligible.

(d) Exchange registered options traders must assure that orders for their own accounts are not entered on the Exchange and represented or executed in violation of the following provisions: Rule 157 (Orders With More Than One Broker), Rule 103(b) (Initiation of Transaction for Joint Acct), Rule 111(c) (Concurrent Representation), and Section 9 of the Securities Exchange Act of 1934 (Wash Sales).

(e) The Options Trading Committee shall determine the size parameters of orders eligible for automatic matching and execution. The Committee may determine to set the eligible order size parameter in any option class as the disseminated quote size.

(f) (i) Orders eligible for automatic matching and execution will not be automatically executed in the following circumstances:

- (A) Market Data Delays—Senior Market Operations staff, in conjunction with the Senior Floor Official, may determine to prohibit automatic matching and executions due to market data dissemination delays at the Options Price Reporting Authority ("OPRA") or internally at the Exchange. This prohibition

may be for one option class, a group of option classes, or all option classes traded through the facilities of the Exchange;

- (B) Unusual Market Exception—Pursuant to procedures set forth in Rule 958A(d), the Market Operations Division in consultation with a Floor Official may determine to prohibit automatic matching and executions if the Exchange is unable to accurately collect, process, and/or disseminate quotation data owing to the high level of trading activity or the existence of unusual market conditions which result in the suspension of firm quote rule obligations on the Exchange and its members and member organizations as set forth in Exchange Rule 958A—ANTE (d) and Rule 11Ac1-1(b)(3) under the Securities Exchange Act of 1934;
- (C) Unusual Market Condition—The Market Operations Division, with Senior Supervisory Officer or Senior Floor Official approval, may prohibit automatic matching and executions during unusual market conditions in respect of an option class(es) or their underlying security(ies). Unusual market conditions may include (i) significant or market disruptive order imbalances in the option class or series, or the underlying security; or (ii) unusually wide or market disrupting spreads between the bid and the offer in the underlying security.
- (D) Systems Malfunctions--The Market Operations Division, with Senior Floor Official or Senior Supervisory Officer approval, may prohibit automatic matching and executions as the result of systems malfunctions that affect the Exchange's ability to (i) disseminate or update market quotes; or (ii) deliver orders to the trading floor in a timely manner; and
- (E) Certain Market Activity--Orders otherwise eligible for automatic matching and execution may not receive automatic execution during certain market situations. Such situations include: (i) whenever the ABBO crosses or locks the NBBO and causes an inversion in the quote, except as provided in Rule 941—ANTE (e) for orders sent through the Options Intermarket Linkage; or (ii) whenever a better bid or offer is being disseminated by another options exchange and the order is not eligible for automatic price matching as set forth in Commentary .01(b);

(ii) In all situations set forth in (f)(i) above, the Exchange will document in either the Systems Support Log or the Service Desk Log any action taken to prohibit eligible orders from receiving an automatic matching and execution, the action taken, the time of the action, the option class(es) affected, the identity of the Exchange or Floor Official approving the action and a brief summary of the reason for the decision. The prohibition on automatic matching and executions will generally end when Market Operations determines that the cause of the prohibition has ceased. The Log(s) will indicate when the prohibition ended, if such prohibition occurred during the same trading day. If no time is shown on the Log(s), that indicates the prohibition remained in place for the remainder of the trading day. The Exchange will also document the reason for and the Exchange or

Floor Official approving the lifting was for a reason other than the cessation of the condition that led to the institution of the prohibition.

(g) On occasion the Exchange must make the determination that the quotes being disseminated by another options exchange are not reliable and exclude those quotes from the calculation of its NBBO. A Senior Floor Official or Exchange Official may make this determination based on one of the following circumstances: (i) the other options exchange's quotes are not firm based upon direct communication from that exchange or the dissemination through OPRA of a message indicating the quotes are not firm; or (ii) the other options exchange has directly communicated or otherwise confirmed that it is experiencing systems or other problems affecting the reliability of its disseminated quotes. In all cases where a Senior Floor Official or Exchange Official excludes an exchange or any of its quotes from the determination of the NBBO due to quote unreliability, Market Operations staff will promptly notify the exchange of the action, continue to monitor the reliability of the excluded quotes in consultation with the Senior Floor Official or Exchange Official, and maintain records showing the date, time, duration, and reasons for each such action, as well as the identity of the Senior Floor Official or Exchange Official who authorized the action. Any determination to exclude a market or any of its quotes from the determination of the NBBO pursuant to the above will expire at the end of the trading day, or at such time as the quotes are confirmed by the exchange to be reliable again--whichever occurs first. Exclusion of an exchange or its quotes from the determination of the NBBO will be reported to Exchange member firms.

••• *Commentary* -----

.01 (a) Orders to buy or sell options that are multiply traded on one or more options exchanges in addition to the Exchange will not be automatically executed at prices inferior to the current best bid or offer displayed by any other options exchange, as such best bids or offers are identified by the Exchange's order routing system.

(b) Customer orders in those series of options that have been specifically designated by the Options Trading Committee ("automatic price matching series"), under circumstances where the Exchange's best bid or offer is inferior to the NBBO being displayed by another options exchange by no more than the "price matching amount," as defined below, will be automatically executed at the NBBO being displayed by the other options exchange. If the Exchange's best bid or offer is inferior to the NBBO displayed by another options exchange by more than the price matching amount, the order will be routed to the ABC and not automatically executed. Only customer orders within the order size parameters established by the Options Trading Committee will be eligible for automatic price matching. A customer order that exceeds the established order size parameter will be routed to the ABC and not automatically executed.

(c) Customer orders in those series of options that have been specifically designated by the Options Trading Committee ("automatic price improvement series") will be automatically executed when the Exchange's best bid or offer is equal to the current NBBO as disseminated by a specified options exchange, at a price which improves the

Exchange's best bid or offer by the price improvement amount, as defined below. Only customer orders within the order size parameters established by the Options Trading Committee will be eligible for automatic price improvement. A customer order that exceeds the established order size parameter will be either automatically executed at the Exchange's best bid or offer if it is within the automatic matching and execution order size parameters as set forth in Commentary .02 below, or it will be routed to the ABC and not automatically executed.

(d) Registered options traders may participate in executions pursuant to paragraphs (b) and (c) above, by signing on to either the automatic price matching feature, the automatic price improvement feature or both in the ANTE System.

(e) Notwithstanding paragraphs (b) and (c) above, orders for automatic price matching series or automatic price improvement series will be routed to the ABC and not automatically executed in situations where: (i) the current best bid or offer for one of the series is crossed (e.g., 4.20 bid, 4 asked) or locked (e.g., 4 bid, 4 asked); (ii) the ABC in conjunction with two Floor Officials determined quotes in such options or options exchange(s) are not reliable; or (iii) the Exchange is experiencing communications or systems problems, non-firm markets or delays in the dissemination of quotes by the Options Price Reporting Authority ("OPRA"). Members and member organizations will be notified when the Exchange has determined that quotes are not reliable and prior to customer orders not being automatically executed and routed to the ABC for execution. The ABC will report the execution or non-execution of such orders to the firm that originally forwarded the order to the Exchange.

(f) As used in this Commentary, the term "price matching amount" shall mean the minimum increment for options of that series established pursuant to Rule 952, or any greater amount established by the Options Trading Committee in respect of specified automatic price matching series of options. As used in this Commentary, the term "price improvement amount" shall mean the minimum increment for options of that series established pursuant to Rule 952, or any greater amount established by the specialist in respect of specified automatic price improvement series of options.

.02 Orders eligible for automatic matching and execution must be market or marketable limit orders for a size established on a case-by-case basis for an individual option class or for all options classes by the Options Trading Committee. The Options Trading Committee may set the eligible order size in an amount up to the size disseminated by the Exchange. Notice concerning applicable size and types of automatic matching and execution eligible orders will be provided to members periodically via Exchange circulars and/or posted on the Exchange's web site.

.03 The specialist will be required to establish for each option series emergency quote parameters, which shall be retained by the ANTE System. The Specialist's Emergency Quote shall be used when an order, which is eligible for automatic matching and execution, is greater than or equal to the disseminated quote size and the auto-matching and execution of such an order results in the disseminated bid or offer size decrementing

to zero. The specialist must establish for each option series the number of minimum price variations below the bid and above the offer the emergency quote will be and the size associated with that bid and offer.

.04 The Exchange has adopted an options market data size mitigation policy ("Options Size Mitigation") on a pilot basis that will expire on March 5, 2008. Under Options Size Mitigation, during high options quote volume periods and peaks, incoming market data will be filtered prior to being forwarded to Exchange floor trading systems. When in effect, Options Size Mitigation will filter market data by not processing incoming quotes with size changes below a variable percent. Exchange systems will always maintain and display Exchange quotations with accurate size regardless of whether Options Size Mitigation is in effect. In addition, the Exchange will also ensure that all options market data (including filtered quotes) is available for regulatory and surveillance purposes.

The filtering level will be set on an Exchange-wide basis, based on either the number of messages per second exceeding a pre-defined amount or when a delay of a pre-determined length occurs in the processing of market data. The Exchange will make an announcement on the trading floor advising members regarding the level of filtering when Options Size Mitigation is in effect. The initial Options Size Mitigation filtering level will be set at 10% with the ability to increase the initial filtering level in 10% increments as warranted. The appropriate filtering levels will be determined by the Exchange's head of Floor Operations (or his designee) in conjunction with two (2) Senior Floor Officials.]

[Rule 934—ANTE Limitation on Orders

(a) Limit Orders—Members or member organizations shall not enter into the Exchange's order routing system, as principal or agent, limit orders in the same option series, for the account or accounts of the same or related beneficial owner, in such a manner that the member or beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such option contract on a regular or continuous basis. In determining whether a member or beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things, the simultaneous or near-simultaneous entry of limit orders to buy and sell the same option contract; the multiple acquisition and liquidation of positions in the same option series during the same day; and the entry of multiple limit orders at different prices in the same option series.

Rule 935—ANTE Allocation of Executed Contracts

(a) The ANTE System will allocate all executed contracts among all participants to a trade for those executions occurring in the ANTE System. For those trades occurring outside the ANTE System refer to Rule 950—ANTE (1), Commentary .03 for a

description of the allocation procedures used by the specialist in allocating such executed contracts. The ANTE System will allocate executed contracts to non-broker-dealer customers, broker-dealers, competing market makers, specialists, registered options traders, SROs and RROs (hereinafter referred to collectively as "market participants") in accordance with the following provisions:

1. Non-broker-dealer customer orders in the ANTE System have priority over all other participants including those situations where non-broker-dealer customer orders match or are matched by quotes or orders for other market participants. Multiple non-broker-dealer customer orders at the same price are ranked based on time priority.
2. All broker-dealers' and competing market makers' orders will be considered one ANTE Participant for purposes of parity and allocating executed contracts.
3. When an ANTE Participant is quoting alone at the ABBO and is not subsequently matched in the quote by other ANTE Participants, the sole ANTE Participant will be allocated all contracts executed at that disseminated bid or offer up to the sole participant's disseminated size.
4. When more than one market participant is quoting at the ABBO, the ANTE System will allocate executed contracts to non-broker-dealer customers first and then to all other market participants based upon the following allocation algorithm:
 - (i) **Component A (Parity Component)**—the percentage used for Component A shall be an equal percentage, derived by dividing 100 by the number of market participants quoting at the Exchange best bid or offer (ABBO);
 - (ii) **Component B (Size Pro Rata Component)**—the percentage to be used for Component B is the percentage that the size of each market participant's quote or order at the ABBO represents relative to the total number of contracts in the disseminated quote
 - (iii) **Final Weighting**—shall be a weighted average of the percentages derived for Components A and B multiplied by the size of the incoming order. Initially, the weighting of Components A and B shall be equal, represented mathematically by the formula:

$((\text{Component A Percentage} + \text{Component B Percentage})/2) * \text{Number of Executed Contracts}$.

The Options Trading Committee may from time to time to determine to change the weightings of Components A and B and may vary the weightings by option class. Changes made to the weightings of Components A and B shall be

announced to the members and member organizations through an Information Circular at least one day prior to the implementation of the change.

5. If the specialist is eligible for an allocation pursuant to the allocation algorithm set forth above, the specialist shall be entitled to receive an allocation (not to exceed the size of the specialist's quote) equal to the greater of either:

(i) the number of executed contracts to be allocated to the specialist based upon the percentages set forth below;

| Number of Market Participants* on Parity | Approximate Number of Contracts Allocated to the Specialist |
|---|--|
| 1 | 60% |
| 2 - 4 | 40% |
| 5 - 7 | 30% |
| 8 - 15 | 25% |
| 16 or more | 20% |

* Not including non-broker-dealer customers

or

(ii) the number of executed contracts the specialist would be otherwise entitled to pursuant to the allocation algorithm set forth in subparagraph 4. above.

However, orders for five (5) contracts or less shall be allocated first to the specialist. In order to be entitled to receive the five (5) contract or less order preference set forth above, the specialist must be quoting at the ABBO, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote. If the specialist is not quoting at the ABBO at the time of execution, orders for five (5) contracts or fewer shall be allocated on parity as set forth in Rule 935—ANTE(a) 4. On a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for five (5) contracts or less allocated to specialists, and will reduce the size of the orders included in this provision if such percentage is over 40%.

6. Any contracts remaining after the specialist has received his allocation, shall be allocated among the remaining participants according to the allocation algorithm, which blends the parity component with the size pro rata component. No participant will be allocated contracts in excess of the size of their disseminated quote. If after allocating contracts in the aforementioned manner there are still executed contracts to be allocated, whichever participants that did not receive an allocation equal to their quoted size will be entitled to

receive an additional allocation based on the allocation algorithm of the blended parity component with size pro rata component, again not to exceed the size of their quote. Since there can be no allocation for partial contracts, the ANTE system will, to the extent mathematically possible, keep track of each participants allocation throughout the day and attempt to ensure that each participant receives an appropriate allocation ratio by the end of the trading day.

Executed Contracts to Be Allocated

| Participants' Size | Executed Contracts to Be Allocated | | | |
|---------------------------|---|-----------|-----------|-----------|
| | 100 | 75 | 50 | 25 |
| 75 | 65 | 42 | 26 | 13 |
| 25 | 25 | 23 | 14 | 7 |
| 10 | 10 | 10 | 10 | 5 |

Number of Executed Contracts to be Allocated

| Participants' Indicated Size | Number of Executed Contracts to be Allocated | | | |
|-------------------------------------|---|-----------|-----------|-----------|
| | 100 | 90 | 70 | 50 |
| 50 | 50 | 40 | 25 | 17 |
| 30 | 30 | 30 | 25 | 17 |
| 20 | 20 | 20 | 20 | 16 |

7. However, when more than one market participant is quoting at the ABBO and an SROT is interacting with its own firm's orders, the ANTE system will allocate the remaining contracts after non-broker dealer customer orders are executed, as follows: i) with respect to the SROT interacting with its own firm's orders, the greater of 40% of the order or the amount the SROT would be entitled to receive under the allocation algorithm set forth in 935-ANTE(a)(4) above; and ii) the balance to the specialist, registered options traders, RROT or other SROT's pursuant to the allocation algorithm set forth in 935 -ANTE(a)(4).

When more than one market participant is quoting at the ABBO and an SROT is not interacting with its own firm's orders, the allocations in Rule 935 - ANTE (a)(1)-(6) will apply.

8. However, when more than one market participant is quoting at the ABBO and an eligible Directed Order Participant is interacting with Directed Orders, the

ANTE system will allocate the remaining contracts after non-broker dealer customer orders are executed, as follows: i) with respect to an eligible Directed Order Participant interacting with Directed Orders, the greater of the enhanced participation as specified in Rule 997-ANTE (c), or the amount the Directed Order Participant would be entitled to receive according to the allocation algorithm pursuant to Rule 935 - ANTE (a)(4)above; and ii) the balance to the specialist, registered options traders, RROT or SROT pursuant to Rule 935 - ANTE (a)(4)above.

When more than one market participant is quoting at the ABBO and a Directed Order Participant is not interacting Directed Orders, the allocations in Rule 935 - ANTE (a)1.-7. will apply.

••• *Commentary* -----

.01 Registered options traders may also choose to participate in Quick Trade allocations in the ANTE System. When activated for a particular transaction in a given options series, it will provide for the automatic allocation on a rotating basis of executed orders to the specialist and participating registered options traders. Executed orders of ten contracts or less are allocated to Quick Trade participants as set forth below. If an executed order is greater than ten contracts, Quick Trade divides the execution into ten or less lots and allocates a lot to each participant. Each lot is considered a separate trade for purposes of allocating trades within Quick Trade. The rotation is designed to provide that the allocation of trades between the specialist and traders signed on to Quick Trade in a given option series is as set forth below.

| <i>Number of Registered Options Traders on Quick Trade</i> | <i>Approximate Number of Contracts Allocated to the Specialist</i> | <i>Approximate Number of Contracts Allocated to the Registered Options Traders (as a group)</i> |
|--|--|---|
| <i>1</i> | <i>60%</i> | <i>40%</i> |
| <i>2 - 4</i> | <i>40%</i> | <i>60%</i> |
| <i>5 - 7</i> | <i>30%</i> | <i>70%</i> |
| <i>8 - 15</i> | <i>25%</i> | <i>75%</i> |
| <i>16 or more</i> | <i>20%</i> | <i>80%</i> |

.02 Floor brokers when interacting with orders and quotes in the ANTE system are required to use their handheld terminals.

Rule 936—ANTE Cancellation and Adjustment of Equity Options Transactions

This Rule governs the nullification and adjustment of transactions involving equity options. Rule 936C and 936C—ANTE governs the nullification and adjustment of transactions involving options on indexes, exchange-traded funds ("ETFs") and trust issued receipts ("TIRs"). Paragraphs (a)(1) and (2) of this Rule have no applicability to trades executed in open outcry.

(a) Trades Subject to Review. A member or person associated with a member may have a trade cancelled or adjusted if, in addition to satisfying the procedural requirements of paragraph (b) below, one of the following conditions is satisfied:

(1) Obvious Price Error. An obvious pricing error occurs when the execution price of an electronic transaction is above or below the Theoretical Price for the series by an amount equal to at least the amount shown below:

| Theoretical Price | Minimum Amount |
|--------------------------|-----------------------|
| Below \$2 | \$0.25 |
| \$2 to \$5 | 0.40 |
| Above \$5 to \$10 | 0.50 |
| Above \$10 to \$20 | 0.80 |
| Above \$20 | 1.00 |

Definition of Theoretical Price. For purposes of this Rule only, the Theoretical Price of an option series is, for series traded on at least one other options exchange, the mid-point of the national best bid and national best offer, just prior to the trade. The Theoretical Price will not include the national best bid (in the case of a request for review by a seller) or the national best offer (in the case of a request for review by a buyer) of the competing options exchange(s) if such competing options exchange(s) widens their quote(s) to incorporate the prior erroneous quote of the Exchange. In such a case, the Theoretical Price shall be the mid-point of the national best bid and national best offer just prior to the trade that does not reflect the erroneous quote. If there are no competing options exchanges left without an erroneous quote, the Theoretical Price shall be the mid-point of the national best bid and national best offer after the transaction(s) in question that do not reflect the erroneous quote. For this purpose, an erroneous quote is a bid and/or offer that is above or below the midpoint of the national best bid and national best offer immediately preceding the quote by at least the amount set forth in the chart above (Rule 936—ANTE(a)(1)). If there are no quotes for comparison, designated Trading Officials will determine the Theoretical Price. For transactions occurring as part of an opening, the Theoretical Price shall be the mid-point of the national best bid and national best offer after the transaction(s) in question that does not reflect the erroneous transaction(s).

(i) Cancellation or Price Adjustment. Obvious Pricing Errors will be cancelled or adjusted as follows.

- Transactions Between Exchange specialists, registered options traders (ROTs), Supplemental Registered Options Traders (SROTs) and/or Remote Registered Options Traders (RROTs): Where both parties to the transaction are Exchange specialists/ROTs/SROTs/RROTs, the execution price of the transaction will be adjusted by Trading Officials to the prices provided in Paragraphs (A) and (B) below, minus (plus) an adjustment penalty ("adjustment penalty"), unless both parties agree to adjust the transaction to a different price or agree to cancel the trade within fifteen (15) minutes of being notified by Trading Officials of the Obvious Error.

(A) Erroneous buy transactions will be adjusted to their Theoretical Price plus an adjustment penalty of either \$.15 if the Theoretical Price is under \$3 or \$.30 if the Theoretical Price is at or above \$3.

(B) Erroneous sell transactions will be adjusted to their Theoretical Price minus an adjustment penalty of either \$.15 if the Theoretical Price is under \$3 or \$.30 if the Theoretical Price is at or above \$3.

- Transactions Involving at least one non-Exchange specialist/ROT/SROT/RROT: Where one of the parties to the transaction is not an Exchange specialist/ROT/SROT/RROT, the transactions will be cancelled by Trading Officials unless both parties agree to an adjustment price for the transaction within thirty (30) minutes of being notified by Trading Officials of the Obvious Error.

(2) No Bid Series. Electronic transactions in series quoted no bid will be cancelled provided at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at the time of execution.

(3) Verifiable Disruptions or Malfunctions of Exchange Systems. Electronic or open outcry transactions arising out of a "verifiable disruption or malfunction" in the use or operation of any Exchange (a) automated quotation, dissemination, execution, or communication system that caused a quote/order to trade in excess of its disseminated size (e.g., a quote/order that is frozen because of an Exchange system error and is repeatedly traded) in which case trades in excess of the disseminated size may be nullified; or (b) automated quotation, dissemination or communication system that prevented a member from updating or canceling a quote/order for which the member is responsible, provided there is Exchange documentation reflecting that the member sought to update or cancel the quote/order. With respect to verifiable disruptions or malfunctions of the Exchange's automated quotation system, documentation of the existence of the disruption or malfunction will be sufficient provided the automated quotation system was programmed to update or cancel a quote based

upon specific changes in the underlying, those changes occurred and due to the disruption or malfunction the quote was not updated or cancelled. Unless the parties agree to a price adjustment, the transaction will be cancelled.

- (4) **Erroneous Print in Underlying.** A trade resulting from an erroneous print disseminated by the underlying market which is later cancelled or corrected by that underlying market may be cancelled. In order to be cancelled, however, the trade must be the result of an erroneous print that is higher or lower than the average trade in the underlying security during a two minute period before and after the erroneous print by an amount at least five times greater than the average quote width for such underlying security during the same period. For purposes of this Rule, the average trade in the underlying security shall be determined by adding the prices of each trade during the four minute time period referenced above (excluding the trade in question) and dividing by the number of trades during such time period (excluding the trade in question). For purposes of this Rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing by the number of quotes during such time period (excluding the quote in question).
- (5) **Erroneous Quote in Underlying.** (i) Electronic trades (this provision does not apply to trades executed in open outcry) resulting from an erroneous quote in the underlying security may be adjusted or canceled as set forth in paragraph (a)(1) above. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security on the primary market (as defined in Rule 900 (b)(26)) during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this Rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing the number of quotes during such time period (excluding the quote in question).
- (ii) Electronic trades resulting from an erroneous quote in the underlying security may also be adjusted or cancelled as set forth in paragraph (a)(1)(i) above when (i) a national securities exchange or the Nasdaq Stock Market, Inc.'s quotes are not firm based upon direct communication from that market or dissemination of a message indicating the quotes are not firm or (ii) a national securities exchange or the Nasdaq Stock Market, Inc. has directly communicated or otherwise confirmed that it is experiencing systems or other problems affecting the reliability of its disseminated quotes.
- (6) **Transactions Executed Outside of Trading Hours.** All equity options transactions that occur outside of the trading hours of the Exchange will be cancelled if it is determined by the Trading Officials that the transaction

occurred outside of the Exchange's trading hours, except as set forth in Commentary .02 to Amex Rule 1.

(b) Procedures for Reviewing Transactions

(1) Notification. Any member or person associated with a member that believes it participated in a transaction that may be cancelled or adjusted in accordance with paragraph (a) must notify any Trading Official promptly but not later than fifteen (15) minutes after the execution in question. Absent unusual circumstances, Trading Officials shall not grant relief under this Rule unless notification is made within the prescribed time periods. In the absence of unusual circumstances, Trading Officials (either on their own motion or upon request of a member) must initiate action pursuant to paragraph (a)(3) above within sixty (60) minutes of the occurrence of the verifiable disruption or malfunction. When Trading Officials take action pursuant to paragraph (a)(3), the members involved in the transaction(s) shall receive verbal and/or electronic notification as soon as is practicable.

(2) Review and Determination. Once a party to a transaction has applied to a Trading Official for review, the transaction shall be reviewed and a determination rendered, unless both parties to the transaction agree to withdraw the application for review prior to the time a decision is rendered. Absent unusual circumstances (e.g., a large number of disputed transactions arising out of the same incident), Trading Officials must render a determination within sixty (60) minutes of receiving notification pursuant to paragraph (b)(1) above. Trading Officials shall promptly provide verbal and/or electronic notification of a determination to the members involved in the disputed transaction and to the Exchange's Service Desk.

(c) Obvious Error Panel

(1) Composition. An Obvious Error Panel will be comprised of at least one (1) one member of the regulatory staff and four (4) Floor Officials. Fifty percent of the number of Floor Officials on the Obvious Error Panel must be directly engaged in market making activity and fifty percent of the number of Floor Officials on the Obvious Error Panel must act in the capacity of a non-specialist floor broker.

(2) Scope of Review. If a party affected by a determination made under this Rule so requests within the time permitted in paragraph (b), an Obvious Error Panel will review decisions made by the Trading Officials under this Rule, including whether an obvious error occurred, whether the correct Theoretical Price was used, and whether the correct adjustment was made at the correct price. A party may also request that the Obvious Error Panel provide relief as required in this Rule in cases where the party failed to provide the notification required in

paragraph (b) and the Trading Officials declined to grant an extension, but unusual circumstances must merit special consideration.

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

(4) Panel Decision. The Obvious Error Panel may overturn or modify an action taken by the Trading Officials under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Obvious Error Panel may be appealed in accordance with paragraph (d) of this rule.

(d) Review of Rulings. A member affected by a determination made under this rule may appeal such determination to a Review Panel of at least three (3) Exchange Officials who have not already ruled on the matter. A request for review must be made in writing (in a form and manner prescribed by the Exchange) no later than the close of trading on the next trade date after the member receives verbal and/or electronic notification of such determination by Trading Officials. Notwithstanding other Exchange rules to the contrary (e.g., Rule 22(d)), decisions of the Review Panel are binding on members, subject to any right of appeal pursuant to Article II, Section 3 of the Constitution. The parties may also elect to submit the matter to arbitration pursuant to Article VIII of the Constitution.

(e) Negotiated Trade Cancellation. A trade may be cancelled if the parties to the trade agree to the cancellation. When all parties to a trade have agreed to a trade cancellation one party must promptly disseminate cancellation information in OPRA format.

••• *Commentary* -----

.01 The term "Trading Officials" means two Exchange members designated as Floor Officials and one member of the Regulatory staff.

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

.03 Applicability: Trading Officials may also allow for the execution of opening trades that were not executed on the opening but that should have been executed had the specialist opened the series at the non-erroneous price. The Exchange will endeavor to notify its members as soon as practicable after the correction of an erroneous print and will indicate that this may result in the adjustment of trades executed during the opening

rotation. The only trades that will be adjusted are those that were executed on the opening or those that should have executed on the opening. All adjustments will be made during the day when the correction of the erroneous print occurred.

.04 Electronic notification shall be via electronic mail.]

[Rule 936C—ANTE Cancellation and Adjustment of Index Option Transactions

This Rule only governs the cancellation and adjustment of transactions involving options on indexes, exchange-traded funds (ETFs) and trust issued receipts (TIRs). Rule 936 and 936—ANTE governs the cancellation and adjustment of transactions involving equity options. Paragraphs (a)(1), (2), (6) and (7) of this Rule have no applicability to trades executed in open outcry.

(a) Trades Subject to Review

A member or person associated with a member may have a trade cancelled or adjusted if, in addition to satisfying the procedural requirements of paragraph (b) below, one of the following conditions is satisfied:

(1) Obvious Price Error. An obvious pricing error will be deemed to have occurred when the execution price of a transaction is above or below the fair market value of the option by at least a prescribed amount. For series trading with normal bid-ask differentials as established in Rule 958(c)—ANTE, the prescribed amount shall be: (a) the greater of \$0.10 or 10% for options trading under \$2.50; (b) 10% for options trading at or above \$2.50 and under \$5; or (c) \$0.50 for options trading at \$5 or higher. For series trading with bid-ask differentials that are greater than the widths established in Rule 958(c)—ANTE, the prescribed error amount shall be: (a) the greater of \$0.20 or 20% for options trading under \$2.50; (b) 20% for options trading at or above \$2.50 and under \$5; or (c) \$1.00 for options trading at \$5 or higher.

(i) Definition of Fair Market Value. For purposes of this Rule only, the Fair Market Value of an option is the midpoint of the national best bid and national best offer for the series (across all exchanges trading the option). Fair Market Value will not include the national best bid price (erroneous sell transaction) or national best offer price (erroneous buy transaction) of competing options exchange(s) if such competing options exchange(s) widen their quote(s) to incorporate the prior erroneous quote of the Exchange. In such a case, the Fair Market Value shall be the midpoint of the first quote after the transaction(s) in question that does not reflect the erroneous quote. In multiply listed issues, if there are no quotes for

comparison purposes, Fair Market Value shall be determined by Trading Officials. For singly-listed issues, Fair Market Value shall be the midpoint of the first quote after the transaction(s) in question that does not reflect the erroneous quote. For transactions occurring as part of an opening, the Fair Market Value shall also be the midpoint of the first quote after the transaction(s) in question that does not reflect the erroneous quote.

For this purpose, an erroneous quote is a bid and/or offer that is above or below the midpoint of the national best bid and national best offer immediately preceding the quote by at least the amount set forth above in Rule 936C— ANTE(a)(1).

- (2) Obvious Quantity Error. An obvious error in the quantity term will be deemed to occur when the transaction size exceeds the responsible broker or dealer's average disseminated size over the previous four hours by a factor of five (5) times. The quantity to which a transaction shall be adjusted from an obvious quantity error shall be the responsible broker or dealer's average disseminated size over the previous four trading hours (which may include the previous trading day).
- (3) Verifiable Disruptions or Malfunctions of Exchange Systems. Trades arising out of a "verifiable disruption or malfunction" in the use or operation of any Exchange (a) automated quotation, dissemination, execution, or communication system that caused a quote/order to trade in excess of its disseminated size (e.g., a quote/order that is frozen because of an Exchange system error and is repeatedly traded) in which case trades in excess of the disseminated size may be nullified; or (b) automated quotation, dissemination or communication system that prevented a member from updating or canceling a quote/order for which the member is responsible, provided there is Exchange documentation reflecting that the member sought to update or cancel the quote/order. With respect to verifiable disruptions or malfunctions of the Exchange's automated quotation system, documentation of the existence of the disruption or malfunction will be sufficient provided the automated quotation system was programmed to update or cancel a quote based upon specific changes in the underlying, those changes occurred and due to the disruption or malfunction the quote was not updated or cancelled. Unless the parties agree to a price adjustment, the transaction will be cancelled.
- (4) Erroneous Print in Underlying. A trade resulting from an erroneous print disseminated by the underlying market which is later cancelled or corrected by that underlying market may be cancelled or adjusted. In order to be cancelled or adjusted, however, the trade must be the result of an erroneous print that is higher or lower than the average trade in the underlying security during a two minute period before and after the erroneous print by an amount at least five times greater than the average quote width for such underlying security during the same period.

For purposes of this Rule, the average trade in the underlying security shall be determined by adding the prices of each trade during the four minute time period referenced above (excluding the trade in question) and dividing by the number of trades during such time period (excluding the trade in question). For purposes of this Rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing by the number of quotes during such time period (excluding the quote in question).

(5) Erroneous Quote in Underlying. (i) A trade resulting from an erroneous quote in the underlying security may be cancelled or adjusted. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security on the primary market (as defined in Rule 900 (b)(26)— ANTE) during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this Rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing the number of quotes during such time period (excluding the quote in question).

(ii) Electronic trades resulting from an erroneous quote in the underlying security may also be adjusted or cancelled as set forth in paragraph (a)(1)(i) above when (i) a national securities exchange or the Nasdaq Stock Market, Inc.'s quotes are not firm based upon direct communication from that market or dissemination of a message indicating the quotes are not firm or (ii) a national securities exchange or the Nasdaq Stock Market, Inc. has directly communicated or otherwise confirmed that it is experiencing systems or other problems affecting the reliability of its disseminated quotes.

(6) Trades Below Intrinsic Value. An obvious pricing error will be deemed to occur when the transaction price of an equity option is more than \$0.10 below the intrinsic value of the same option (an option that trades at its intrinsic value is sometimes said to trade at "parity"). Paragraph (6) shall not apply to transactions occurring during the last two minutes of the trading day (which is typically 3:58:01 p.m. (ET) to 4:00 p.m. (ET)) on days with regular trading hours. (i) Definition of Intrinsic Value: For purposes of this Rule, the intrinsic value of an equity call option equals the value of the underlying stock (measured from the bid or offer as described below) minus the strike price, and the intrinsic value of an equity put option equals the strike price minus the value of the underlying stock (measured from the bid or offer as described below), provided that in no case is the intrinsic value of an option less than zero. In the case of purchasing call options and selling put options, intrinsic value is measured by reference to the bid in the underlying security, and in the case of purchasing put options and selling call options, intrinsic value is measured by reference to the offer in the underlying security.

(7) No Bid Series. Electronic transactions in series quoted no bid at a nickel (i.e., \$0.05 offer) will be cancelled provided at least one strike price below (for calls) or above (for puts) in the same options class was quoted no bid at a nickel at the time of execution.

(8) Transactions Executed Outside of Trading Hours. All index options transactions that occur outside of the trading hours of the Exchange will be cancelled if it is determined by the Trading Officials that the transaction occurred outside of the Exchange's trading hours, except as set forth in Commentary .02 to Rule 1.

(b) Procedures for Reviewing Transactions

(1) Notification. Any member or person associated with a member that believes it participated in a transaction that may be cancelled or adjusted in accordance with paragraph (a) must notify any Trading Official promptly but not later than fifteen (15) minutes after the execution in question. For transactions occurring after 3:45 p.m. (ET), notification must be provided promptly but not later than fifteen (15) minutes after the close of trading of that security on the Exchange. Absent unusual circumstances, Trading Officials shall not grant relief under this Rule unless notification is made within the prescribed time periods. In the absence of unusual circumstances, Trading Officials (either on their own motion or upon request of a member) must initiate action pursuant to paragraph (a)(3) above within sixty (60) minutes of the occurrence of the verifiable disruption or malfunction. When Trading Officials take action pursuant to paragraph (a)(3), the members involved in the transaction(s) shall receive verbal and/or electronic notification as soon as is practicable.

(2) Review and Determination. Once a party to a transaction has applied to a Trading Official for review, the transaction shall be reviewed and a determination rendered, unless both parties to the transaction agree to withdraw the application for review prior to the time a decision is rendered. Absent unusual circumstances (e.g., a large number of disputed transactions arising out of the same incident), Trading Officials must render a determination within sixty (60) minutes of receiving notification pursuant to paragraph (b)(1) above. If the transaction(s) in question occurred after 3:30 p.m. (ET), Trading Officials shall have until 10:30 a.m. (ET) the following morning to render a determination. Trading Officials shall promptly provide verbal and/or electronic notification of a determination to the members involved in the disputed transaction and to the Exchange's Service Desk.

(c) Adjustments. Unless otherwise specified in Rule 936C—ANTE (a)(1)-(6), transactions will be adjusted provided the adjusted price does not violate the customer's limit price. Otherwise, the transaction will be cancelled. With respect to Rule 936C—ANTE (a)(1)-(5), the price to which a transaction shall be adjusted shall be the national best bid or offer (NBBO) immediately following the erroneous transaction with respect to

a sell (buy) order entered on the Exchange. For opening transactions, the price to which a transaction shall be adjusted shall be based on the first non-erroneous quote after the erroneous transaction on the Exchange. With respect to Rule 936C—ANTE (a)(6), the transaction shall be adjusted to a price that is \$0.10 under parity.

(d) **Review of Rulings.** A member affected by a determination made under this rule may appeal such determination to a Review Panel of at least three (3) Exchange Officials who have not already ruled on the matter. A request for review must be made in writing (in a form and manner prescribed by the Exchange) no later than the close of trading on the next trade date after the member receives verbal and/or electronic notification of such determination by Trading Officials.

Notwithstanding other Exchange rules to the contrary (e.g., Rule 22(d)), decisions of the Review Panel are binding on members, subject to any right of appeal pursuant to the Exchange Rules. The parties may also elect to submit the matter to arbitration pursuant to the Arbitration Rules of the Exchange.

(e) **Negotiated Trade Cancellation.** A trade may be cancelled if the parties to the trade agree to the cancellation. When all parties to a trade have agreed to a trade cancellation one party must promptly disseminate cancellation information in OPRA format.

••• *Commentary* -----

.01 The term "Trading Officials" means two Exchange members designated as Floor Officials and one member of the Regulatory staff.

.02 **Applicability:** Trading Officials may also allow for the execution of opening trades that were not executed on the opening but that should have been executed had the specialist opened the series at the non-erroneous price. The Exchange will endeavor to notify its members as soon as practicable after the correction of an erroneous print and will indicate that this may result in the adjustment of trades executed during the opening rotation. The only trades that will be adjusted are those that were executed on the opening or those that should have executed on the opening. All adjustments will be made during the day when the correction of the erroneous print occurred.

.03 Electronic notification shall be via electronic mail.]

[Rule 941—ANTE Operation of the Linkage

By subscribing to the Plan, the Exchange has agreed to comply with, and enforce compliance by its Members with, the Plan. In this regard, the following shall apply:

(a) *Pricing.* Members may send P/A Orders and Principal Orders through the Linkage only if such orders are priced at the NBBO.

(b) *P/A Orders.*

(1) *Sending of P/A Orders for Sizes No Larger than the Firm Customer Quote Size.* A specialist may send through the Linkage a P/A Order for execution in the automatic execution system of a Participant Exchange if the size of such P/A Order is no larger than the Firm Customer Quote Size. Except as provided in subparagraph (b)(2)(ii) below, a specialist may not break up an order of a Public Customer that is larger than the Firm Customer Quote Size into multiple P/A Orders, one or more of which is equal to or smaller than the Firm Customer Quote Size, so that such orders could be represented as multiple P/A Orders through the Linkage.

(2) *Sending of P/A Orders for Sizes Larger than the Firm Customer Quote Size.* If the size of a P/A Order is larger than the Firm Customer Quote Size, a specialist may send through the Linkage such P/A Order in one of two ways:

(i) The specialist may send a P/A Order representing the entire Public Customer Order. If the receiving Participant Exchange's disseminated quotation is equal to or better than the Reference Price when the P/A Order arrives at that market, that exchange will execute the P/A Order at its disseminated quotation for at least the Firm Customer Quote Size. Within 3 seconds of receipt of such order, the receiving Participant Exchange will inform the specialist of the amount of the order executed and the amount, if any, that was canceled.

(ii) Alternatively, the specialist may send an initial P/A Order for the Firm Customer Quote Size pursuant to subparagraph (b)(1) above. If the Participant Exchange executes the P/A Order and continues to disseminate the same quotation at the NBBO 15 seconds after reporting the execution of the initial P/A Order, the specialist may send an additional P/A Order to the same Participant Exchange. If sent, such additional P/A Order must be for at least the lesser of 100 contracts or the entire remainder of the Public Customer order.

In any situation where a receiving Participant Exchange does not execute a P/A Order in full, such exchange is required to move its quotation to a price inferior to the Reference Price of the P/A Order.

(c) *Principal Orders.* An Eligible Market Maker may send a Principal Order through the Linkage at a price equal to the NBBO. If the Principal Order is not larger than the Firm Principal Quote Size, the receiving Participant Exchange will execute the order in its automatic execution system, if available, if its

disseminated quotation is equal to or better than the price specified in the Principal Order when that order arrives at the receiving Participant Exchange. If the Principal Order is larger than the Firm Principal Quote Size, the receiving Participant Exchange will (a) execute the Principal Order at its disseminated quotation for at least the Firm Principal Quote Size and (b) within 3 seconds of receipt of such order, reply to the sending Participant Exchange, informing such Participant Exchange of the amount of the order that was executed and the amount, if any, canceled. If the receiving Participant Exchange does not execute the Principal Order in full, it will move its quote to a price inferior to the Reference Price of the Principal Order.

(d) *Responses to Linkage Orders.*

(1) *Failure to Receive a Timely Response.* A Member who does not receive a response to a P Order or a P/A Order within 3 seconds of sending the order may reject any response received thereafter purporting to report an execution of all or part of that order. The Member so rejecting the response shall inform the Participant Exchange sending that response of the rejection within 3 seconds of receipt of the response.

(2) *Failure to Send a Timely Response.* If a Member responds to a P Order or P/A Order more than 3 seconds after receipt of that order, and the Participant Exchange to whom the Member responded cancels such response, the Member shall cancel any trade resulting from such order and shall report the cancellation to OPRA.

(e) *Receipt of Linkage Orders.* The Exchange will provide for the execution of P/A Orders and Principal Orders if its disseminated quotation is (i) equal to or better than the Reference Price, and (ii) equal to the then current NBBO. Subject to paragraph (c) above, if the size of a P/A Order or Principal Order is not larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, the Exchange will provide for the execution of the entire order, and shall execute such order in its automatic execution system if that system is available. Subject to paragraph (c) above, if the size of a P/A Order or Principal Order is larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, or if the Linkage Order received is not eligible to be executed automatically because the Exchange's automatic execution system has been disengaged or is operating in a manner other than the normal manner for the reasons outlined in Rule 933—ANTE (f)(i), the specialist or the Exchange must address the order within 3 seconds to provide an execution for at least the Firm Customer Quote Size or Firm Principal Quote Size, respectively. For purposes of this Rule, the Exchange may provide an automatic execution for Linkage Orders even though the Exchange's automatic execution system has been by-passed when a locked market has caused an inversion in the quote as set forth in Rule 933—ANTE (f)(i)(E). If the order is not executed in full, the

Exchange will move its disseminated quotation to a price inferior to the Reference Price.]

[Rule 950—ANTE Rules of General Applicability

(a) The following Floor Rules shall apply to Exchange option transactions and other transactions on the Exchange in option contracts: 100, 101, 104, 105, 110, 112, 117, 123, 129, 130, 135, 150, 151, 152, 153, 155, 157, 172, 173, 174, 175, 176, 177, 181, 183, 184, 185, 192 and 193. Unless the context otherwise requires, the term "stock" wherever used in the foregoing Rules shall be deemed to include option contracts. Except as otherwise provided in this Rule, all other Floor Rules (series 100 et seq.) shall not be applicable to Exchange option transactions.

••• *Commentary* -----

.01 Whenever the context requires an options specialist to act in an agency capacity, unless otherwise specifically provided, ABCs shall replace options "specialists" wherever used in the foregoing Rules and in this Rule.

(b) The provisions of Rule 108 with the exception of paragraph (b)(2) and together with the following additional provisions shall apply to Exchange option transactions in connection with an opening:

- (i) On the opening, the options specialist acting as principal, may only be on parity with orders for the accounts of broker-dealers (including, but not limited to, foreign broker-dealers, Registered Options Traders, Supplemental Registered Options Traders (SROT), Remote Registered Options Traders (RROT) and Away Market Makers).

(c) The provisions of Rule 111 and Commentary thereto, with the exception of paragraphs (a)(1), (b), (d) and (e) and Commentaries .05 and .07 of such Rule and such other Commentary insofar as it relates to such paragraphs, shall apply to Exchange option transactions. In addition, the following commentary shall also apply:

••• *Commentary* -----

.01 After the opening, an options specialist acting as principal, may only retain priority over or be on parity with orders for the accounts of broker-dealers (including, but not limited to, foreign broker-dealers, Registered Options Traders, SROT, RROT and Away Market Makers) but may not retain priority over or be on parity with off-floor orders for the accounts of public customers.

.02 Options orders for the accounts of broker-dealers (including, but not limited to, foreign broker-dealers, Registered Options Traders, SROTs, RROTs, specialists and Away Market Makers) may only retain priority over or be on parity with orders for the accounts of broker-dealers but may not retain priority over or be on parity with off-floor orders for the accounts of public customers.

.03 The number of Registered Option Traders in a trading crowd who are establishing or increasing a position for accounts in which they have an interest may temporarily be limited when, in the judgment of two Floor Officials, the interests of a fair and orderly market are served by such limitation.

.04 No member or member organization shall place, or permit to be placed, an order in a series of options with a specialist on the Exchange for an account of an Away Market Maker without so identifying that order to the specialist.

.05 Orders given out by Registered Options Traders to specialists.—An on-Floor order given to a specialist by a Registered Options Trader for an account in which he has an interest may not have the privilege of a "stop" and shall be subject to the same restrictions as if the Registered Options Trader represented or handled the order himself.

(d) The provisions of Rule 126, with the exception of subparagraphs (a) and (b) thereof, shall apply to Exchange option transactions and the following additional commentary shall also apply:

••• *Commentary* -----

.01 When a member holding a spread order, a straddle order, ratio order, a combination order, a stock-option order, or a security future-option order and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with or within the bids and offers established in the marketplace, then the order may be executed as a spread, straddle, ratio, combination, stock-option, or security future-option order at the total credit or debit with one other member without giving priority to either bids or offers established in the marketplace that are not better than the bids or offers comprising such total credit or debit, provided that, (i) in executing a spread order, the member does not buy at the established bid for the option contract to be bought and sell at the established offer for the option contract to be sold or, (ii) in executing a straddle or combination order, the member does not either buy both sides of the order at the established bids or sell both sides of the order at the established offers. Stock-option orders and security future-option orders have priority over bids or offers of the trading crowd but not over bids or offers of public customers in the limit order book.

.02 Facilitation Cross Transactions. A member who holds both an order for a public customer of a member organization and a facilitation order may cross such orders if:

- (a) the member organization discloses on its order ticket for the public customer order which is subject to facilitation, all the terms of such order, including, if applicable, any contingency involving other options, underlying securities, or related securities; and
 - (b) the member requests bids and offers for the option series subject to facilitation, then discloses the public customer order and any contingency respecting such order which is subject to facilitation and identifies the order as being subject to facilitation; and
 - (c) after providing an opportunity for such bids and offers to be made, the member, on behalf of the public customer whose order is subject to facilitation establishes priority by, either bidding or offering at or between the best bid or offer in the market consistent with the Exchange's customer priority rules. After all other market participants are given an opportunity to accept the bid or offer made on behalf of the public customer whose order is subject to facilitation, the member may cross all or any remaining part of such order and the facilitation order at such customer's bid or offer by announcing in public outcry that (s)he is crossing such orders stating the quantity and price(s).
 - (d) (1) notwithstanding paragraph (c) above, and notwithstanding Commentary .04 below, a member firm: (i) seeking to facilitate its own public customer's option order for the eligible order size will be permitted to participate in the firm's proprietary account as the contra-side of that order to the extent of either 20% or 40% (as determined by the Facilitation Procedures Committee on a class by class basis) of the remaining contracts, provided the order trades at or between the best bid or offer given by the trading crowd in response to the floor broker's request for a market; or ii) seeking to cross a public customer order with a solicited order which improves the quoted market if included within the provisions of this Commentary by the Exchange (as determined by the Facilitation Procedures Committee on a class by class basis) will be permitted to cross the solicited order against the public customer order to the extent of either 20% or 40% of the remaining contracts.
- If, however, a public customer order on the specialist's book or represented in the trading crowd has priority over the facilitation or solicited order, the member firm may participate in only those contracts remaining after the public customer's order has been filled.
- (2) the eligible order size shall be 400 contracts or larger, unless the Facilitation Procedures Committee has established a smaller eligible order size, however, the eligible order size shall not be smaller than 50 contracts.
 - (3) if a transaction pursuant to this subparagraph (d) occurs at the specialist's bid or offer, the specialist's participation allocation shall only apply to the number of contracts remaining after all public customer orders and the member firm's

facilitation order or the solicited order have been satisfied. Specialists are not entitled to any guaranteed participation for trades occurring pursuant to this paragraph (d) unless the floor broker crosses less than its guaranteed 40%. The total number of contracts guaranteed to be allocated to the member firm and/or the solicited party and the specialist in the aggregate shall not exceed 40% of the transaction. If the transaction occurs at a price at which the specialist is not on parity, the specialist is entitled to no guaranteed participation allocation.

- (4) nothing in this subparagraph (d) is intended to prohibit a member firm or specialist or solicited party from trading more than their guaranteed participation allocations if the other members of the trading crowd choose not to trade the remaining portion of the order.

When accepting a bid or offer made on behalf of a public customer whose order is subject to facilitation or whose order is subject to crossing against the solicited order, all contingencies of the public customer order must be satisfied. Once the bid or offer has been made on behalf of the public customer whose order is subject to facilitation or crossing, such public customer order has precedence over any other bid or offer in the crowd to trade immediately with the facilitation or solicited order.

The Facilitation Procedures Committee may exempt a particular option class from the application of this Commentary .02(d).

.03 At-Risk Cross Transactions. In the case of equity options, a member holding an order for a public customer on behalf of a member organization and a contra-side order for that same member organization may facilitate the public customer order in accordance with Commentary .02 of this Rule or may execute such orders as an at-risk cross in the following manner:

- (i) the eligible order size shall not be less than fifty (50) contracts.
- (ii) the member organization discloses on its order ticket for the public customer order which is subject to the cross, all the terms of such order, including, if applicable, any contingency involving other options, underlying securities, or related securities;
- (iii) the member requests bids and offers from the trading crowd for the execution of all options components of the order;
- (iv) in response to the quoted market from the trading crowd, the member on behalf of the member organization must first represent the public customer order to the trading crowd as customer providing the side, size and a price of the order, giving the customer an opportunity for price improvement.
- (v) once the trading crowd has provided a quote in response to the customer order, it will remain in effect until: (i) a reasonable amount of time has passed, (ii)

there is a significant change in the price of the underlying security or (iii) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by two (2) floor officials based upon the extent of the recent trading in the option and in the underlying security, and any other relevant factors;

(vi) in response to the trading crowd's quoted market, the floor broker may on behalf of the member organization improve the quoted market establishing priority or facilitate the order pursuant to Commentary .02(d)(1) of this Rule.

(vii) the floor broker may then attempt to consummate a cross transaction at risk to the market by bidding/offering on behalf of the member firm at one minimum price variation (MPV) away from the customer order, providing the customer order the opportunity for price improvement.

If a public customer order has established priority over the at-risk cross, the member firm may participate in those contracts remaining after the public customer's order has been filled.

Once a cross transaction has occurred, the order cannot be broken up by a subsequent superior bid or offer by the trading crowd.

.04 A member or member organization representing an order in options ("originating order") may solicit another member, member organization or non-member broker dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided the member or member organization, upon entering the trading crowd to execute the transaction announces to the trading crowd the same terms and conditions about the originating order as disclosed to the solicited party and bids at the price he is prepared to buy from the solicited party or offers at the price he is prepared to sell to the solicited party.

After all other market participants are given a reasonable opportunity to accept the bid or offer, the solicited party may accept all or any remaining part of such order or the member may cross all or any remaining part of the originating order with the solicited party at such bid or offer by announcing that the member is crossing the orders stating the quantity and price. Non-solicited market participants and floor brokers holding non-solicited discretionary orders in the trading crowd will have priority over the solicited party or the solicited order to trade with the original order at the best bid or offer price subject to the precedence rules set forth in Rule 155.

All orders subject to solicitation pursuant to this Commentary, and all tickets reflecting orders solicited pursuant to this Commentary, must be marked as specified by the Exchange. For purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

.05 The following types of orders must be presented by a floor broker outside the ANTE System: (i) originating orders and solicited orders, (ii) orders being facilitated; and (iii) orders being crossed.

.06 It may be considered conduct inconsistent with just and equitable principles of trade for any member or person associated with a member, who has knowledge of all material terms and conditions of (i) an originating order and a solicited order, (ii) an order being facilitated, or (iii) orders being crossed, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option of the same class as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (i) all the terms of the originating order and any changes in the terms and conditions of the order of which that member or associated person has knowledge are disclosed to the trading crowd or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. For purposes of this Commentary .05, an order to buy or sell a "related instrument," means, in reference to an index option, an order to buy or sell securities comprising ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index.

.07 (a) Purchase or Sale Priority—For trades occurring outside the ANTE System only, if a member purchases (sells) one or more option contracts of a particular series at a particular price or prices such member shall, at the next lower (higher) price at which a member other than a floor broker or specialist representing a customer agency order entitled to priority pursuant to Rule 950—ANTE(c), have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). This paragraph only applies to transactions effected in open outcry.

(b) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) fifty or more options contracts of a particular series at a particular price or prices, such member shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales). The Options Trading Committee may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made via Regulatory Circular. This paragraph only applies to transactions effected in open outcry.

(c) Two or more members entitled to priority. If the bids or offers of two or more members are both entitled to priority in accordance with paragraph (a) or paragraph (b), it shall be afforded them insofar as practicable, on a pro-rata basis.

(d) Floor brokers are able to achieve split price priority in accordance with paragraphs (a) and (b) above. Provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Exchange member broker-dealer ("Exchange member BD") must ensure that the Exchange member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.

.08 For trades occurring outside the ANTE System, when two or more bids (offers) are made simultaneously by the specialist dealing for his own account and by registered options traders, all such bids (offers) shall be on parity and any contracts sold (bought) in execution of such bids (offers) shall be divided among the specialist and registered options trader(s) so that the specialist shall receive the following percentage of contracts executed and the registered options traders shall divide the remainder in accordance with Rule 950—ANTE (1), Commentary .03(a)(iii):

| Number of Registered Options Traders on Parity | Approximate Percentage of Contracts Allocated to the Specialist | Approximate Percentage of Contracts Allocated to the Registered Options Traders (as a group) |
|---|--|---|
| 1 | 60% | 40% |
| 2—4 | 40% | 60% |
| 5—7 | 30% | 70% |
| 8—15 | 25% | 75% |
| 16 or more | 20% | 80% |

Notwithstanding the foregoing, neither the specialist nor a registered options trader will be allocated more executed contracts than the number of contracts representing the specialist's or registered options trader's portion of the aggregate quotation size, as that term is used in Rule 958A, except, when the number of executed contracts to be allocated exceeds the aggregate quotation size disseminated for that options series.

(e) The types of orders specified in Rule 131 and the following additional types of orders shall be applicable to Exchange option transactions:

- (i) **Spread Order**—A spread order is an order to buy a stated number of option contracts and to sell the same number of option contracts, or contracts representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a Government security or a certificate of deposit), in a different series of the same class of options.

- (ii) **Straddle Order**—A straddle order is an order to buy a number of call option contracts and the same number of put option contracts with respect to the same underlying security, or put and call option contracts representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a Government security or a certificate of deposit), and having the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts with respect to the same underlying security, or put and call option contracts representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a Government security or a certificate of deposit), and having the same exercise price and expiration date. (E.g., an order to buy two XYZ July 50 calls and to buy two XYZ July 50 puts is a straddle order; or an order to buy ten March 90 calls on Treasury bonds whose underlying principal value is \$20,000 and to buy two March 90 puts on Treasury bonds whose underlying principal value is \$100,000 is a straddle order). In the case of adjusted option contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares at option.
- (iii) **Combination Order**—A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security and representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same principal amount (if the underlying security is a government security). In the case of adjusted option contracts, a combination order need not consist of the same number of put and call contracts if such contracts represent the same number of shares at option.
- (iv) **Facilitation Order**.—A facilitation order is an order which may be executed in a cross transaction with an order for a public customer of the member organization. All facilitation orders must be marked as required by the Exchange.
- (v) **Immediate or Cancel Order**—An immediate or cancel order is a market or limited price order which is to be executed in whole or in part as soon as such order is represented in the ANTE System, and the portion not so executed is to be treated as cancelled. For the purposes of this definition, a "stop" is considered an execution. An immediate or cancel order may be cancelled if the Exchange disseminated quote is not equal to the NBBO at the time the order is represented in the ANTE system.
- (vi) **Fill or Kill**—A fill or kill order is a market or limited price order which is to be executed in its entirety as soon as it is represented in the ANTE System, and such order, if not so executed, is to be treated as cancelled. For purposes of this definition, a "stop" is considered an execution.

- (vii) **Ratio Order**- A Ratio Order is a spread, straddle, or combination order in which the stated number of option contracts to buy (sell) is not equal to the stated number of option contracts to sell (buy), provided that the number of contracts differ by a permissible ratio. For purposes of this section, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.00) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.
- (viii) **Combination Orders with Non-Equity Options Legs**—One or more legs of an order may be to purchase or sell a stated number of units of another security.
- (1) **Stock-Option Order**—A stock-option order is an order to buy or sell a stated number of units of an underlying or related security coupled with either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying or related security or the number of units of the underlying security necessary to create a delta neutral position; or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock, as and on the opposite side of the market from, the underlying or related security portion of the order.
- (2) **Security Future-Option Order**—A security future-option order is an order to buy or sell a stated number of units of a single stock future or a security convertible into a security future ("convertible security future") coupled with either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of the underlying for the security future or convertible security future, or the number of units of the underlying for the security future or convertible security future necessary to create a delta neutral position; or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of underlying for the security future or the convertible security future, as and on the opposite side of the market from, the stock underlying for the security future or convertible security future portion of the order.
- (ix) **Strangle Order**—A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two XYZ June 35 calls and to buy two XYZ June 40 puts).
- (x) **Butterfly Spread Order**—A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the

interval between the exercise price of each series is equal, which orders are structured as either (i) a "long butterfly spread" in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (ii) a "short butterfly spread" in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.

(xi) **Box/Roll Spread Order:** Box spread means an aggregation of positions in a long call option and short put option with the same exercise price ("buy side") coupled with a long put option and short call option with the same exercise price ("sell side") all of which have the same aggregate current underlying value, and are structured as either: A) a "long box spread" in which the sell side exercise price exceeds the buy side exercise price or B) a "short box spread" in which the buy side exercise price exceeds the sell side exercise price.

(xii) **Collar and Risk Reversal Orders**—A collar order (risk reversal) is an order involving the sale (purchase) of a call (put) option coupled with the purchase (sale) of a put (call) option in equivalent units of the same underlying security having a lower (higher) exercise price than, and same expiration date as, the sold (purchased) call (put) option.

••• *Commentary* -----

.01 (a) A "NDX Combination" is a long (short) NDX call and a short (long) NDX put having the same expiration date and strike price. A "RUT Combination" is a long (short) RUT call and a short (long) RUT put having the same expiration date and strike price.

(b) A "delta" is the positive (negative) number of NDX or RUT combinations that must be sold (bought) to establish a market neutral hedge with the corresponding NDX or RUT option position.

(c) A "NDX combination order" is an order to purchase or sell NDX options and the offsetting number of NDX combinations defined by the delta. A "RUT combination order" is an order to purchase or sell RUT options and the offsetting number of RUT combinations defined by the delta.

(f) The provisions of Rule 154, with the exception of paragraph (a), and Commentary thereto, with the exception of paragraphs .11 and .13 of such Commentary, shall apply to Exchange option transactions and the following additional Commentary shall also apply:

••• *Commentary* -----

.01 An Exchange options specialist is prohibited from acting as a floor broker or in an agency capacity in connection with orders in his or her assigned options classes.

.02 Unless the Exchange otherwise directs, an ABC shall accept stop orders and stop limit orders in option contracts in which he is so registered. In the case of stop limit orders, the stop price and limit price need not be identical.

.03 A stop order and a stop limit order in option contracts shall be elected as set forth in Rule 154 Commentary .04, and shall also be elected by a quotation as follows:

A stop order to buy becomes a market order when the bid price in the options series is at or above the stop price, after the order is represented in the ANTE System. A stop order to sell becomes a market order when the offer price in the option series is at or below the stop price, after the order is represented in the ANTE System.

A stop limit order to buy becomes a limit order executable at the limit price or at a better price, if obtainable, when the bid price in the option series is at or above the stop price, after the order is represented in the ANTE System.

A stop limit order to sell becomes a limit order executable at the limit price or at a better price, if obtainable, when the offer price in the option series is at or below the stop price, after the order is represented in the ANTE System.

.04 Open limited price orders, stop limit orders and stop orders for one or more option contracts, held by an ABC prior to the effective date of an adjustment by the Options Clearing Corporation to the terms of a class of options pursuant to the rules of the Options Clearing Corporation, shall be adjusted by the ANTE System on the "ex-date" by such amount as the Options Clearing Corporation shall specify, unless he is otherwise instructed by the member or member organization that entrusted the order to him.

.05 A stop order elected by the opening trade becomes a market order and is executed on the opening bid or offer.

(g) The provisions of Rule 156, together with the following additional provision, shall apply to Exchange option transactions:

A broker who has been given a spread order, or a straddle order or a combination order shall not be held responsible for an execution based upon transaction prices that are established at the opening or close of trading.

(h) The provisions of Rule 171 and Commentary thereto shall apply to the trading of option contracts, however, the option specialist financial requirement shall be \$1,000,000.

••• Commentary -----

.01 For an option specialist that is also an equity security specialist subject to the requirements of Rule 171, the minimum \$1,000,000 referred to in Rule 171 shall apply to the entirety of the specialist's business, in both equities and options. For example, a

specialist maintaining a book in both equity securities and options that is allocated only one equity security and one option (assuming the cost to carry 60 units of the equity stock does not exceed \$1,000,000) would be required to satisfy the minimum financial requirement of \$1,000,000.

(i) The provisions of Rule 186 shall apply to the trading of option contracts with the addition of the following Commentary:

••• *Commentary* -----

.01 With respect to a specialist registered in one or more classes of options:

Paragraph (a) of this Rule shall be deemed to prohibit the holding of any office or directorship of the corporation which is the issuer of the underlying stock that is the subject of any such class of options.

Paragraph (b) of this Rule shall be deemed to prohibit the nomination of any person to, and the representation by a nominee on, the Board of Directors of the corporation which is the issuer of the underlying stock that is the subject of any such class of options.

Paragraph (c) of this Rule shall be deemed to prohibit the solicitation of proxies in respect of the underlying stock that is the subject of any such class of options.

Paragraph (d) of this Rule shall be deemed to prohibit, in any proxy contest involving the underlying stock that is the subject of any such class of options, the voting of any such stock in which the persons or parties specified in paragraph (a) have a beneficial interest.

.02 The term "corporation which has a security admitted to trading on the Exchange" as used in paragraph (a) of this Rule shall not be deemed to include the Options Clearing Corporation.

(j) The provisions of Rule 190 shall apply to the trading of option contracts with the addition of the following Commentary:

••• *Commentary* -----

.01 With respect to a specialist registered in one or more classes of options:

(1) Paragraph (a) of this Rule shall be deemed to prohibit any material business transactions with the company, which is the issuer of the underlying stock that is the subject of any such class of options or with any officer, director or 10% stockholder of any such company. A material transaction for purposes of this Commentary . 01 is one, which is material in value either to the issuer or the specialist; would provide access to material non-public information relating to the issuer; or would give rise to a control relationship between the issuer and the specialist.

- (2) Paragraph (b) of this Rule shall be deemed to prohibit the acceptance of any order for the purchase or sale of an option contract of any such class directly (1) from the company which is the issuer of the underlying stock that is the subject of any such class of options, (2) from any officer, director or 10% stockholder of any such company, (3) from any pension or profit-sharing fund with assets exceeding \$5,000,000, or (4) from any bank, trust company, insurance company, investment company or similar institution. This Rule shall not be deemed to prohibit the acceptance of orders for the purchase or sale of the underlying stock from pension and profit-sharing funds, banks, trust companies, investment companies and similar institutions.

.02 It is contrary to good business practice for a specialist or his member organization, or any member, officer, employee or approved person therein to make any recommendation in any stock underlying an equity option in which such specialist is registered or to make public statements, oral or written, for the purpose of encouraging or discouraging the purchase or sale of any such stock. Notwithstanding the foregoing, a member organization, which is or is associated with a registered options specialist may publish or distribute information, an opinion or a recommendation regarding securities of the issuer of the stock underlying its specialty option provided:

- (1) Such information, opinion or recommendation is contained in a publication which:
 - (i) Is distributed with reasonable regularity in the normal course of business, and
 - (ii) Includes similar information, opinions or recommendations with respect to a substantial number of companies in the issuer's industry or sub-industry, or contains a comprehensive list of securities it is currently recommending.
- (2) Such information, opinion or recommendation:
 - (i) Is given no materially greater space or prominence in such publication than that given to other securities or issuers; and
- (3) Projections of the issuer's sales or earnings are not included unless they are also included with respect to either a substantial number of companies in the issuer's industry or sub-industry or all companies in a comprehensive list which is contained in the publication, and cover the same periods with respect to such companies as with respect to the issuer; and
- (4) Appropriate disclosure is made relating to potential conflicts of interest, as follows:
 - (i) The member organization is, or is associated with, a specialist who makes a market in the option;

(ii) At any given time, the specialist may have an inventory position, either "long" or "short," in the option; and

(iii) As a result of the specialist's function as such, such specialist may be on the opposite side of orders executed on the Floor of the Exchange in the option.

(k) The provisions of Rule 191 and Commentary thereto shall apply to Exchange option transactions with the following amendments to the Commentary:

• • • *Commentary* -----

.01 For purposes of the reporting requirements under paragraph (b) of Rule 191, a security directly related to a security (other than a class of options traded on the Exchange) in which a specialist is registered would include all securities of the same issuer, and a security directly related to a class of options traded on the Exchange in which a specialist is registered would include:

(i) if the class of options relates to an underlying stock, such underlying stock and all other securities of the issuer thereof convertible into or exchangeable for shares of the underlying stock, or

(ii) if the class of options relates to an underlying Treasury bond or Treasury note, such Treasury bond or Treasury note, or

(iii) if the class of options relates to an underlying Treasury bill or certificate of deposit, every Treasury bill or certificate of deposit, respectively, which is, or could be in the future, deliverable in connection with the exercise of an option in such class.

Securities indirectly related to a security (other than a class of options traded on the Exchange) in which a specialist is registered would include any securities of an issuer other than the issuer of such security which, because of merger or acquisition plans or inter-corporate relationships, can reasonably be expected to have a price relationship to the security in which the specialist is registered.

.02 Each specialist in an option contract shall file with the Exchange, on a daily basis, reports containing the information required pursuant to paragraph (b) under Rule 191 with respect to transactions in any contract for the future delivery of a Government security or certificate of deposit which permits delivery of the security underlying the option contract in which the specialist is registered, and any option contract which, following exercise, would require the delivery of such a futures contract.

.03 The Exchange may, from time to time, request reports of transactions in various Government securities by Specialists who are registered in options on other Government securities. Therefore, each Specialist who is registered in an option covering a Treasury

bond, Treasury note, or Treasury bill shall keep records of his transactions in all Treasury bonds, Treasury notes or Treasury bills, as the case may be, which records shall contain the categories of information required pursuant to paragraph (b) under Rule 191.

(l) The provisions of Rule 170 and Commentaries .03 and .04 thereto, shall apply to exchange option transactions. In addition, the following Commentary shall also apply:

• • • *Commentary* -----

.01An Exchange options specialist shall not execute options orders as a floor broker or in an agency capacity in his or her assigned options classes.

.02 A specialist in the course of maintaining a fair and orderly market shall adhere to the maximum permissible bid/ask differentials set forth in Rule 958—ANTE (c).

.03 Specialists, registered options traders, SROT's and RROT's are required to compete with each other to improve the quoted markets in all series of option classes which they trade. Unless otherwise provided for in Exchange rules, it shall be a violation of just and equitable principles of trade for specialists, registered options traders, SROT's and RROT's to determine by agreement the spreads or prices at which they will trade any option class, or the allocation of orders in any option class. In complying with this Rule, the specialist, registered option traders, SROT's and RROT's must make independent decisions to determine the spreads or prices at which they will quote and trade any option class. There are, however, certain specific circumstances where to make fair and orderly markets that are competitive with other exchanges and responsive to the needs and expectations of investors, some communication among the specialist and traders may be necessary and appropriate. Therefore, notwithstanding the foregoing:

- (a) Specialists are expected to participate in and support Exchange-sponsored automated systems such as automatic quote and execution systems or Exchange-approved equivalents. In the case of a specialist utilizing an Exchange-approved proprietary automatic quote system, the specialist must have available for immediate use the Exchange provided automatic quote system. In the event that a specialist's Exchange-approved proprietary automatic quote system fails, the specialist must switch to the Exchange provided automatic quote system immediately and, in no event, later than 30 seconds to resume automatic quotation. The variables in the formula used to generate automatically updated quotations for each option class and or series will be determined independently by the specialist. The specialist may receive input from the registered options traders on any one or all of these variables provided, however, it is within the specialist's sole discretion to make the final, independent decision in determining the variables to be used in the automated quote system. The registered options traders, however, are not required to give input on the variables to the specialist;

- (b) The obligation of the specialists to make competitive markets does not preclude the specialists and registered options traders from making a collective response to a request for a market, provided the member representing such order requests such response and the size of the order is larger than the greater of the size communicated or disseminated pursuant to Rule 958A or the automatic matching and execution eligible order size parameter. In addition, the specialist may unilaterally give a single bid (offer) in response to a request for a market and subsequently discuss with the registered options traders whether they wish to participate in contracts executed in accordance with that bid (offer). The allocation of contracts executed in accordance with this paragraph will be done in accordance with Rule 950(d) Commentary .07; and
- (c) In those situations where a registered options trader voluntarily chooses to join the specialist's quote (see, Rule 958—ANTE (h)) and in conjunction with their obligation as the responsible broker or dealer pursuant to Exchange Rule 958A—ANTE (a)(ii)(A) and Rule 11Ac1-1 under the Securities Exchange Act of 1934, specialists and registered options traders may on a voluntary basis collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to paragraph (c)(i) of Rule 958A—ANTE.

.04 (a) The ANTE system will allocate executed contracts among all participants to a trade, except in those situations where an execution has occurred outside the ANTE System. It is the responsibility of the specialist when an execution has occurred outside the ANTE system to allocate executed contracts among all participants to a trade. In allocating executed contracts outside the ANTE System, the specialist will be obligated to use best efforts to attempt to ensure that the registered options trader responsible for announcing the best bid or offer during a crowd trade be appropriately allocated executed contracts in accordance with the participation provisions found in Rule 950—ANTE (d), Commentary .07.

- (i) In order for specialists to fulfill this function, registered options traders must announce either at the start of the trading day, upon entry into the trading crowd or prior to the dissemination of a quotation, the number of contracts for each option series in which they are willing to participate. The specialist may not assume a size for any registered options trader and only those registered options traders that have announced their sizes as discussed above will be allocated any executed contracts.
- (ii) The registered options traders announced sizes shall be promptly communicated to the Exchange as required by Rule 958A—ANTE (c)(i).
- (iii) As transactions occur the specialist shall allocate to the extent mathematically possible (A) the portion of the executed contracts that the customer is entitled to subject to subparagraph (v) of this paragraph (a); (B) the portion of the executed contracts that the specialist is entitled to pursuant to the participation

percentages set forth in Rule 950—ANTE (d), Commentary .07; and then (C) the portion of the executed contracts participating registered options traders are entitled to individually. The allocation pursuant to (C) is subject to the following provisions:

1. where all participants have equal stated sizes, their participations shall be equal;
2. where participants' stated sizes are not equal, their participations will depend upon whether the number of executed contracts left to be allocated exceeds the participants' aggregate stated sizes;
3. if the number of executed contracts left to be allocated does not exceed the participants' aggregate stated sizes, the specialist will allocate the executed contracts equally, unless a participant's stated size is for an amount less than an equal allocation, then the smallest sizes will be allocated first, until the number of executed contracts remaining to be allocated requires an equal allocation.
4. if the number of executed contracts left to be allocated does exceed the participants' aggregate stated sizes, the specialist will allocate the executed contracts by first allocating to each participant the number of executed contracts equal to each participant's stated size with the remainder being allocated based on the percentage a participant's stated size is of the participants' aggregate stated size.
5. The following chart illustrates how different numbers of executed contracts will be allocated to participants whose aggregate stated size is 100 contracts:

Number of Executed Contracts to be Allocated

| Each Participant's Stated Size | 200 | 90 | 70 | 50 |
|---------------------------------------|------------|-----------|-----------|-----------|
| 50 | 100 | 40 | 25 | 17 |
| 30 | 60 | 30 | 25 | 17 |
| 20 | 40 | 20 | 20 | 16 |

- (iv) In the event a specialist or registered options trader declines to accept any portion of the available contracts, any remaining contracts shall be apportioned among the remaining participants who bid or offered at the best price at the time the market was established in accordance paragraph (iii) above, until all contracts have been allocated.

- (v) Specialists and registered options traders may direct some or all of their participation amount to competing public orders in the trading crowd.

(b) Notwithstanding the foregoing, when the transaction occurs without the participation of the specialist (either as principal or agent), the floor broker representing the contra-side of the trade shall distribute the executed contracts equally among the participating registered options traders, unless a registered options trader's portion of the disseminated size is less than an equal distribution. That registered options trader will be given a less than equal distribution and the remaining contracts will be allocated equally among the remaining participants to the trade. In addition, if neither the specialist nor a floor broker representing a customer as the contra-side of the trade is participating in the trade, the participating registered options traders shall allocate the executed contracts among themselves and other participants on parity in accordance with subparagraph (a)(iii) above.

.05 The options specialist's account shall be used for P/A Orders and Satisfaction Orders routed by the Exchange for the benefit of an underlying customer order and to fill incoming Satisfaction Orders that result from a Trade-Through that the Exchange effects. The options specialist shall be responsible for any charges incurred in the execution of such linkage orders. An options specialist must provide to the Exchange written instructions for routing P/A Orders and Satisfaction Orders to other markets.

.06 (a) Notwithstanding the ability of a specialist to trade for his or her dealer account, dealer transactions by a specialist that have not yet been electronically reported by the specialist must yield to any later arriving customer system order sent to the specialist directly from off-Floor and displayed on the specialist's Book, provided that such customer order or orders are capable of trading in place of some or all of the specialist's side of the trade in the consummated transaction.

The provisions of paragraph (a) above shall not apply if:

- (i) the later arriving order is an off-Floor system order for the account of a broker-dealer (including, but not limited to, a foreign broker-dealer, Registered Options Trader, Supplemental Registered Options Trader, Remote Registered Options Trader or Away Market Maker);
- (ii) the specialist's trade for his or her dealer account is pursuant to Rule 950-ANTE(d), Commentary .01 or Commentary .07 (b);
- (iii) the specialist's trade for his or her dealer account is a report of principal participation on an order sent to another market center through the Options Intermarket Linkage;
- (iv) the specialist's trade for his or her dealer account is in connection with a P/A order sent to another market center through the Options Intermarket Linkage;
or

(v) the specialist's trade for his or her dealer account is a correction of a bona fide error.

(m) The provisions of Rule 109 and Commentary thereto except for those provisions, which provide for "stopping" in markets with the minimum spread between the bid and offer shall apply to Exchange options transactions.

(n) The provisions of Rule 103, with the exception of subparagraphs (c)(2) and (3) and Commentaries .01—.03 thereto, shall apply to Exchange option transactions.

Rule 951—ANTE Premium Bids and Offers

(a) All bids or offers made on the Floor and through the facilities of the Exchange for option contracts shall be deemed to be for one option contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract shall be deemed to be for the amount thereof or a smaller number of option contracts.

(b) Except as provided in paragraph (c), all bids or offers made on the Floor and through the facilities of the Exchange for option contracts relating to an underlying stock or Exchange-Traded Fund Share shall be expressed in terms of dollars per share of the underlying stock or Exchange-Traded Fund Share (e.g., a bid of "5" shall represent a bid to pay a premium of \$500 for an option contract having a unit of trading consisting of 100 shares of an underlying stock or Exchange-Traded Fund, or a bid to pay a premium of \$5000 for an option contract having a unit of trading consisting of 1000 shares of an underlying stock or Exchange-Traded Fund).

(c) All bids or offers for an option contract for which The Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraph (c) and (d) of Section 11 of Article VI of the By-laws of The Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading (e.g., where the adjusted unit of trading of an option contract consists of 110 shares of an underlying stock or Exchange-Traded Fund plus 15 rights, a bid of "5" shall represent a bid to pay a premium of \$550 for each option contract covering both the shares of underlying stock or Exchange-Traded Fund and the rights).

(d) All bids or offers made on the Floor and through the facilities of the Exchange for option contracts relating to an underlying Treasury bill shall be expressed as a percentage of an amount which shall be determined by multiplying the principal amount of the underlying Treasury bill by a fraction whose numerator shall be the number of weeks to maturity of the underlying Treasury bill and whose denominator shall be 52.

(e) All bids or offers made on the Floor and through the facilities of the Exchange for option contracts relating to an underlying Treasury bond or Treasury note shall be

expressed as a percentage of the principal amount of the underlying Treasury bond or Treasury note.

(f) All bids or offers made on the Floor and through the facilities of the Exchange for option contracts relating to an underlying certificate of deposit shall be expressed as a percentage of \$250,000 (e.g., a bid of "1" shall represent a bid to pay a premium of 1% of \$250,000--i.e., \$2,500--for an option contract).

••• *Commentary* -----

.01(a) Locked Markets. In the event that the disseminated quotes of a specialist, registered options trader ("ROT"), supplemental registered options trader ("SROT") or remote registered options trader ("RROT") interact with the disseminated quotes of other ROTs, SROT, RROT and/or the specialist, resulting in the dissemination of a "locked" quote (i.e. 2 bid/2 offer), the ANTE system will perform the following:

- (1) Dissemination of the locked market and both quotes will be deemed "firm" disseminated market quotations.
- (2) Generation of a notification to the specialist and/or ROT, SROT or RROT advising such specialist and/or ROT, SROT or RROT that their quotations are locked.
- (3) Commencement of a one (1) second "counting period," during which the specialist, ROTs, SROT or RROT whose quotes are locked may eliminate the locked market. Provided, however, that in accordance with subparagraph (1) above, a specialist, ROT, SROT or RROT will be obligated to execute customer and broker-dealer orders eligible for automatic execution pursuant to Rule 933—ANTE at his disseminated quotation. During the one (1) second "counting period," specialists and ROTs will continue to be obligated to respond to floor brokers and will continue to be obligated for one contract in open outcry to other specialists and/or ROTs. If at the end of the "counting period" quotes remain locked, the ANTE system will automatically execute the locked quotes against each other pursuant to the allocation algorithm set forth in Rule 935 - ANTE.

(b) **Crossed Markets.** The Exchange will not disseminate an internally crossed market (i.e., 2.10 bid/2 offer). If the quote of a specialist, ROT, SROT, or RROT would cross an existing quote ("existing quote"), the ANTE System will (i) revise the incoming quote such that it locks the existing quote; (ii) send a notice to the specialist, ROT, SROT or RROT that submitted the existing quote indicating that its quote was crossed; and (iii) send a notice to the specialist, ROT, SROT or RROT that submitted the incoming quote, indicating that its quote crossed the existing quote and was changed. Such a locked market will be handled in accordance with paragraph (a) above. During the counting period, if the existing quote is cancelled subsequent to the time the incoming quote is changed, the incoming quote will automatically be restored to its original terms.

.02 The bid and offer of a Specialist or Registered Trader for a Treasury bill option contract covering \$1,000,000 principal amount of underlying 13-week Treasury bills automatically shall include a bid and offer for another Treasury bill option contract identical to the first contract in all respects except that it shall cover \$200,000 principal amount of underlying 13-week Treasury bills. The bid and offer for the smaller sized option contract shall be no wider than .01 less on the bid and .01 more on the offer than the stated bid and offer for the larger sized option contract.

.03 The bid and offer of a Specialist or Registered Trader for a Treasury note option contract covering \$100,000 principal amount of underlying Treasury notes automatically shall include a bid and offer for another Treasury note option contract identical to the first contract in all respects, except that it shall cover \$20,000 principal amount of underlying Treasury notes. The bid and offer for the smaller sized option contract shall be no wider than 1/32 less on the bid and 1/32 more on the offer than the stated bid and offer for the larger sized option contract.

.04 The quotations disseminated by the Exchange for options on a particular Treasury bill or Treasury note shall be for the largest size option contract traded on the Exchange covering that Treasury bill or Treasury note.]

[Rule 953—ANTE Acceptance of Bid or Offer

(a) All bids or offers for option contracts dealt in on the Exchange made and accepted in accordance with these Rules shall constitute binding contracts between the parties thereto but shall be subject to the exercise by the Board of Directors of the powers in respect thereto vested in said Board, and to the Rules of the Exchange, and said contracts shall also be subject to the rules of The Options Clearing Corporation and to the exercise by The Options Clearing Corporation of the powers reserved to it in the rules of The Options Clearing Corporation.

(b) Stock-option orders and security future-option orders.

(i) A bid or offer that is identified to the Exchange trading crowd as part of a stock-option order, as defined in Rule 950 - ANTE (e)(viii)(1) or, or a security future-option order, as defined in Rule 950 - ANTE (e)(viii)(2), is made and accepted subject to the following conditions:

(A) at the time the stock-option order or security future-option order is announced, the member initiating the order must disclose to the crowd all legs of the order and must identify the specific market(s) on which and the price(s) at which the non-option leg(s) of the order is to be filled, and

(B) concurrent with execution of the options leg of the order, the initiating member and each member that agrees to be a contra-party on the non-option leg(s) of the order must take steps immediately to transmit the non-option leg(s) to the identified market(s) for execution.

(ii) A trade representing the execution of the options leg of a stock-option order or a security future-option order may be adjusted to be consistent with the net debit or credit price of the original order if market conditions in any of the non-Exchange market(s) prevent the execution of the non-option leg(s) at the price(s) agreed upon.

(c) NDX or RUT Combination Orders

A NDX or RUT combination order may be transacted in the following manner:

(i) When a member holding a NDX or RUT combination order and bidding or offering in a multiple of the minimum price variation (MPV) on the basis of a total debit or credit for the order has determined that the order may not be executed by a combination of transactions with the bids and offers displayed in the NDX or RUT limit order book or by the displayed quotes of the trading crowd, then the order may be executed at the best net debit or credit so long as:

(A) no leg of the order would trade at a price outside the currently displayed bids or offers in the trading crowd or bids or offers in the NDX or RUT limit order book and;

(B) at least one leg of the order would trade at a price that is better than the corresponding bid or offer in the NDX or RUT limit order book.

(ii) Notwithstanding any other rules of the Exchange, if a NDX or RUT combination order is not executed immediately, the NDX or RUT combination order may be executed and printed at the prices originally quoted for each of the component option series within two (2) hours after the time of the original quotes, provided at the time of execution, no individual leg of such order may trade ahead of the corresponding bid or offer in the NDX or RUT limit order book.

(d) Failure to observe the requirements set forth in paragraph (b)(i)(A) and (B) above shall be considered conduct inconsistent with just and equitable principles of trade.]

[Rule 955—ANTE Floor Reports of Exchange Option Transactions

(a) If a specialist shall fail to send a report with respect to an option contract order which he executed or should have executed and the member or member organization giving the

Specialist such order shall have made a written request to the Specialist for a report by one hour prior to the opening of trading on the following business day, the specialist shall be responsible for any loss which may be sustained until such time as he answers the request.

••• *Commentary* -----

.01 A report shall be deemed to have been sent by a specialist if he has an ANTE System record of the execution or if he prepares and has available a commission stub or original order, both of which must bear the date the report was sent. The date stamp shall be in such form as may be authorized by the Exchange.

.02 Members and member organizations expecting reports should make written requests for reports promptly; a duplicate copy of such request must be stamped and retained by the member or member organization as a record that the request has been made.

.03 In the event a report has not been sent by a Specialist with respect to an option contract order which he executed or should have executed and the member or member organization leaving such order with the Specialist for execution makes a written request to the Specialist for a report later than one hour prior to the opening of trading on the business day following the day on which such order was executed or should have been executed, the Specialist shall not, without his consent, be responsible for any loss sustained.]

[Rule 958—ANTE Options Transactions of Registered Options Traders and Supplemental Registered Options Traders and Remote Registered Options Traders

No registered options trader, Supplemental Registered Options Trader (SROT) or Remote Registered Options Trader (RROT) shall initiate an Exchange option transaction on the Floor and through the facilities of the Exchange for any account in which he has an interest except in accordance with following provisions:

(a) Each registered options trader, SROT or RROT electing to engage in Exchange option transactions shall be assigned by the Exchange one or more classes of options in accordance with procedures set forth in Commentary .05 and Exchange option transactions initiated by such registered options trader, SROT or RROT on the Floor and through the facilities of the Exchange for any account in which he has an interest shall to the extent prescribed by the Exchange be in such assigned classes.

(b) Exchange option transactions of a registered options trader, SROT or RROT should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market and no registered options trader, SROT or RROT should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

(c) With respect to each class of options as to which he is assigned by the Exchange, a registered options trader, SROT or an RROT, whenever he participates in the trading of an options class in other than a floor brokerage capacity, or is called upon by a Floor Official or a floor broker acting in an agency capacity, is required to make competitive bids and offers as reasonably necessary to contribute to the maintenance of a fair and orderly market and shall engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists a lack of price continuity, a temporary disparity between the supply of and demand for option contracts of a particular series, or a temporary distortion of the price relationships between option contracts of the same class.

- (i) Without limiting the foregoing, a registered options trader, SROT and an RROT is expected to perform the following activities in the course of maintaining a fair and orderly market:
 - (a) If the underlying security is a stock or Exchange-Traded Fund Share, bidding and offering so as to create differences of no more than \$0.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2, no more than \$0.40 where the prevailing bid is \$2 but does not exceed \$5, no more than \$0.50 where the prevailing bid is more than \$5 but does not exceed \$10, no more than \$0.80 where the prevailing bid is more than \$10 but does not exceed \$20, and no more than \$1 where the last prevailing bid is more than \$20. In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth herein, the permissible price differential for any in-the-money option series may be identical to those in the underlying security market.
 - (b) Options on classes trading on the ANTE system may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 quote widths shall only apply to classes trading on the ANTE system and only following the opening rotation in each security (i.e. the widths specified in Rule 958-ANTE(c)(i)(a) shall apply during opening rotation). Quotes given in open outcry in ANTE classes may not be quoted with \$5 widths and instead must comply with the legal width requirements (e.g. no more than 0.25 between the bid and offer for each option contract for which the bid is less than \$2) described in Rule 958-ANTE(c)(i)(a).
 - (c) If the underlying security is a Treasury bill or certificate of deposit, bidding and offering so as to create differences in premium quotations of no more than 0.06 between the bid and the offer for each option contract for which the last preceding transaction price was 0.12 or less, no more than 0.12 where the last preceding transaction price was more than 0.12 but did not exceed 1.20, and no more than 0.16 where the last preceding transaction price was more than 1.20; and

- (d) If the underlying security is a Treasury bond or Treasury note, bidding and offering so as to create differences of no more than 1/8% of the principal amount of the underlying security between the bid and the offer for each option contract for which the last preceding transaction price was 1/4% or less, no more than 1/4% where the last preceding transaction price was more than 1/4% but did not exceed 4%, and no more than 3/8% where the last preceding transaction price was more than 4%;

Provided that the Exchange may establish differences other than the above for one or more series or classes of options.

- (ii) If the underlying security is a stock or an Exchange-Traded Fund Share, bidding no more than \$1 lower and/or offering no more than \$1 higher than the last preceding transaction price for the particular option contract; if the underlying security is a Treasury bill or certificate of deposit, bidding no more than 0.09 lower and/or offering no more than 0.09 higher than the last preceding transaction price for the particular option contract; if the underlying security is a Treasury note or Treasury bond, bidding no more than 3/8% lower and/or offering no more than 3/8% higher than the last preceding transaction price for the particular option contract.

However, this standard shall not ordinarily apply if the price per share of an underlying stock or Exchange-Traded Fund Share has changed by more than \$1, or if the annualized discount or annualized yield of the underlying Treasury bills or certificates of deposit, respectively, in the cash market has changed by more than 0.09, or if the price of an underlying Treasury bond or note has changed by more than 3/8%, since the last preceding transaction for the particular option contract.

(d) With respect to classes of options other than those to which he has been assigned, a registered options trader, whenever he enters the trading crowd or is called upon by a Floor Official, shall undertake the obligations specified in paragraph (c) of this Rule.

(e) No equity specialist, odd-lot-dealer or NASDAQ market maker may act as a registered options trader or RROT in a class of stock options on a stock in which he is registered in the primary market therefore, provided, however, that an equity specialist may act as a registered options trader or RROT in a class of stock options on an Exchange-Traded Fund Share or a Trust Issued Receipt in which he is registered in the primary market therefore if the Exchange-Traded Fund Share or Trust Issued Receipt meets the criteria set forth in Commentary .03(a) to Rule 1000 or Commentary .02(a) to Rule 1000A or approved by the Securities and Exchange Commission as eligible for trading arrangements under this paragraph and Rule 175(c)(2).

(f) No member while acting as a registered options trader or RROT if he is also registered as a registered equity trader or registered equity market-maker shall execute a proprietary Exchange option transaction on a Paired Security if during the preceding 60 minutes he has been in the Designated Stock Area where the related security is traded.

(g) A registered options trader, when entering into an options transaction for any account in which he has an interest, must initiate such transactions on the Floor and through the facilities of the Exchange for those transactions to be considered registered options trader transactions. Except as otherwise determined by the Exchange, a minimum of 25% of a registered options trader's option contract volume and a minimum of 25% of a registered options trader's total number of options transactions in any calendar quarter must be executed in person and not through the use of orders represented by another member or member organization, provided, however, that for any calendar quarter in which a registered options trader receives registered options trader treatment for off-floor orders in accordance with Commentary .01 of this Rule, in addition to satisfying the requirements of Commentary .03 of this Rule 958—ANTE, the registered options trader must execute in person, and not through the use of orders represented by another member or member organization, at least 80% of his total transactions and option contract volume.

(h) (i) Registered options traders, other than RROT's, may choose to either use an Exchange provided or proprietary automated quote calculation system to calculate and submit quotes in all or some of their assigned classes. RROT's must use an authorized or proprietary automated quote calculation system; (ii) join the specialist's disseminated quotation with the ability to manually change that quotation on a series-by-series basis in those classes the registered options trader has chosen not to use an automated quote calculation system; or enter orders into the ANTE System from their hand-held device. SROT's and RROT's may not participate in the "join quote" feature in the ANTE system.

Whenever a registered options trader is either using an automated quote calculation system (pursuant to (i) above); joining the specialist's quote in a given option class (pursuant to (ii) above); or sending an order into the ANTE System, the registered options trader, that is not an SROT or RROT, must be physically present at the specialist's post on the floor of the Exchange where that option class is traded. Notwithstanding the foregoing, a registered options trader is not required to be physically present and may submit electronic quotations and orders from off the Exchange trading floor on a temporary basis pursuant to Commentary .01(c) of this rule.

(iii) (A) Registered options traders who transact more than 20% of their contract volume in an assigned option class electronically and not through open outcry, measured over a calendar quarter, shall, commencing the next calendar quarter, be obligated to maintain continuous two-sided electronic quotations for at least ten contracts in a certain percentage of series in that option class. The quotes must comply with the maximum bid/ask differentials set forth in paragraph (c) above. The percentage of series a registered options trader is obligated to electronically quote will vary depending on the amount of contract volume executed electronically on the Exchange in that option class. The Exchange will establish for each option class the percentage of series, which must be continuously quoted by those registered options traders based upon the Exchange's percentage of electronic contract volume as set forth below:

| Percentage of Overall Contract Volume Executed Electronically on the Exchange During the Previous Calendar Quarter | Registered Options Traders Electronic Quoting Requirement Percentage of Series |
|---|---|
| 50% or Below | 20% |
| 51% - 75% | 40% |
| Above 75% | 60% |

The continuous two-sided electronic quoting obligations in subparagraph (h)(iii) of this rule shall not apply to the series of that class that have a time to expiration of more than nine months.

(B) For the first 90 days after an option class begins trading on the ANTE System, registered options traders will not have the electronic quoting requirement discussed above.

(C) Registered options traders whose electronically transacted contract volume is less than 20% in a given option class, measured over a calendar quarter, shall not have the electronic quoting obligation described above in that option class.

(a) Registered options traders, SROTs, RROTs, and specialists are required to compete with each other to improve the quoted markets in all series of option classes which they trade. Unless otherwise provided for in Exchange rules, it shall be a violation of just and equitable principles of trade for registered options traders, SROTs, RROTs, and specialists to determine by agreement the spreads or prices at which they will trade any option class, or the allocation of orders in any option class. In complying with this Rule, the registered option traders, SROTs, RROTs, and specialists must make independent decisions to determine the spreads or prices at which they will quote and trade any option class. There are, however, certain specific circumstances where to make fair and orderly markets that are competitive with other exchanges and responsive to the needs and expectations of investors, some communication among the specialist and registered options traders may be necessary and appropriate. Therefore, notwithstanding the foregoing:

(i) Whenever the registered options trader voluntarily chooses to participate in the specialist's quote, the variables in the formula used to generate automatically updated quotations for each option class and or series will be determined by the specialist. The specialist may receive input from the registered options traders on any one or all of these variables, provided, however, that it is within the specialist's sole discretion to make the final, independent decision in determining the variables to be used in the automated quote system. The registered options traders, however, are not required to give input on the variables to the specialist;

- (ii) The obligation of registered options traders to make competitive markets does not preclude registered options traders and specialists from making a collective response to a request for a market provided the member representing such order requests such response and the size of the order is larger than the greater of the size communicated or disseminated pursuant to Rule 958A or the automatic matching and execution eligible size parameter. In addition, the specialist may unilaterally give a single bid (offer) in response to a request for a market and subsequently discuss with the registered options traders whether they wish to participate in contracts executed in accordance with that bid (offer). The allocation of contracts executed in accordance with this paragraph will be done in accordance with the Exchange Rule; and
- (iii) In conjunction with their obligation as the responsible broker or dealer pursuant to Exchange Rule 958A—ANTE (a)(ii)(A) and Rule 11Ac1-1 under the Securities Exchange Act of 1934, specialists and registered options traders may on a voluntary basis collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to paragraph (c)(i) of Rule 958A—ANTE.

••• *Commentary* -----

.01 (a) A registered options trader electing to engage in Exchange options transactions is designated as a Specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions (i) initiated and effected by him on the Floor and through the facilities of the Exchange in his capacity as a registered options trader; and (ii) initiated from off the floor by him when he elects to receive registered options trader treatment for off-floor orders and thereby becomes subject to the 80% in person requirement described in paragraph (g) of this Rule and to the requirement that 75% of the registered options traders activity (measured in terms of contract volume) be in the registered options trader's assigned classes. The off-floor orders for which the registered options trader receives registered options trader treatment shall be subject to the obligations of Rule 958—ANTE and shall be effected only for the purpose of hedging, reducing risk of, rebalancing or liquidating options positions of the registered options trader.

(b) For purposes of this rule and commentary, the term "on the floor" is defined as the area or areas designated by the Exchange as the place or places for the trading of stocks, bonds, options or other securities.

(c) A registered options trader may submit electronic quotations and orders from off the Exchange trading floor on a temporary basis for a maximum of twenty (20) days throughout the calendar year. For purposes of a registered options trader's "on the floor" requirement set forth in this Rule, any transaction that occurs when quoting from off the floor will be deemed to be "on the floor." A registered options trader must notify the Exchange's Division of Regulation and Compliance immediately following the day or

days during which he or she submits quotes and orders from off the Exchange trading floor.

.02 The Exchange has determined that the limitations of paragraph (c)(ii) of this Rule should not be carried over from one day to the next, and therefore are not applicable to the opening of option contracts on the Exchange.

.03 The Exchange has determined for purposes of paragraph (a) of this Rule that, except for unusual circumstances at least 50% of the trading activity in any quarter (measured in terms of contract volume) of a registered options trader shall ordinarily be in classes to which he is assigned. Temporarily undertaking the obligations of paragraph (c) at the request of a Floor Official in non-assigned classes of options shall not be deemed trading in non-assigned option contracts. The Exchange may, in computing the percentage specified herein, assign a weighting factor based upon relative inactivity to one or more classes or series of option contracts. Registered options traders receiving registered options trader treatment for off-floor orders in accordance with Commentary .01 of this Rule, must have at least 75% of their trading activity (measured in terms of contract volume) in the classes of options in which they are assigned.

.04 The obligations of a registered options trader with respect to those classes of options to which he is assigned shall take precedence over his other registered options trader activities.

.05 The Exchange will assign registered options traders to act in one or more classes of option contracts. Each registered option trader shall submit to the Exchange in writing an application for assignment in one or more option classes. In making such assignments, the Exchange shall give attention to (a) the preference of applicants; (b) assuring that financial resources available to a registered options trader enable him to satisfy the obligations set forth in Rule 958 with respect to each class of option contracts to which he is assigned; (c) the applicant's expertise in option trading; (d) the applicant's prior market performance; and (e) the impact of the number of registered options traders assigned in an option class or classes on the Exchange's quotation system capacity. The Exchange may suspend or terminate any assignment of a registered options trader under this Rule and may make additional assignments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action. During the first six months that an option class is on the ANTE System, a registered options trader applying for an assignment in that option class shall be guaranteed an assignment in such class provided for at least the immediately preceding calendar year the registered options trader (i) been a member of the Exchange; (ii) has maintained a continuous presence as a registered options trader in such option class; and (iii) and has met the requirements set forth above.

.06 Rule 111 as modified by Rule 950(c) also applies to Exchange option transactions effected by registered options traders.

.07 A Floor Broker representing a customer's order in an option class, that is singly listed on the Exchange, shall, prior to executing such order, ascertain that at least one registered options trader (who has elected to engage in Exchange option transactions) is present in the trading crowd at the post when such order is executed.

.08 The maximum permissible bid/ask differentials set forth in subparagraph (ii) of paragraph (c) of Rule 958 in respect of Treasury bill and Treasury note options shall apply to "large" sized option contracts, covering \$1,000,000 underlying principal amount in the case of options on 13-week Treasury bills and \$100,000 underlying principal amount in the case of options on Treasury notes. A registered options trader shall be deemed to be in compliance with these requirements with respect to his quotations for the smaller sized 13-week Treasury bill and Treasury note option contracts (covering \$200,000 and \$20,000 underlying principal amount, respectively), if those quotations meet the requirements of Commentaries .01 and .02, respectively, under Rule 951; i.e., no wider than .01 less on the bid and .01 more on the offer than the quotation for the corresponding larger sized contract, in the case of a 13-week Treasury bill option, and no wider than 1/32 less on the bid and 1/32 more on the offer than the quotation for the corresponding larger sized contract, in the case of a Treasury note option.

.09 (a) Transactions on the Floor and through the facilities of the Exchange in index warrants, currency warrants, securities listed pursuant to Section 107 of the Company Guide ("Other Securities"), Trust Issued Receipts listed pursuant to Rules 1200 et seq. and Partnership Units listed pursuant to Rules 1500 et seq. which are otherwise traded under the Exchange's equity trading rules, shall be effected in accordance with the provisions of this rule, and shall only be effected by registered options traders who are regular members. Transactions by registered options traders on the Floor in derivative products which are otherwise traded under the Exchange's equity trading rules, shall be effected in accordance with the provisions of this rule. In addition, Rule 111, Commentary .01 shall not apply to such transactions. (See Rule 111, Commentary .12, and Rule 114, Commentary .14.)

(b) A Registered Trader who is logged onto Auto-Ex shall only sign onto Auto-Ex for Portfolio Depository Receipts, Index Fund Shares, Trust Issued Receipts and Partnership Units (collectively "Exchange Traded Funds" or "ETFs") traded on the same or contiguous panels, i.e. ETFs traded by two adjoining Specialists, or ETFs traded by the same Specialist for a maximum of three (3) panels. A Registered Trader also shall not sign onto Auto-Ex for more than fifteen (15) ETFs. A Senior Floor Official may modify the foregoing restrictions if he determines that a Registered Trader is able to appropriately fulfill his obligations to the market due to the level of activity in the ETFs and their proximity.

.10 ANTE Participant Quotations

Automated Quotation Adjustments—An ANTE Participant may establish parameters by which ANTE will automatically restate the prices of ANTE Participant quotations in all series of an options class, at prices specified by the ANTE Participant, if within an

Exchange-specified time period such ANTE Participant, in the aggregate, executes a number of trades, specified by the ANTE Participant, for that options class. The threshold number of trades shall be pre-established by the ANTE Participant for each options class.

.11 A Registered Options Trader may apply to the Exchange for the ability to send electronic bona fide hedging and/or liquidating orders in a formerly assigned option class(es) that have been relocated to a different location on the trading floor, for up to a three (3) month period from the date the application is granted. The Registered Options Trader will not be required to be physically present in the new trading location for the purpose of sending bona fide hedging and/or liquidating orders to the option class(es) that have been relocated. Application is required to be made in writing to the Exchange's Division of Regulation and Compliance. The Exchange's Division of Regulation and Compliance is required to approve each application before a Registered Options Trader may send electronic orders pursuant to this Commentary. An extension of the three (3) month time period is not permitted. Upon the expiration of the three (3) month period, Registered Options Traders will no longer be permitted to electronically send orders from the floor of the Exchange for the purpose of bona fide hedging and/or liquidating positions in the formerly assigned options class.

Rule 958A—ANTE Application of the Firm Quote Rule

(a) Definitions—

- (i) For purposes of this rule the terms "aggregate quotation size", "best bid and best offer", "bid and offer", "quotation size", "quotation vendor", "reported security", "listed option", "option class", "option series" and "trading rotation" shall have the meanings set forth in SEC Rule 11Ac1-1.
- (ii) For purposes of this rule and SEC Rule 11Ac1-1 as applied to the Exchange and its members, the term "responsible broker or dealer" shall mean, with respect to any bid or offer for any listed option made available by the Exchange to quotation vendors, either:
 - (A) the specialist and any registered options traders voluntarily joining the specialist's quote constituting the trading crowd in such option series shall collectively be the responsible broker or dealer to the extent of the aggregate quotation size specified. In conjunction with their obligation as the responsible broker or dealer, specialists and registered options traders may on a voluntary basis collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to paragraph (c)(i) of this rule; or
 - (B) any registered options traders inputting their own quotes, either manually on a series-by-series basis or through the use of an Exchange provided or proprietary automated quote calculation system, shall each be considered a

responsible broker or dealer for their bids or offers to the extent of their quotation size.

- (C) Any SROT or RROT inputting their own quotes through the use of an Exchange authorized or proprietary automated quote calculation system, shall each be considered a responsible broker or dealer for their bids or offers to the extent of their quotation size.

The allocation of contracts executed in accordance with this rule will be done pursuant to the Exchange Rule 935—ANTE and Rule 950—ANTE (l), Commentary .03.

(b) *Dissemination Requirements of the Exchange—*

- (i) with respect to paragraph (b) of SEC Rule 11Ac1-1, the Exchange shall, at all times it is open for trading, (A) collect, process and make available to quotation vendors the best bid, the best offer, quotation sizes and aggregate quotation sizes associated therewith for each option series that is a reported security and for which a responsible broker or dealer is obligated to execute any customer order as set forth in paragraph (c)(i)(A) below; and (B) shall for each listed option class, establish and periodically publish the quotation size for which the responsible broker or dealer is obligated to execute an order for the account of a U.S. registered or foreign registered broker or dealer to buy or sell an option series that is a reported security at its published bid or offer as set forth in paragraph (c)(i)(B) below. The Exchange may collect, process and make available to quotation vendors a best bid or best offer determined by an automated quotation system.
- (ii) The Exchange's obligation to collect, process and make available data as set forth above shall not include (A) collecting, processing or making available any such bid or offer which is executed immediately after being made in the crowd and any such bid or offer which is cancelled or withdrawn if not executed immediately after being made; or (B) data communicated during any period when trading in such reported security has been suspended or halted; prior to the commencement of trading in such reported security on any trading day; or during a trading rotation.

(c) *Obligations of a Responsible Broker or Dealer—*(i) Pursuant to SEC Rule 11Ac1-1 each responsible broker or dealer for each series of each listed option class shall promptly communicate to the Exchange its best bid, best offer, quotation size and aggregate quotation size. No responsible broker or dealer shall communicate a quotation size or aggregate quotation size for less than ten contracts with the exception that the size of customer limit orders representing the best bid or offer may be disseminated at less than ten (10) contracts, even though the responsible broker or dealer continues to have the obligation to quote a ten contract minimum. This obligation may be fulfilled by the use of an automated quotation system.

- (A) Subject to the provisions of paragraph (d) of this rule, each responsible broker or dealer shall be obligated to execute any customer order in an option series in an amount up to its published quotation size.
 - (B) Subject to the provisions of paragraph (d) of this rule, each responsible broker or dealer shall be obligated to execute any order for the account of a U.S. registered or foreign broker or dealer in a listed option in an amount up to the quotation size established and periodically published by the Exchange which quotation size shall be for at least one contract.
 - (C) Subject to the provisions of paragraph (d) of this Rule, each responsible broker or dealer shall comply with the Thirty Second Response provisions set forth in paragraph (d)(3) of SEC Rule 11Ac1-1.
- (ii) No responsible broker or dealer shall be obligated to execute a transaction for any listed option as provided in paragraph (c)(i) when:
- (A) (1) Prior to the presentation of an order to sell (buy), a responsible broker or dealer has communicated to the exchange, a revised quotation size;
 - (2) At the time an order to sell (buy) is presented, a responsible broker or dealer is in the process of effecting a transaction in such series of option, and immediately after the completion of such transaction it communicates to the Exchange a revised quotation size, such responsible broker or dealer shall not be obligated by paragraph (c)(i) if this Rule to sell (buy) that option in an amount greater than such revised quotation size;
 - (3) Before the order sought to be executed is presented, a responsible broker or dealer has communicated to the Exchange a revised bid or offer; or
 - (4) At the time the order sought to be executed is presented, a responsible broker or dealer is in the process of effecting a transaction in such series of option, and, immediately after the completion of such transaction, a responsible broker or dealer communicates to the exchange a revised bid or offer; provided, however, that the responsible broker or dealer shall nonetheless be obligated to execute any such order as provided in paragraph (c)(i) at its revised bid or offer in any amount up to its published quotation size or revised quotation size; or
- (B) The order for the purchase or sale of a listed option is presented during a trading rotation in that listed option.
- (d) *Use of Unusual Market Exception*—Notwithstanding paragraphs (b) and (c) above and pursuant to paragraph (b)(3) of SEC Rule 11Ac1-1, if the Exchange determines, in accordance with the procedures set forth below, that the level of trading activity or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing and making available quotation data in a manner which accurately

reflects the current state of the market at the Exchange, it shall immediately notify the persons specified in paragraph (b)(3) of SEC Rule 11Ac1-1 and, upon such notification, the obligation imposed upon Exchange members under paragraph (c)(2) of SEC Rule 11Ac1-1 and the Exchange under paragraphs (b)(1) and (2) of SEC Rule 11Ac1-1 shall be suspended, until a determination by the Exchange that the unusual market activity or condition has terminated and the specified persons have been notified that the unusual market activity or condition has terminated:

- (i) If a responsible broker or dealer is unable to update his quotations on a timely basis due to the high level of trading activity or the existence of an unusual market condition, he shall promptly notify a Floor Official.
- (ii) Upon notification by a responsible broker or dealer, the Floor Official, with the advice and participation of a member of the regulatory staff, shall promptly verify the existence of the unusual market activity or condition and if, in his judgment, the responsible broker or dealer is unable to update his quotations on a timely basis, the Floor Official shall promptly notify the Market Operations Division of the Exchange. If a Floor Official, independent of notification by a responsible broker or dealer, becomes aware of any unusual market activity or condition which adversely affects a responsible broker or dealer's ability to promptly communicate quotation data, he shall likewise, with the advice and participation of a member of the regulatory staff, promptly advise the Market Operations Division.
- (iii) If the Exchange is unable to accurately collect, process, and/or disseminate quotation data owing to the high level of trading activity or the existence of unusual market conditions, the Market Operations Division of the Exchange, after consultation with a Floor Official, shall make a determination that this is the case.
- (iv) The Market Operations Division, after receiving notification from a Floor Official pursuant to either subparagraphs (i) and (iii) above, shall notify the persons specified in paragraph (b)(3) of SEC Rule 11Ac1-1 regarding the Exchange's inability to accurately collect, process, and make available the quotation data required by SEC Rule 11Ac1-1. The Exchange shall append to each quotation made available to a quotation vendor an identifier which will indicate that the obligation imposed upon Exchange members and the Exchange by SEC Rule 11Ac1-1 has been suspended.
- (v) The Floor Official, with the advice and participation of a member of the regulatory staff, or the Market Operations Division (as the case may be) shall monitor the unusual market activity or condition until it has terminated. Thereupon, the Market Operations Division shall immediately notify the persons specified in paragraph (b)(3) of SEC Rule 11Ac1-1 that the Exchange is once again capable of disseminating the quotation data required by Rule SEC 11Ac1-1 and responsible brokers or dealers shall be once again obligated under

SEC Rule 11Ac1-1 as made applicable to Exchange members pursuant to this Rule 958A—ANTE.

(e) Customer Limit Orders: (1) ABCs shall publish immediately upon receipt the price and size of each customer options limit order held by the ABC that is at a price or size that would improve the displayed bid or offer in the option that is the subject of the limit order. "Immediately upon receipt" shall mean, under normal market conditions, as soon as practicable but no later than 30 seconds after receipt.

(2) The requirement in subparagraph (1) shall not apply to any customer options limit order that: (i) is executed upon receipt of the order; (ii) is placed by a customer that expressly requests, either at the time that the order is placed or prior thereto pursuant to an individually negotiated agreement with respect to each customer's order, that the order not be displayed and upon receipt of the order, the ABC announces to the trading crowd the information concerning the order that would be displayed absent the customer's request; (iii) is in excess of 100 contracts, unless the customer placing the order requests the order be displayed; (iv) is received prior to or during the opening trading rotation whether at the beginning of the trading day or after a trading halt provided the order is displayed immediately upon the conclusion of the trading rotation; (v) is an order type set forth in Rules 131 (c), (e), (i), (k), (l), (q), (r) and (s), 950(e) and 950—ANTE (e); or (vi) the terms of which are delivered by the ABC to another exchange for an execution.

(3) For purposes of this rule, the term "customer options limit order" shall mean an order to buy or sell an option at a specified price and size that is for the account of a customer as defined in paragraph (a)(26) of Rule 11Ac1-1 under the Securities Exchange Act of 1934.

(4) In connection with the ABC's obligation to execute or display customer options limit orders immediately or in no event later than 30 seconds after receipt, the ABC shall maintain and keep active the ANTE limit order quote assist feature. The Exchange will establish the time frame within which the quote assist feature will display eligible customer limit orders. The ABC may deactivate the quote assist feature provided Floor Official approval is obtained. Such approval must be obtained no later than three minutes after deactivation. Use of the quote assist feature will be on a one-year pilot program basis, which will expire on or about April 30, 2008.

••• *Commentary* -----

.01 No specialist or registered options trader shall be deemed to be a responsible broker or dealer with respect to a published bid or offer that is erroneous as a result of an error or omission made by the Exchange or any quotation vendor. If a published bid or published offer is accurate but the published quotation size (or published aggregate quotation size, as the case may be) associated with it is erroneous as a result of an error or omission made by the Exchange or any quotation vendor, then the specialist and registered options traders responsible for the published bid or published offer shall be obligated as set forth in paragraph (c) of Rule 11Ac1-1 but only to the extent of ten contracts or in cases where

the best bid or offer is represented by a customer order the actual size of such order(s) if less than ten contracts.

.02 Absent unusual market conditions, the responsible broker or dealer shall honor any bid or offer then being displayed by quotation vendors which is erroneous, up to the quotation size then being so displayed, which has been displayed for six minutes or more. Provided, however, that the responsible broker or dealer shall not be required to honor such a bid or offer which is erroneous as to either price or size or both if:

- (i) as a matter of record, an execution, cancellation or update of such bid or offer was in effect or in process;
- (ii) in honoring such a bid or offer, the resulting transaction would violate applicable Exchange rules or federal regulations;
- (iii) equipment failure prevents the specialist from monitoring such bid or offer;
or
- (iv) the price sought upon such quotation is above the current bid or below the current offer, on the Floor, by (a) \$.25 or more in the case of a reported security trading at \$3 or less or (b) \$.50 or more in the case of a reported security trading at more than \$3.

.03 In order to control the number of quotations the Exchange disseminates, the Exchange shall utilize a mechanism so that newly-received quotations and other changes to the Exchange best bid or offer ("ABBO") are not disseminated for a period of up to, but no more than one (1) second.

.04 Timing of Firm Quote Obligations. For purposes of determining when the firm quote obligations under Rule 958A—ANTE attach in respect of orders received by the ABC and how the exemptions to that obligation provided in paragraph (e) of that Rule apply, an order shall be deemed to be presented to the responsible broker or dealer, at the time the order is announced to the trading crowd.]

[Rule 993—ANTE Supplemental Registered Options Traders

(a) SROT - Approval

(i) A member organization requesting approval to act as an SROT shall file an application with the Exchange.

(ii) A maximum of six (6) SROT's shall initially be chosen based upon the following criteria:

- a. adequacy of resources including capital, technology and personnel;
 - b. history of stability, superior electronic capacity, and superior operational capacity;
 - c. level of market-making and/or specialist experience in a broad array of securities;
 - d. ability to interact with order flow in all types of markets;
 - e. existence of order flow commitments;
 - f. willingness to accept assignment as an SROT in at least 300 - 400 options;
and
 - g. willingness and ability to make competitive markets on the Exchange and otherwise promote the Exchange in a manner that is likely to enhance the ability of the Exchange to compete successfully for order flow in the options it trades.
- (iii) Determinations regarding granting or withdrawing approval to act as an SROT shall be made by Exchange staff.
- (iv) No SROT application shall be approved by the Exchange without written certification signed by an officer of the Exchange's Technology department indicating that an SROT applicant has sufficient technological ability to support the continuous quoting requirement set forth in Rules 993 - ANTE (c) and 958 - ANTE(c), and the SROT applicant has successfully completed, or is scheduled to complete, testing of its quoting system with the Exchange.
- (v) The Exchange then approves the applicant or, if it decides not to approve the applicant, notifies the applicant of its disapproval and that the applicant is entitled to a hearing under and Rule 40 and other Rules of the Exchange.
- (vi) The Exchange may defer approval of an applicant that satisfies the technological readiness and testing requirements described in sub-paragraph (a)(iv) above based on system constraints, capacity restrictions or other factors relevant to the maintenance of a fair and orderly market, for a period to be determined in the Exchange's discretion, pending any action required to address the issue of concern to the Exchange. The Exchange may not defer a determination of the approval of the application of an SROT applicant unless the basis for such deferral has been objectively determined by the Exchange, subject to Securities and Exchange Commission approval or effectiveness pursuant to a rule change filing under Section 19(b) of the Securities Exchange Act of 1934, as amended. The Exchange shall provide written notification to

any SROT applicant whose application is the subject of such deferral, describing the objective basis for such deferral.

(vii) If an SROT seeks to withdraw from acting as such, it should so notify the Exchange at least ten business days prior to the desired effective date of such withdrawal.

(viii) The Exchange may suspend or terminate any appointment of an SROT in one or more classes under this Rule whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action. An SROT may seek review of any action taken by the Exchange pursuant to this subparagraph in accordance with Rule 40 and other Rules of the Exchange.

(b) Assignment of Option Classes

(i) The Exchange shall determine the number and type of option classes assigned to an SROT.

(ii) The Exchange shall assign a minimum of 300 option classes per SROT.

(c) Obligations of SROTs

In addition to obligations set forth in other Exchange Rules:

(i) SROTs shall be required to obtain one 86 Trinity Permit for every thirty (30) options classes quoted.

(ii) SROTs must provide continuous two-sided quotations in accordance with Rule 958 - ANTE (c) in at least 60% of the series of their assigned classes. This obligation shall not apply to the series of that class that have a time to expiration of more than nine months.

(d) Affiliation Limitations

(i) No SROT shall be assigned to an options class where the SROT has a direct or indirect affiliate who is a specialist, ROT, SROT or RROT in such option class.

(ii) No person who is either directly or indirectly affiliated with an SROT shall submit quotations as an SROT, RROT, ROT, or specialist in options in which the affiliate SROT is assigned.

(iii) SROTs shall maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in option classes assigned to an SROT or that may act as a specialist or market maker in any security underlying options

assigned to an SROT, and otherwise comply with Rule 193 regarding the misuse of material non-public information.

••• *Commentary* -----

.01 Quoting rights and designation of an SROT are non-transferable.

.02 An SROT would only be permitted to submit electronic quotations from off the Floor of the Exchange.

.03 An SROT may only trade in a market making capacity in the classes of options in which he/she is assigned.

Rule 994—ANTE Remote Registered Options Traders

(a) Designation as an RROT

- (i) A member or member organization requesting approval to act as an RROT shall file an application in writing with the Exchange pursuant to this Rule 994—ANTE.
- (ii) An application for designation as an RROT shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name of the RROT applicant and written verification from the Exchange that the RROT applicant is qualified as a ROT.
- (iii) If an RROT seeks to withdraw from acting as such, it should so notify the Exchange at least three business days prior to the desired effective date of such withdrawal.
- (iv) The Exchange may suspend or terminate any designation of an RROT in one or more options classes under this Rule whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action. An RROT may seek review of any action taken by the Exchange pursuant to this subparagraph in accordance with and Rule 40 and other Rules of the Exchange.

(b) Remote Quoting Rights

- (i) Determinations regarding remote quoting rights shall be made by Exchange designated staff.
- (ii) The total number of available remote quoting rights to be awarded according to the percentage of Exchange floor volume traded shall be established quarterly by the Exchange. The Exchange shall inform the members and member organizations of the number of quoting rights available no later than the first business day of each calendar quarter.

- (iii) The members and member organizations shall be informed of the amount of quoting rights earned no later than one week prior to the commencement of the subsequent trading period.

ROTs

- (iv) ROTs may earn remote quoting rights based on the percentage of Exchange options floor volume they execute, including the volume executed via remote quoting.

Specialists

- (v) Specialists may earn remote quoting rights based on the percentage of Exchange options floor volume they execute, including the volume executed via remote quoting.
- (vi) Specialists also may earn remote quoting rights based on their percentage of the average market share of industry volume in the option classes in which they specialize per quarter.
 - a. The award of remote quoting rights to specialists will be based upon their market share in the top 100 option classes by industry volume, top 101-300 option classes by industry volume and remaining option classes as follows:

| Specialist Percent of Market Share | Options Classes* | | |
|------------------------------------|------------------|---------|------|
| | Top 100 | 101-300 | 301+ |
| Greater than 20+ | 3.00 | 1.50 | 0.75 |
| 15-19.99 | 1.50 | 0.75 | 0.25 |
| 10-14.99 | 0.50 | 0.25 | 0.00 |

* Option classes with an average daily Exchange volume of less than 100 contracts shall be excluded from this determination.

- (vii) The number of remote quoting rights earned shall vary quarterly based on specialist and ROT performance in (b)(iii) and (b)(iv), respectively
- (viii) RROTs shall initially be assigned options classes pursuant to Commentary .05 to Rule 958 - ANTE. However, RROTs may make adjustments to the option classes in which they will remotely quote in a form and manner prescribed by the Exchange.
- (ix) Each remote quoting right will allow RROTs to remotely quote one (1) option class. No fractional remote quoting rights will be awarded and remote quoting rights in excess of one will be rounded to the nearest whole right (anything [ge].5 shall be rounded up and < .5 shall be rounded down).

- (x) Remote quoting rights shall be transferable. Members or member organizations will be required to notify the Exchange of the transfer of any rights.

(c) Obligations of RROTs

In addition to obligations set forth in other Exchange Rules:

- (i) RROTs must have at least one active floor member acting as a ROT subject to the limitations set forth in (d)(i) of this rule.
 - a. RROTs may remotely quote in up to five (5) option classes per 86 Trinity Permit.
 - b. RROTs will be required to obtain one additional 856 Trinity Permit for every forty (40) option classes remotely quoted in, in excess of the five option classes permitted pursuant to 994 - ANTE (c)(i)(a).
- (ii) RROTs may not enter quotations electronically from outside the trading crowd in options classes in which they are not assigned as an RROT.
- (iii) RROTs must provide continuous two-sided quotations in accordance with Rule 958—ANTE (c) in at least 60% of the series of their assigned classes. This obligation shall not apply to the series of that class that have a time to expiration of more than nine months.
- (iv) The initial size of an RROT's remote quote must be for at least ten (10) contracts (undecrement size).
- (v) A RROT may be called upon by a Floor Official to submit a single quote or maintain continuous quotes in one or more series of an option class to which the RROT is assigned whenever, in the judgment of such official, it is necessary to do so in the interest of maintaining a fair and orderly market.
- (vi) RROTs shall be subject to the current designation of options areas that exist for ROTs pursuant to 900—ANTE. No RROT may disseminate quotations and/or execute an option transaction on a Paired Security if he is located in the Designated Stock Area where the related security is traded unless given an exemption pursuant to Rule 175(c).

(d) Affiliation Limitations

- (i) No RROT shall be assigned to an option class where the RROT has a direct or indirect affiliate who is a specialist, ROT, SROT or RROT in such option class.

- (ii) No person who is either directly or indirectly affiliated with an RROT shall submit quotations as an RROT, SROT, ROT, or specialist in any option class in which the affiliate RROT is assigned.
- (iii) RROT shall maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in option classes assigned to an RROT or that may act as a specialist or market maker in any security underlying options assigned to an RROT, and otherwise comply with Rule 193 regarding the misuse of material non-public information.

Rule 995—ANTE NYSE Alternext Book Clerks ("ABCs")

(a) An NYSE Alternext Book Clerk (the "ABC") is an Exchange employee or independent contractor whom the Exchange may designate as being responsible for (i) operating, and when applicable, maintaining, the customer limit order book at the trading post with respect to the classes of options assigned to him/her; and (ii) effecting proper executions of orders placed with him/her. The ABC may not be affiliated with any member that is approved to act as an options specialist, registered options trader, remote registered options trader or supplemental registered options trader.

(b) The ABC shall be responsible for the following obligations with respect to the classes of options assigned to him/her:

(i) Display Obligation: Each ABC shall display immediately the full price and size of any customer limit order that improves the price or increases the size of the best disseminated Exchange quote. For purposes of this Rule, "immediately" means, under normal market conditions, as soon as practicable but no later than 30 seconds after receipt ("30-second standard") by the ABC. The term "customer limit order" means an order to buy or sell a listed option at a specified price that is not for the account of either a broker or dealer; provided, however, that the term "customer limit order" shall include an order transmitted by a broker or dealer on behalf of a customer.

The following are exempt from the Display Obligation as set forth under this Rule:

- (A) An order that is automatically displayed;
- (B) An order executed upon receipt;
- (C) An order where the customer who placed it requests that it not be displayed, and upon receipt of the order, the ABC announces in public outcry the information concerning the order that would be displayed if the order were subject to being displayed;
- (D) An order for which immediately upon receipt a related order for the principal account of the specialist reflecting the terms of the customer order is routed to

another options exchange that is a participant in the Intermarket Options Linkage Plan;

(E) The order types set forth in Rules 131(e), (i), (k), (l), (q), (r) and (s) and 950-ANTE(e);

(F) Orders received before or during the opening trading rotation, whether at the beginning of the trading day or after a trading halt provided the order is displayed immediately upon conclusion of the trading rotation; and

(G) Large Sized Orders: Orders for more than 100 contracts, unless the customer placing such order requests that the order be displayed.

(ii) Execution. The ABC shall use due diligence to execute the orders placed in the ABC's custody at the best prices available to him or her under the Rules of the Exchange.

(iii) An ABC shall not remove from the public order book any order placed in the book unless the order is canceled, expires, transmitted through the Intermarket Options Linkage Plan, or is executed.

(iv) Display Book. The ABC shall maintain and keep active at all times the automated customer limit order display facility (the "Display Book") provided by the Exchange. In connection with maintaining the Display Book, the ABC is required to maintain and keep active the ANTE limit order quote assist feature as set forth in Rule 958A—ANTE.

(c) Compensation of ABCs. The ABC shall be compensated exclusively by the Exchange, which shall determine the amount and form of compensation. No specialist, registered options traders, remote registered options traders or supplemental registered options traders shall directly or indirectly compensate or provide any other form of consideration to an ABC.

(d) Linkage Obligations. In connection with the performance of the ABC's duties, the ABC shall be responsible for manually or automatically (1) routing linkage Principal Acting as Agent ("P/A") Orders and Satisfaction Orders to other markets based on prior written instructions (which instructions shall state, among other things, whether the orders should be routed automatically, the means through which the orders should be routed and the procedures the ABC is required to follow when utilizing the options specialists' accounts, etc.) that must be provided by the options specialist to the ABC (utilizing the options specialist's account); and (2) handling all linkage orders or portions of linkage orders received by the Exchange that are not automatically executed. When handling outbound P/A Orders and Satisfaction Orders, the ABC shall use due diligence to execute the orders entrusted to him/her and shall act in accordance with the prior written instructions provided by the specialist for P/A Orders and Satisfaction Orders that

the ABC represents. An ABC also shall act in accordance with rules regarding P/A and Satisfaction Orders received through the Linkage.

••• *Commentary* -----

.01The Exchange shall assign an ABC to all applicable trading stations on or before December 31, 2008.

Rule 996—ANTE Liability of the Exchange for the Actions of NYSE Alternext Book Clerks

(a) Except to the extent provided in paragraph (d) of this Rule, the Exchange shall not be liable to members or persons associated with a member or member organization for any loss, expense, damages or claims arising out of any errors or omissions of an NYSE Alternext Book Clerk or his or her assistants or clerks (the "ABCs").

(b) As used in this paragraph, the term "transaction" shall mean any single order or instruction which is placed with an ABC, or any series of orders or instructions, which is placed with an ABC at substantially the same time by the same member and which relates to any one or more series of options of the same class. All errors and omissions made by an ABC with respect to or arising out of any transaction shall give rise to a "single claim" against the Exchange for losses resulting therefrom as provided in this paragraph (b) and in paragraph (c), and the Exchange shall be free to assert any defense to such claim it may have. No claim shall arise as to errors or omissions which are found to have resulted from any failure by a member (whether or not the member is claiming against the Exchange pursuant to this paragraph (b)), or by any person acting on behalf of a member, to enter or cancel an order with such ABC on a timely basis or clearly and accurately to communicate to such ABC:

- (i) the description or symbol of the security involved; or
- (ii) the exercise price or option contract price; or
- (iii) the type of option; or
- (iv) the number of trading units; or
- (v) the expiration month; or
- (vi) any other information or data which is material to the transaction.

In addition, no claim shall be allowed if, in the opinion of the arbitration panel provided for in paragraph (e), the member or other person making such claim did not take promptly, upon discovery of the errors or omissions, all proper steps to correct such errors or omissions and to establish the loss resulting therefrom.

(c) Absent reasonable justification or excuse, any claim by a member or persons associated with members for losses arising from errors or omissions of an ABC, and any claim by the Exchange made pursuant to paragraph (g) of this Rule, shall be presented in writing to the opposing party within ten (10) business days following the transaction giving rise to the claim; provided, that if an error or omission has resulted in an unmatched trade, then any claim based thereon shall be presented after the unmatched trade has been closed out in accordance with Rule 970 within ten (10) business days following such resolution of the unmatched trade.

(d) Anything in this Rule to the contrary notwithstanding, the liability of the Exchange for claims arising out of errors or omissions made by ABCs, shall not exceed the following limits:

- (i) As to any one or more claims made by a single member on a single trading day, the Exchange shall not be liable in excess of the larger of \$75,000 or the amount of any recovery obtained by the Exchange under any applicable insurance maintained by the Exchange;
- (ii) As to the aggregate of all claims made by all members on a single trading day, the Exchange shall not be liable in excess of the larger of \$100,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange;
- (iii) As to the aggregate of all claims made by all members during a single calendar month, the Exchange shall not be liable in excess of the larger of \$250,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange.

If all of the claims arising out of errors or omissions by an ABC cannot be fully satisfied because in the aggregate they exceed the applicable maximum amount of liability provided for above, then such maximum amount shall be allocated among all such claims arising on a single trading day or during a single calendar month, as applicable, based upon the proportion that each such claim bears to the sum of all such claims.

(e) All disputed claims shall be referred for binding arbitration to an arbitration panel and the decision of a majority of the arbitrators selected to hear and determine the controversy shall be final and there shall be no appeal to the Board of Directors from the decision of such panel. The arbitration panel shall be composed of an odd number of panelists. Each of the parties to the dispute shall select one Exchange member to serve as panelist on the arbitration panel. The panelists so selected shall then select one or more additional panelist(s); provided that the additional panelist(s) so selected are members of the Exchange and that no member of the arbitration panel may have any direct or indirect financial interest in the claim. In the event that the initial panelists selected by the parties to the dispute cannot agree on the selection of the additional panelist(s), such additional panelist(s) shall be appointed by a Floor Official chosen by lot who has no direct or indirect financial interest in the claim. To the extent not inconsistent with the provisions

of this Rule, the Rules governing arbitration shall apply to proceedings under this paragraph.

(f) Liability under this Rule shall be limited as follows:

Should a member, member organization, or the Exchange fail to close out an uncomparated trade in the period of time provided in Rule 970, then the opposing party's liability with respect to any claims arising from such trade shall be limited to the lesser of (1) the loss which would have been experienced by the claimant if the uncomparated trade had been closed out at the opening of trading on the day provided in Rule 970 for the closing out of such uncomparated trade; or (2) the actual loss realized by the claimant.

(g) If any damage is caused by an error or omission of an ABC which is the result of any error or omission of a member organization, then such member organization shall indemnify the Exchange and hold it harmless from any claim of liability resulting from or relating to such damage.

(h) Except to the extent this Rule expressly provides to the contrary, nothing contained in this Rule shall in any way limit, waive, or proscribe any defenses the Exchange may have to any claim, demand, liability, action or cause of action, whether such defense arises in law or equity, or whether such defense is asserted in a judicial, administrative, or other proceeding.

Rule 997—ANTE Directed Order Program

(a) The Exchange will allow for the receipt of marketable orders, through the Exchange's order routing system when the Exchange's disseminated quote is the NBBO, where the Order Flow Provider, as defined below, transmitting the order has specified a specialist, ROT, SROT or RROT in that class as the "Directed Order Participant" for its orders in that class. An eligible recipient of a directed order shall be afforded an enhanced participation as set forth in subparagraph (c) below and Rule 935 -ANTE(a)(8).

(b) Eligibility. Any Exchange specialist, ROT, SROT, or RROT may be designated a Directed Order Participant. A recipient of a directed order will be eligible to receive an enhanced participation for such order if the following provisions are met:

- (i) The Directed Order Participant must have an appointment/allocation in the relevant option class.
- (ii) The Directed Order Participant must be quoting at the ABBO.
- (iii) The Directed Order Participant must comply with its quoting obligations under Exchange rules and must provide continuous two-sided quotations in not less than 100% of the series of each class for which it receives Directed Orders.

(c) Provided the provisions of subparagraph (b) above have been met, the eligible Directed Order Participant shall be guaranteed an enhanced participation equal to the greater of 40% of the remaining orders when more than one market participant is quoting at the ABBO, or the amount the Directed Order Participant would be entitled to receive according to the allocation algorithm pursuant to Rule 935- ANTE (a)(4). If an eligible Directed Order Participant receives an enhanced participation under Rule 935 -ANTE (a)(8), then no other participation rates set forth in Exchange Rules shall apply to such order.

In addition, the following shall apply:

- (i) An eligible Directed Order Participant may not be allocated a total quantity greater than the quantity that the Directed Order Participant is quoting at the ABBO.
- (ii) The enhanced participation rate is based on the number of contracts remaining after all public customer orders in the book at the ABBO have been satisfied.

(d) An "Order Flow Provider" is any member or member organization that submits, as agent, customer orders to the Exchange.]
