

## Rule 3

### [LISTINGS]

### Organization and Administration

#### Committees of the Exchange

#### [General Provisions and Definitions]

##### Overview

Rule 3.1(a). In accordance with the Bylaws of the Exchange, the Board of Directors may establish one or more committees consisting of one or more directors of the Exchange (each, a “Board Committee”). In addition, the Board of Directors may establish one or more committees, consisting of people other than directors of the Exchange, which committees shall be established in accordance with the Bylaws of the Exchange (each, an “Options Committee”). Each Board Committee and Options Committee shall comply with the Bylaws of the Exchange and with these Rules. [The Exchange has a two-tier listing structure. Any put or call option or other security issued by The Options Clearing corporation that is listed on the Exchange shall be designated as a Tier I security.]

##### Options Committees

Rule 3.2(a). [Reserved] General Provisions:

(1) Organization. Each Options Committee shall have and may exercise all the power and authority granted to such committee in these Rules. Each Options Committee shall establish substantive and procedural rules for conducting meetings and exercising its authority, which rules shall be in accordance with the Bylaws and Rules of the Exchange and with applicable law. The Board of Directors shall, except as otherwise provided in the Bylaws and Rules, appoint the members of all Options Committees for terms of one year. The Chief Executive Officer, or such other designee of the Exchange shall appoint the Chair and Vice Chair of each Options Committee.

(2) Quorum. The presence of a majority of the members of an Options Committee shall be necessary to constitute a quorum for the transaction of business at a meeting of an Options Committee.

(3) Voting. The act of a majority of the members present at any meeting at which there is a quorum shall be the act of such Options Committee, except as may be otherwise specifically required by the Bylaws of the Exchange, these Rules, or applicable law.

(4) Conference Call Meeting. Unless otherwise restricted by the Bylaws of the Exchange, these Rules, applicable law, or rules of the particular Options Committee, members of an Options Committee or of any subcommittee thereof may participate in meetings by means of conference call or similar communications equipped by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting.

(5) Vacancies. Whenever any vacancy exists on an Options Committee by reason of death, resignation, removal or increase in the size of the committee, the Chief Executive Officer of the Exchange may appoint a qualified person to fill such vacancy.

(6) Removal. The Board of Directors may remove any member of an Options Committee for refusal, neglect or inability to discharge his or her duties on the committee.

(7) Resignation. A member of an Options Committee may resign at any time by giving written notice of his or her resignation to the Exchange and such resignation, unless specifically contingent upon its acceptance, will be effective as of its date or as of the effective date specified therein.

(8) Eligibility for and Appointment to Options Committees. Any OTP Holder of the Exchange in good standing or Allied Person of an OTP Firm, or any person from the public is eligible for appointment or election to Options Committees. Only one person affiliated with the same OTP Firm shall be eligible for service on the same Options Committee. Except as otherwise set forth in these Rules, the Chief Executive Officer of the Exchange shall appoint eligible OTP Holders, Allied Persons of an OTP Firm and persons from the public to the positions so allocated on Options Committees for a term of one (1) year.

(9) Alternate Members. The Chief Executive Officer of the Exchange may designate one or more OTP Holders, an Allied Person of an OTP Firm, and persons from the public as alternate members of any Options Committee, who may replace any absent or disqualified member at any meeting of such committee.

(10) Interested Persons. No member of a committee shall participate in the adjudication of any matter in which he or she is personally interested, although his or her presence at a meeting at which such matter is considered shall count toward the quorum requirements for the meeting.

(11) Subcommittees. Unless restricted by the Bylaws of the Exchange, these Rules, or applicable law, each Options Committee may appoint

subcommittees when and as it deems appropriate. Each subcommittee shall consist of one or more members or alternate members of such committee.

Rule 3.2(b) Options Committees. As set forth below, the Board of Directors has delegated certain authority and functions to its committees. Action taken pursuant to delegated authority, however, is subject to review, ratification or rejection by the Board of Directors.

(1) Ethics and Business Conduct Committee.

(A) Composition. The Ethics and Business Conduct Committee (“EBCC”) shall be made up primarily of OTP Holders and Allied Persons of an OTP Firm at least one member of the public shall serve on the EBCC.

(B) Functions and Authority. The EBCC shall, in accordance with the Bylaws, Rules and procedures of the Exchange, have the following functions and authority:

(i) examine the business conduct and financial condition of OTP Holders, OTP Firms, and associated persons;

(ii) conduct hearings and render decisions in summary disciplinary actions and proceedings pursuant to Rule 10.5;

(iii) impose appropriate sanctions of expulsion, suspension, fine, censure or any other fitting sanctions where the Committee finds that a violation within the disciplinary jurisdiction of the Exchange has been committed; and

(iv) require the production of detailed financial reports of an OTP Holder or OTP Firm and such other operational reports as it may deem relevant.

(C) This Committee shall have authority, whenever it appears that an OTP Firm or OTP Holder is in violation of Rule 4, to direct a representative of such OTP Firm or OTP Holder to appear before the Committee for examination upon 48 hours notice, either orally or in writing. After such examination, the Committee shall have authority to suspend such OTP Firm or OTP Holder until the requirements of Rule 4 are fully met. Any such suspension directed by the Committee shall be subject to review by the Board. Such review shall not operate as a stay of the suspension unless specifically allowed by the Board. In the event of a reversal of the suspension imposed by the Committee, an OTP Firm, OTP Holder, or officer, partner, director, stockholder, or representative thereof

shall be prohibited from instituting a lawsuit in any forum against the Exchange or the members of the Committee, based in whole or in part upon the suspension imposed by the Committee.

(D) Appeals. Decisions of the EBCC or sanctions imposed by the Regulatory Staff relating to disciplinary proceedings may be appealed in accordance with the Bylaws and Rule 10 of the Exchange.

(2) Nominating Committee.

(A) Composition. The Nominating Committee shall have seven members consisting of six OTP Holders and one person from the public.

(B) Nomination, Appointment and Election.

(i) Nomination. Sixty-five days prior to the expiration of the term of its members, the Nominating Committee shall publish a slate of six eligible nominees to fill the positions during the next annual term of the Nominating Committee. OTP Holders in good standing may submit a petition to the Exchange in writing to nominate additional eligible candidates to fill the OTP positions during the next annual term, and upon written petition of the lesser of thirty-five (35) or 10 percent of OTP Holders in good standing on or before the forty-fifth day preceding the expiration of the existing term such person(s) shall also be nominated by the Nominating Committee.

(ii) Appointment. Prior to the expiration of the term of the members of the Nominating Committee, the Chief Executive Officer shall appoint a person from the public to fill the public position during the next annual term of the Nominating Committee.

(iii) Election. In the event that OTP Holders or Allied Persons of an OTP Firm are nominated by the Nominating Committee pursuant to petition by the OTP Holders, and there are more than six nominees to fill the OTP Holders positions on the Nominating Committee, the Nominating Committee shall submit the nominees to the OTP Holders for election. Each OTP Holder in good standing shall be permitted to vote for up to six nominees and the six nominees receiving the most votes shall fill the OTP Holders positions as members during the next annual term of the Nominating Committee. Tie votes shall be decided by the Board of Directors at its first meeting following the election.

(iv) *Acclamation of Slate.* In the event there are only six nominees to fill the OTP Holders positions on the Nominating Committee on or after the forty-fifth day prior to the expiration of the terms of the outgoing Nominating Committee, those six nominees shall be deemed elected to the next annual term of the Nominating Committee.

(C) *Representatives to the Board of Directors of the Pacific Exchange, Inc.*

(i) *Initial Board of Directors of Reorganized Exchange.* The initial Directors of the reorganized Exchange shall consist of individuals nominated by the Nominating Committee of the existing Exchange in consultation with the Chief Executive Officer and approved by the Board of Governors of the existing Exchange.

(ii) *Nomination.* No later than sixty-five days prior to the expiration of the term of its Directors, the Nominating Committee shall publish the name of one (1) OTP Holder or Allied Person of an OTP Firm as its nominee for the Board of Directors of the Pacific Exchange, Inc. After the name of proposed nominee is published, OTP Holders in good standing may submit a petition to the Exchange in writing to nominate additional eligible candidate(s) to fill the OTP Holder position during the next term, and upon written petition of the lesser of thirty five (35) or 10 percent of OTP Holders in good standing on or before the tenth (10<sup>th</sup>) business day after the Nominating Committee publishes its nominee for the Board of Directors, such person(s) shall also be nominated by the Nominating Committee. After the nomination by petition period has closed, the Board of Directors of PCX Holdings, Inc. shall have ten (10) business days to object to the nomination of any or all of the OTP Holder nominee(s). The Board of Directors of PCX Holdings, Inc., may, in its sole discretion, object to the nomination of a nominee. The Board of Directors of PCX Holdings, Inc. may object to the nomination of a nominee if the nominee has been disciplined by any securities SRO or the nominee would be subject to statutory disqualification within the meaning of Section 3(a)(39) of the Securities Exchange Act of 1934. Any nominee who is objected to by the Board of Directors of PCX Holdings, Inc. is not eligible to be considered as a nominee or petition candidate until the expiration of the current term of the Board of Directors. If the Board of Directors of PCX Holdings, Inc. objects to all of the proposed nominees, the Nominating Committee shall publish the name of an eligible alternative nominee by the later of ten (10) business days after the

Board of Directors of PCX Holdings, Inc. notifies the Secretary of the Exchange of their objection to the proposed nominee(s) or sixty-five days prior to the expiration of the term of the Directors. If the Board of Directors of PCX Holdings, Inc. objects to all of the original nominees, the above defined process shall continue with all of the same deadlines until the Nominating Committee nominates a nominee that is not objected to by the Board of Directors of PCX Holdings, Inc.

(iii) Selection of Nominees. In the event that the OTP Holder positions is nominated by the Nominating Committee pursuant to petition by the OTP Holders, and there are two or more nominees for the Board of Directors, the Nominating Committee shall submit the contested nomination to the OTP Holders for selection. Each OTP Holder in good standing may select one nominee for the contested seat on the Board of Directors. With respect to the contested position, the nominee for the Board of Directors selected by the most OTP Holders shall be submitted by the Nominating Committee to the Board of Directors of the Pacific Exchange, Inc. Tie votes shall be decided by the Board of Directors at its first meeting following the election.

(3) OTP Advisory Committee.

(A) Composition. The OTP Advisory Committee shall be made up of OTP Holders. Attempts shall be made to have diverse OTP Holder representation of different constituencies on the Committee.

(B) Function and Authority. The OTP Advisory Committee shall act in an advisory capacity regarding rule changes related to disciplinary matters and trading rules.

Rule 3.2(c) Each Options Committee shall have such other powers and duties as delegated to it by the Board of Directors. Each Options Committee is subject to the control, review, and supervision of the Board of Directors.

**Board Committees**

Rule 3.3(a). Board Committees.

(1) Board Appeals Committee.

(A) Composition. The Board Appeals Committee shall be made up of the OTP Director(s), the ETP Director(s) and all of the Public Directors.

(B) Appeal Panel Composition. Appeals Panels shall be made up of members of the Board Appeals Committee. An Appeals Panel shall be made up of no less than three (3) but no more than five (5) individuals. The Appeals Panel will conduct reviews of matters subject to the applicable provisions of Rule 3.2(b)(1)(C) or 10. Each Appeals Panel will contain at least one Public Director and at least one Director that is an OTP Holder or Allied Person of an OTP Firm.

(C) Subject to Rule 10 of the Exchange, decisions of the Board Appeals Committee shall be subject to the review of the Board of Directors. The decision of the Board of Directors shall constitute the final action of the Exchange, unless such Board remands the proceedings.

(2) Regulatory Oversight Committee.

(A) Composition. The Regulatory Oversight Committee (“ROC”) shall be made up of all the Public Directors of the Exchange.

(B) Functions and Authority. The ROC shall ensure (i) the independence of Exchange regulation; (ii) the Exchange provides adequate resources to properly fulfill its SRO regulatory obligations; and (iii) that Exchange management fully supports the execution of the regulatory process.

(3) Audit Committee.

(A) Composition. The Audit Committee shall be made up of at least three (3) Directors. All members of the Audit Committee shall be Public Directors and at least one member of the Committee shall have accounting or related financial management expertise, as the Board of Directors interprets such qualification in its business judgment.

(B) Functions and Authority. The Committee shall have the responsibility to conduct an annual review with the independent auditors, to determine the scope of their examination and the cost thereof. The Committee shall periodically review with the independent auditors and the internal auditor, the Exchange’s internal controls and the adequacy of the internal audit program. The Committee shall review the annual reports submitted both internally and externally, and take such action with respect thereto as it may deem appropriate. The Committee shall also recommend to the Board, independent public accountants as auditors of the Exchange and its subsidiaries.

(4) Compensation Committee.

(A) Composition. The Compensation Committee shall be made up of at least three (3) Directors. Only one (1) non-Public Director may serve on the Committee.

(B) Functions and Authority. The Compensation Committee shall review and approve corporate goals and objectives relevant to the Chief Executive's Compensation, evaluate the Chief Executive's performance in light of those goals and objectives, and set the Chief Executive's compensation level based on this evaluation. The Committee shall also make recommendations to the Board with respect to the design of incentive compensation and equity-based plans.

Rules 3.4 – 3.5 – Reserved.

## [OPTIONS]

### Surveillance Agreements

Rule 3.6. The Exchange may enter into agreements with domestic and foreign self-regulatory organizations providing for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and other regulatory purposes. [The underlying securities of option contracts traded on the Exchange shall be approved for Exchange transactions by the Board of Governors following the recommendation of the Options Listing Committee. In approving underlying securities, both the Options Listing Committee and the Board shall give due regard to, and the Board shall promulgate guidelines relative to, the following factors:

(a) Underlying securities approved for Exchange transactions shall have, in the absence of exceptional circumstances, the following characteristics:

(1) A minimum of 7,000,000 shares which shall be owned by persons other than those required to report their stock holdings under Section 16(a) of the Securities Exchange Act of 1934;

(2) A minimum of 2,000 shareholders;

(3) Trading volume (in all markets in which the stock is traded) of at least 2,400,000 shares in the preceding twelve months;

(4) (A) If the underlying security is a "covered security" as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous five consecutive business days preceding the date on which the Exchange submits a certificate to the Options Clearing Corporation for listing and trading. For purposes of this rule, the market price of such underlying



security is measured by the closing price reported in the primary market in which the underlying security is traded.

(B) If the underlying security is not a "covered security", the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days, or (a) the underlying security meets the guidelines for continued listing in Rule 3.7; (b) options on such underlying security are traded on at least one other registered national securities exchange; and (c) the average daily trading volume for such options over the last three (3) calendar months preceding the date of selection has been at least 5,000 contracts; and

(5) The issuer is in compliance with any applicable requirements of the Securities Exchange Act of 1934.

(b) Underlying securities shall be (i) duly listed and registered on a national securities exchange, or (ii) designated as national market system securities pursuant to "Tier 1 Criteria", as defined in Rule 11Aa2-1 under the Securities Exchange Act of 1934, as amended; and

(c) The list of approved underlying securities shall be representative of issuers engaged in a wide variety of business activities.

*Commentary :*

.01 In considering for approval underlying securities that have not been primarily traded on a national securities exchange or designated as national market system securities for the one year preceding such approval, the Exchange may take into account the volume of trading in such security in the over-the-counter market as reflected in the NASDAQ system. If the volume of trading in the over-the-counter market meets the requirements specified in Rule 3.6(a)(3) above, then the security may be deemed to have met the volume requirements set forth in the agreements between the Exchange and the Clearing Corporation.

.02 As used in both Rule 3.6 and Rule 3.7, the word "security" shall be broadly interpreted to mean any equity security as defined in Rule 3a11-1, promulgated under the Securities Exchange Act of 1934, which is appropriate for options trading. The word "shares" shall mean the unit of trading of such security.

.03 The Exchange deems that non-convertible preferred stock and American Depositary Receipts ("ADRs") meeting the criteria and guidelines set forth in Rule 3.6 and Commentaries thereunder are appropriate for options trading. The Exchange may list options on ADRs if: (a) the Exchange has an effective surveillance agreement, pursuant to Rule 14.1, with the primary exchange on which the security underlying the ADR trades or with a governmental regulatory authority overseeing such exchange; or (b) the combined trading volume of the ADR and other related ADRs and securities (as defined

below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share-equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (collectively "other related ADRs and securities") over the three-month period preceding the date of selection of the ADR for options trading; (c)(i) the combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market and in markets where the Exchange has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the date of selection of the ADR for options trading, (ii) the average daily trading volume for the security in U.S. markets over the three months preceding the selection of the ADR for options trading is 100,000 or more shares, and (iii) the trading volume is at least 60,000 shares per day in U.S. markets on a majority of the trading days for the three months preceding the date of selection of the ADR for options trading ("Daily Trading Volume Standard"); or (d) the ADR has been approved for options trading by the Securities and Exchange Commission.

.04 Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries ("International Funds") if they meet the criteria and guidelines set forth above and either (i) the Exchange has a market information sharing agreement with the primary exchange for each of the securities held by the fund; or (ii) the International Fund is classified as a diversified fund as that term is defined in Section 5(b) of the Investment Company Act of 1940 and the securities held by the fund are issued by issuers based in five or more countries. A "market information sharing agreement" for purposes of this Commentary is an agreement that would permit the Exchange to obtain trading information relating to the securities held by the fund, including the identify of the member of a foreign exchange executing a trade. International Funds not meeting the requirements of either (i) or (ii) above shall be deemed appropriate for options trading if the Commission specifically authorizes the listing.

.05(a) In determining whether an equity security (the "Restructure Security") issued or anticipated to be issued in a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction (a "Restructuring Transaction") satisfies the guidelines set forth in Rules 3.6(a)(3) and 3.6(a)(4) above, the Exchange may rely on the trading volume and market price history of the related equity security in respect of which the Restructure Security was or is to be issued (the "Original Security") determined prior to the ex-date for the Restructuring Transaction, but only if (i) both the trading volume and the market price history of the Original Security are used for this purpose for any trading days when either is used; (ii) once the Exchange commences to rely on the trading volume and the market price history of the Restructure Security for any trading day, the Exchange may not rely on the trading volume and market price history of the Original Security for any trading day thereafter; and (iii) at least one of the following conditions is met:

(1) At least one of (A) the aggregate market value of the Restructure Security, (B) the aggregate book value of the assets attributed to the business represented by the Restructure Security, or (C) the revenues attributed to the business represented by the Restructure Security is no less than the Relevant Percentage of the same measure determined with respect to the Original Security or the business represented by the Original Security, as applicable, calculated in a comparable manner, provided that in the case of the qualification of a Restructure Security under clause (B), the aggregate book value of the assets attributed to the business represented by the Restructure Security is not less than \$50 million, and in the case of the qualification of a Restructure Security under clause (C), the revenues attributed to the business represented by the Restructure Security are not less than \$50 million. For purposes of the foregoing sentence, the Relevant Percentage is 25% when the applicable measure determined with respect to the Original Security or the business it represents reflects the *inclusion* of the business represented by the Restructure Security, and the Relevant Percentage is 33 1/3% when the applicable measure determined with respect to the Original Security or the business it represents reflects the *exclusion* of the business represented by the Restructure Security.

(2) The aggregate market value represented by the Restructure Security is at least five hundred million dollars (\$500,000,000).

For purposes of the foregoing, (i) the aggregate value represented by the Restructure Security may be determined from "when issued" prices, if available; (ii) comparative aggregate market value calculations shall be based upon share prices that are either all closing prices in the primary market on the last business day preceding the selection date of the Restructure Security as an underlying security, or are all opening prices in the primary market on the selection date of the Restructure Security as an underlying security; and (iii) comparative asset values and revenues shall be derived from the later of the most recent annual or most recent available comparable interim (not less than three months) financial statements of each of the respective issuers, which may be audited or unaudited, and *pro forma*.

.05(b) Option contracts may not initially be listed for trading in respect of a Restructure Security until such time as shares of the Restructure Security are issued and outstanding and are the subject of trading that is not on a "when issued" basis or in any other way contingent on the issuance or distribution of the shares.

.05(c) In certifying a Restructure Security for options trading, the Exchange may determine that the requirements of Rules 3.6(a)(1) and 3.6(a)(2) above are satisfied based on the facts and circumstances that will exist on the intended date for listing the option rather than at the time the Restructure Security is so selected. In the case of a transaction within the scope of this Commentary .05 in which shares of a Restructure Security are issued or distributed to the holders of shares of an Original Security, this determination may either be based on the public ownership and number of shareholders of the Original Security, or the Exchange may assume that one or both of these requirements will be satisfied if either of the following conditions is met on the date the Restructure Security is selected for options trading: (i) the Restructure Security will be listed on an exchange or

automatic quotation system subject to initial listing requirements in respect of public ownership of shares or number of shareholders or both that are no less stringent than the requirements assumed to be satisfied, or (ii) at least 40,000,000 shares of the Restructure Security will be issued and outstanding on the intended date for listing the option, unless in the case of (i) or (ii) above the Exchange, after reasonable investigation, has determined that such requirements will in fact not be satisfied on that date. Any determination by the Exchange that such requirements will be satisfied based on an assumption made pursuant to this paragraph is subject to the right of any objecting exchange to demonstrate that such requirement will in fact not be satisfied.

.05(d) In the case of a Restructuring Transaction that satisfies either or both of the conditions of subsections (a)(1) or (a)(2) to this Commentary .05 in which shares of a Restructure Security are sold in a public offering or pursuant to a rights distribution:

(i) the Exchange may assume the satisfaction of one or both of the requirements of subsections (a)(1) and (a)(2) of Rule 3.6 on the date the Restructure Security is selected for options trading only if (A) the applicable conditions set forth in subsection (c)(i) to this Commentary .05 are met with respect to whichever of these requirements is assumed to be satisfied, or (B) the condition set forth in subsection (c)(ii) to this Commentary .05 is met, in either case subject to the limitations stated in that subsection (c); and

(ii) the Exchange may certify that the market price of the Restructure Security satisfies the requirement of Rule 3.6(a)(4) by relying on the market price history of the Original Security prior to the ex-date for the Restructuring Transaction in the manner described in subsection (a) to this Commentary .05, but only if the Restructure Security has traded "regular way" on an exchange or automatic quotation system for at least five trading days immediately preceding the date of selection, and at the close of trading on each trading day preceding the date of selection, as well as at the opening of trading on the date of selection the market price of the Restructure Security was at least \$7.50; or, if the Restructure Security is a Covered Security as defined in paragraph (a)(4) above, the market price of the Restructure Security was at least \$3.00; and

(iii) the Exchange may certify that the trading volume of the Restructure Security satisfies the requirement of Rule 3.6(a)(3) only if the trading volume in the Restructure Security has been at least 2,400,000 shares during a period of twelve months or less ending on the date the Restructure Security is selected for options trading.

.06 Securities deemed appropriate for options trading shall include shares or other securities ("Exchange-Traded Fund Shares") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent an interest in a registered investment company organized as an open-end management investment company, a unit investment trust or a similar entity which holds securities constituting or otherwise based on or representing an investment in an index or portfolio of securities, provided:

(a)

(i) the Exchange-Traded Fund Shares meet the criteria and guidelines for underlying securities set forth in Rule 3.6(a); or

(ii) the Exchange-Traded Fund Shares must be available for creation or redemption each business day in cash or in kind from the investment company at a price related to the net asset value. In addition, the investment company shall provide that fund shares may be created even though some or all of the securities needed to be deposited have not been received by the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the shares as soon as possible and such undertaking has been secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the fund which underlies the option as described in the fund or unit trust prospectus; and

(b)

(i) any non-U.S. component stocks in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;

(ii) stocks for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index; and

(iii) stocks for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.

.07 Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:

(a)

(i) the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Rule 3.6(a); or

(ii) the Trust Issued Receipts must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and

(b) not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.

**Approved:** August 29, 1991; November 27, 1992; October 19, 1993; February 1, 1994; May 13, 1994; July 24, 1995; October 30, 1995; March 22, 1996; February 28, 2001

(PCX-01-12); March 30, 2001 (PCX-01-15); August 1, 2002 (PCX-2002-41); February 11, 2003 (PCX-2003-06).

### **Withdrawal of Approval of Underlying Securities]**

#### **Dues, Fees and Charges**

Rule 3.7[a] OTP Holders and OTP Firms of the Exchange, whether or not in good standing, shall pay to the Exchange such dues, fees and charges as the Board of Directors shall prescribe. [The approval of an underlying security for exchange transactions shall be withdrawn by the Exchange if the underlying security fails to meet the then current requirements necessary to maintain such approval or for any reason the Exchange deems necessary. In the event the Exchange withdraws approval, no additional series of option contracts of the class covering that underlying security shall be opened; provided, however, that where exceptional circumstances have caused the noncompliance of an underlying security with Subsection (B) or (C) of Section 1 of Commentary .01 or Section 2 or 3 of Commentary .01 hereunder, the Exchange may, in the interest of maintaining a fair and orderly market or for the protection of investors, open additional series of option contracts of the class covering the subject underlying security.

Rule 3.7 (b). Notwithstanding the provisions of Subsection (a) of this Rule 3.7, whenever the Exchange determines in the interest of maintaining a fair and orderly market or for the protection of investors that a class or series of option contracts previously approved for Exchange option transactions should no longer be approved, the Exchange may make application to the Securities and Exchange Commission to strike from trading and listing such class or series of option contracts; provided that with respect to any series of option contracts exclusively traded on the Exchange, such application shall not seek to make such delisting effective until the day following the expiration date of such series.

**Approved:** August 29, 1991; November 6, 2001 (PCX-01-43).

#### *Commentary :*

.01 In connection with Rule 3.7(a), the Exchange has adopted certain requirements which must be met in order for an underlying security to maintain approval for exchange transactions. Therefore the Exchange shall take the action prescribed by Rule 3.7(a) for the withdrawal of an underlying security when any one of the following occurs:

1. The Exchange ordinarily relying upon information publicly available at the Securities and Exchange Commission determines that:

(A) The issuer has failed to make timely reports as required by any applicable sections of the Securities Exchange Act of 1934, and such failure has not been corrected within 30 days after the date the report was due to be filed;

(B) There is a failure to have a minimum of 6,300,000 shares of the underlying security held by persons other than those who are subject to the requirement of Section 16(a) of the Securities Exchange Act of 1934, as amended; or

(C) There is a failure to have a minimum of 1,600 holders of the underlying security.

2. The volume of trading in the underlying security is less than 1,800,000 shares in the preceding twelve months.

3. The market price per share of an underlying security closes below \$3.00 on the previous trading day, as measured by the highest closing price recorded in the primary market on which the underlying security trades.

4. If an underlying security is approved for options listing and trading under the provisions of Rule 3.6, Commentary .05, the trading volume and price history of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including "when issued" trading, may be taken into account in determining whether the trading volume and market price requirements of subsections 2 and 3 of this Commentary .01 are satisfied, provided, however, that in the case of a Restructure Security approved for options listing and trading under subsection (d) of Commentary .05 to Rule 3.6, such trading volume requirements must be satisfied based on the trading volume history of the Restructure Security.

5. The issue, in the case of an underlying security that is principally traded on a national securities exchange, is delisted from trading on that exchange and neither meets NMS criteria nor is traded through the facilities of a national securities association, or the issue, in the case of an underlying security that is principally traded through the facilities of a national securities association, is no longer designated as an NMS security.

.02 In connection with Rule 3.7(a) and Commentary .01.3 thereto, the Exchange shall direct that no additional series of options contracts of the class covering an underlying security be opened at any time when the market price per share of the subject underlying security is less than \$3.00. Subject to Paragraph 3 of Commentary .01 above, the market price per share of the underlying security will be determined as follows:

1. for intra-day series additions, the last reported trade in the primary market in which the security is traded at the time the Exchange determines to add these additional series intra-day;

2. for next-day series additions, the closing price reported in the primary market in which the security is traded on the last trading day preceding the day on which such series additions are authorized; and

3. for expiration series additions, the closing price reported in the primary market in which the security is traded on the last trading day preceding expiration Friday.

Notwithstanding this Commentary .02, the Exchange may add series of options covering an underlying security when such series are available for trading on one or more other options exchanges provided that the underlying security met the market price per share requirements at the time that such series were added by a competing exchange.

.03 In considering whether any of the events specified in Commentary .01 and .02 have occurred with respect to an underlying security, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which such security is traded; and in determining the public issuance of a Treasury note or Treasury bond, the Exchange shall rely on information made publicly available by the U.S. Treasury Department.

.04 If an ADR was initially deemed appropriate for options trading on the ground that 50% or more of the worldwide trading volume (on a share-equivalent basis) in the ADR and other related ADRs and securities takes place in U.S. markets or in markets with which the Exchange has in place an effective surveillance sharing agreement, or if an ADR was initially deemed appropriate for options trading based on the Daily Trading Volume Standard described in Rule 3.6 Commentary .03, the Exchange may not open for trading additional series of options on that ADR unless: (A) the percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which the Exchange has in place surveillance sharing agreements for any consecutive three-month period is either (i) at least 30% without regard to the average daily trading volume in the ADR, or (ii) at least 15% when the average U.S. daily trading volume in the ADR for the previous three months is at least 70,000 shares; or (B) the Exchange then has in place an effective surveillance sharing agreement with the primary exchange on which the security underlying the ADR is traded or with a governmental regulatory authority overseeing such exchange; or (C) the Securities and Exchange Commission has otherwise authorized the listing.

.05 If, prior to the delisting of a class of option contracts covering an underlying security which has been found not to meet the Exchange's requirements for continued approval, the Exchange shall determine that the underlying security again meets the Exchange's requirements for such underlying security, the Exchange may open for trading additional series of options of that class and may lift any restriction on opening purchase transactions imposed under this Rule.

.06 Whenever the Exchange shall announce that approval of an underlying security has been withdrawn for any reason, each member organization shall, prior to effecting any transaction in option contracts in respect of such underlying security for a customer, inform such customer of such fact and of the fact that the Exchange may prohibit further transactions in such option contracts to the extent it shall deem such action necessary or appropriate.

.07 Whenever the Exchange withdraws the approval of an underlying security, it shall not open a class of option contracts covering that underlying security until such security is able to comply with the provisions of Rule 3.6.



.08 An underlying Treasury note or Treasury bond will not be deemed to meet the Exchange's requirements for continued approval whenever the Exchange determines that such note or bond has a public issuance of less than \$750 million.

.09 Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .06 under Rule 3.6 (such securities are defined and referred to in that Commentary as "Exchange-Traded Fund shares") shall not be deemed to meet the Exchange's requirements for continued approval, and the exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares, whenever the Exchange-Traded Fund Shares are delisted and trading in the Shares is suspended on a national securities exchange, or the Exchange-Traded Fund Shares are no longer traded as national market securities through the facilities of a national securities association. In addition, the exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

(1) In accordance with the terms of paragraphs 1 through 4 of Commentary .01 of this Rule 3.7 in the case of options covering Exchange-Traded Fund Shares when such options were approved pursuant to paragraph (a)(i) of Commentary .06 of Rule 3.6.

(2) Following the initial twelve-month period beginning upon the commencement of trading of the Exchange-Traded Fund Shares on a national securities exchange or as national market securities through the facilities of a national market association there are fewer than 50 record and/or beneficial holders of Exchange-Traded Fund Shares for 30 more consecutive trading days;

(3) The value of the index or portfolio of securities on which the Exchange-Traded Fund Shares are based is no longer calculated or available; or

(4) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

.10 Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .07 to PCX Rule 3.6 (such securities are defined and referred to in that Commentary as "Trust Issued Receipts") shall be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

(1) In accordance with the terms of Commentary .01 of this Rule in the case of options covering Trust Issued Receipts when such options were approved pursuant to paragraph (a)(i) of Commentary .07 under Rule 3.6;

(2) The Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;

(3) The Trust has fewer than 50,000 receipts issued and outstanding;

(4) The market value of all receipts issued and outstanding is less than \$1,000,000; or

(5) Such other event shall occur or condition exist that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

.11 For Holding Company Depositary Receipts (HOLDRs), the Exchange will not open additional series of options overlying HOLDRs (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or (2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.

**Approved:** November 30, 1993; January 5, 1994; February 1, 1994; July 24, 1995; March 22, 1996; February 28, 2001 (PCX-01-12); March 30, 2001 (PCX-01-15); November 6, 2001 (PCX-01-43); August 23, 2002 (PCX-2002-51).

### **Listing Proposals]**

#### **Liability for Payment**

Rule 3.8. An OTP Holder and OTP Firm failing to pay any dues, fees, charges or fines to the Exchange for thirty days after the same shall become payable, may be suspended by the Board of Directors or the Chief Executive Officer of the Exchange in accordance with Rule 13.2(a)(1). [A member or member organization seeking to propose an option listing to the Options Listing Committee ("OLC") must execute and deposit a Listing Request Form in the Options Allocation Box by 11:00 a.m. on a daily basis. Listing Request Forms placed in the Options Allocation Box after 11:00 a.m. will be considered on the following day. Once the request is made the PCX staff will:

(a) Confirm in writing the underlying issue of the options request meets all the requirements set forth in PCX Rule 3.6;

(b) Present the issue for listing consideration at the next scheduled OLC meeting. In making its determination the OLC will apply the qualitative and quantitative criteria set forth in Regulatory Bulletin Options 01-08; and

(c) Provide a written response to the requesting member organization within ten business days of the date of the request, (i) setting forth the basis on which any denial or placement of limitation or condition was made; or (ii) indicating that the denial or

placement of limitation or condition is due to other bona-fide business reasons which are specifically documented and maintained in the OLC minutes.

**Approved:** July 3, 2001 (PCX-00-47).]

### **Fines**

Rule 3.9. The Board of Directors may adopt and prescribe fines for violation of the Bylaws, Rules and procedures of the Exchange.