

Rule 4

Capital Requirements, Financial Reports, Margins **[General Trading Rules]**

Section 1. Capital Requirements **[Definitions and Trading Hours]**

Minimum Net Capital **[Definitions and Trading Hours]**

Rule 4.1. To the extent applicable, every OTP Holder and OTP Firm shall maintain a minimum net capital in accordance with the provisions of Rule 15c3-1 under the Securities Exchange Act of 1934 (“Exchange Act”), as amended. Each OTP Holder and OTP Firm shall promptly notify the Exchange and, pursuant to the provisions of Rule 17a-11 under the Exchange Act, the Securities and Exchange Commission if such OTP Holder or OTP Firm’s net capital does not equal or exceed the appropriate minimum required by Rule 15c3-1 or if notice is otherwise required by Rule 17a-11.

[Whenever and wherever used herein, unless the context requires otherwise, the following terms shall be deemed to have the meanings indicated:

(a) "Exchange" shall mean the Pacific Exchange, Inc., including all the operations of the Exchange and, when used with reference to the administration of any rule, means either the Board of Governors or the officer, employee or committee to whom appropriate authority to administer such rule has been delegated by the Board pursuant to the provisions of the Exchange Constitution.

(b) "Board" shall mean Board of Governors of Pacific Exchange, Inc..

(c) The terms "security" or "securities" means any security as defined in Rule 3(a)(10) under the Securities Exchange Act of 1934.

(d) "The List," "Listed" or "Listed Securities" shall mean securities admitted to dealings on the Exchange.

(e) The term "Floor" shall mean the options trading floor.

(f) "Specialist" shall mean "Specialist-Odd Lot Dealer" registered as such by the Exchange.

(g) The term "Registered Employee" shall mean any person soliciting or conducting business in securities on behalf of a member organization.

(h) The term "Participant" shall mean any member, allied member, partner, approved person, stockholder associate, registered employee or other full-time employee of a member organization.

(i) The term "Freely transferable security" means any security which, on its face, may be transferred without it being necessary that the Board of Governors of the Exchange approved the transferee.

(j) The term "Stockholder associate" means a person who is the employee of a member corporation, who is actively engaged in its business and devotes the major portion of his time thereto, who is not a member or allied member, and who, as a holder of equity securities, has been approved by the Exchange as a stockholder associate.]

Commentary:

.01 OTP Firms or OTP Holders Who Do Not Carry Customers' Accounts:

An OTP Holder or OTP Firm operating under paragraph (a)(2) of SEC Rule 15c3-1 shall file a written application with the Exchange for approval on a form prescribed by the Exchange.

.02 Trading In Gold and Silver Bullion:

(a) Where gold or silver bullion, which upon payment to the seller is within the OTP Holder or OTP Firm's control in good deliverable form and covered by appropriate insurance, is purchased by customers under agreements wherein full payment is required and is made within seven business days after the date of purchase, or full payment is required and made within an extended or longer period of time as approved by the Exchange upon application, such purchases may be considered bona fide cash transactions which require no deduction from net worth in computing net capital. In all other purchases by customers of such gold or silver bullion, which liquidate to an equity, cash required, if any, to provide margin equal to 25% (10% if hedged by futures contracts in the same commodity) of the market value of the gold or silver bullion in each such customer's account in equity shall be deducted from net worth in computing net capital.

(b) If upon payment to the seller, gold or silver bullion purchased by customers and paid for by them is not within the OTP Holder or OTP Firm's control in good deliverable form and covered by appropriate insurance, the market value of such gold or silver bullion shall be deducted from net worth in computing net capital so long as the OTP Holder or OTP Firm is accountable therefor. If upon payment to the seller, gold or silver bullion purchased for a proprietary account is not within the OTP Holder or OTP Firm's control in good deliverable form and covered by appropriate insurance, such gold or silver bullion shall be considered to have no market value for purposes of net capital.

(c) Definitions:

(1) "Within The OTP Holder or OTP Firm's Control"

Gold or silver in bullion form, identified by serial number or otherwise, and subject to immediate disposition at the direction of the OTP Holder or OTP Firm.

Storage arrangements acceptable to insurance carriers will satisfy the Exchange provided the coverage complies with the "appropriate insurance" requirement discussed

below. While the Exchange will not specify acceptable bullion depositories to the OTP, certain custodial requirements must be satisfied whenever gold or silver bullion is stored in outside depositories. The OTP Holder or OTP Firm shall satisfy itself that the depository will maintain physical possession or control of the bullion stored for its customers free of any lien or claim on such bullion other than that arising out of, and limited to the extent of, any margin transaction or other unpaid for transaction. Records shall be maintained to separately identify customer pledged gold and silver bullion subject to lien from that customer bullion not pledged and fully paid for. The OTP Holder or OTP Firm shall include as part of a written agreement with the depository such other protections as may be deemed necessary. OTP Holders or OTP Firms considering the utilization of foreign depositories are cautioned to familiarize themselves with foreign laws on banking and bankruptcy to insure compliance with this paragraph, since these laws may differ significantly from those of the United States.

(2) “Good Deliverable Form”

All gold bullion purchased, whether delivered to the customer or stored for the customer against written evidence of ownership, shall be a minimum 995 parts per 1000 fine gold and shall either have been refined by a refiner or assayed by an assayer recognized as being acceptable to those organized national U. S. commodity exchanges trading in gold or the London Gold Market.

All silver bullion purchased, whether delivered to the customer or stored for the customer against written evidence of ownership, shall be a minimum 999 parts per 1000 fine silver and shall bear a mark or brand recognized as being acceptable to those organized national U. S. commodity exchanges trading in silver or the London Silver Market or the London Metals Exchange.

(3) “Appropriate Insurance”

All gold or silver under the control of an OTP Holder or OTP Firm, whether stored in a depository, in its own custody, in transit, or in any other location, within the OTP Holder or OTP Firm’s control, shall be covered by insurance of the OTP Holder or OTP Firm.

“Appropriate Insurance” is defined to mean inclusion of gold and silver bullion as covered property under a broker's blanket bond as required by Rule 5, subject to the following additional criteria which specifically apply to gold and silver bullion wherever stored:

- (i) That gold and silver stored meets the OTP Holder or OTP Firm’s insurance carrier's standards including specific identification so as to preclude non-coverage as an inventory loss;

(ii) that gold and silver bullion be insured at full market value when in transit;

(iii) that no dollar amount of gold and silver bullion stored in a depository exceed the sum of the OTP Holder or OTP Firm's (a) insurance coverage and (b) excess net capital; and

(iv) that the value of any bullion stored in a depository and in transit in excess of the sum of (iii)(a) and (b) is charged to net capital. (The OTP Holder or OTP Firm may, should it wish, avoid this capital charge by acquiring separate insurance to fully cover bullion exceeding the amount in the broker's blanket bond.)

OTP Holders or OTP Firms shall file with the Exchange copies of letters from its insurance underwriters setting forth the extent of its coverage for bullion stored in its depositories.

(d) Further Customer Protections—To further ensure protection of customers of OTP Holders or OTP Firms, the Exchange has established the following guidelines:

(1) Disclosure to Customer

The OTP Holder or OTP Firm shall fully disclose to its customer all relevant information pertaining to a transaction, including, but not limited to, names and locations of depositories, insurance coverage, charges incidental to storage, requirements and costs related to taking physical delivery of the bullion (e.g., possible need for assay), and applicable Federal, state or local laws or regulations (e.g., sales tax implications of the purchase). Communications to the public with regard to gold and silver shall state that SIPC coverage is not available. Due to the varying degrees of fineness, and the need for the customer to be informed as to the quality of bullion being purchased and its attendant variation in price, the fineness, weight, price per ounce, and any markup, commissions, fees, taxes or other costs shall be disclosed to the customer. Salesmen must convey to each customer the special risks and expenses involved in investing in gold and silver bullion. In particular, the customer must be given the opportunity to take delivery of the gold or silver and be informed whether or not the OTP Holder or OTP Firm will buy it back at a later date, and if so, on what basis.

(2) Sale or Saleback of Gold and Silver

All sales of gold and silver bullion shall be long, whether for customer or proprietary accounts.

Under no circumstances shall an OTP Holder or OTP Firm release the proceeds of sale of gold or silver to a customer unless the customer's gold or silver has been assayed by an acceptable assayer (as defined above) or is in a form acceptable to such assayer. Gold or silver which is to be sold should be within an OTP Holder or OTP Firm's control before it is sold, but in no event later than two business days after the trade date. An OTP Holder or OTP Firm may, however, submit a plan for Exchange review, the effect of which would allow a customer longer than two days to deliver the bullion within the OTP Holder or OTP Firm's control on a "buy-back" transaction, where the customer is selling bullion originally purchased from that OTP Holder or OTP Firm.

(3) Requirements for Special Commodity Accounts

Regulation "T" requires all commodity accounts, whether cash or margin, to be separately labeled and maintained.

(e) Cash Transactions—Purchases of gold or silver bullion in a customer's cash commodity account must be paid for as promptly as possible, but no later than the fifth business day after the date of purchase. A charge against capital will result if full payment has not been received by the seventh business day after purchase.

Although the amendment allows an OTP Holder or OTP Firm to request extensions of time for payments not received within seven business days, the Exchange does not anticipate granting any such extensions except in rare cases.

Extension requests should be submitted in letter form on the OTP Holder or OTP Firm's stationery, giving the full particulars of the transaction, the customer's name and ID number, the reason for the request, and any other pertinent data. The letter should be signed by an authorized individual or officer. These extension requests will be handled separately from securities extensions, but will, as mentioned above, be restrictively granted.

(f) Margin Transactions—Required margin shall be furnished within five business days after date of purchase or made within an extended or longer period of time as approved by the Exchange upon application.

Extension requests on margin transactions will be subject to the same requirements applicable to cash transactions.

(1) Initial Margin

For the purpose of effecting new transactions, the margin required shall be an amount equivalent to the requirements stated below, or such greater amount as the Exchange may from time to time require, with a minimum equity in the

account of at least \$2,000, except that cash need not be deposited in excess of the cost of any new transaction.

Withdrawals of cash or spot commodities may be made, provided that after such withdrawal the equity in the account is at least the greater of \$2,000 or the amount required by the maintenance requirement stated below.

(2) Maintenance

Margin must be maintained in margin accounts of customers, including OTP Holders or OTP Firms, Allied Persons, or non-OTP Holders or Firms and shall be as follows:

(i) 25% of the market value of gold or silver spot commodities “long” in each customer's account, or

(ii) 10% of the market value of the gold or silver spot commodities if “hedged by futures contracts” in the same commodity.

Gold or silver bullion which is carried on margin for customers must be within the control of the OTP Holder or OTP Firm, in good deliverable form and covered by appropriate insurance.

(g) Records— OTP Holders or OTP Firms shall make, keep current and preserve books and records on spot commodities as are required for securities.

(h) Conduct of Accounts—Rule 9 requires the diligent supervision of accounts. All information requirements or assessments applicable to other customers' accounts shall apply to customers effecting transactions in gold or silver bullion.

OTP Holders or OTP Firms should give serious consideration to securing an adequate deposit before executing any customer orders for gold. This will serve to demonstrate the customer's ability to consummate the transaction as well as protecting the OTP Holder or OTP Firm from potential market fluctuations in the event of customer default. Upward variations in deposit may be advisable for new customers, or when the OTP Holder or OTP Firm anticipates unusual volatility in the price of gold.

Currently, international settlement of spot gold transactions takes place on the second business day following the order. Accordingly, OTP Holders or OTP Firms will have to pay for or deliver gold on that second business day. In view of this fact, OTP Holders or OTP Firms are hereby put on notice that good business practice would, in most instances, require substantial cash deposits in advance of all purchases of gold or silver.

(i) Business Plan—An OTP Holder or OTP Firm shall file with the Exchange a detailed business plan for approval by the Exchange prior to effecting any transactions in gold or silver bullion. Such a plan shall comply with the standards enunciated herein, and the OTP Holder or OTP Firm may utilize the below checklist in drafting its business plan.

(j) Gold and Silver Business Plan Checklist:

I. Structure and Nature

A. Will activities be processed through the OTP Holder or OTP Firm, subsidiary, affiliate, holding company, or joint venture? Name the affiliate/subsidiary responsible for bullion business, if applicable.

B. Will the OTP Holder or OTP Firm act on a principal or agency basis in bullion transactions for customers? Submit full explanation.

C. Will the OTP Holder or OTP Firm position bullion for its own account and/or act as a Market Maker?

D. Will the OTP Holder or OTP Firm effect customer and/or proprietary transactions on an (i) omnibus, (ii) fully disclosed, or (iii) self-clearing basis? If (i) or (ii), submit copy of the clearing agreement.

E. Identify the bullion dealer(s) with whom the organization will effect bullion transactions.

F. On what market place(s) will bullion transactions be effected?

II. Legal Review

A. Has the OTP Holder or OTP Firm obtained an opinion of counsel advising whether or not the plan for trading and handling bullion may constitute an investment contract, thereby requiring SEC registration as a security? If not, explain why.

B. Has the OTP Holder or OTP Firm requested counsel to review the plan for compliance with other Federal, state or local applicable laws?

C. Have copies of the customer account agreements, customer statements, contracts and other customer related documentation been reviewed by counsel? (With respect to A, B and C, submit opinions where applicable. Additionally, submit a copy of pro-forma customers' confirmations and statements.)

D. Has counsel advised that the depository/depositories can and will maintain physical possession or control of the bullion stored for the OTP Holder or OTP Firm's

customers free of any lien or claim on such bullion other than that arising out of, and limited to the extent of, any margin transaction or other unpaid for transaction?

III. Selling Practices

A. Provide an explanation of the marketing practices to be employed by the OTP Holder or OTP Firm which is to include, but not be limited to, the OTP Holder or OTP Firm's policy and practices relating to the acceptance of orders on a solicited or unsolicited basis, proposed tests to assure customer suitability, advertising, etc.

B. Outline procedures designed to assure adequate full disclosure to customers before acceptance of an order, advising as to costs and risks involved in purchases and sales of bullion, i.e., market volatility, commission, mark-up, sales tax, delivery charges, storage, assaying, etc.

C. What are the OTP Holder or OTP Firm's procedures for compliance with state and local taxes applicable to purchase or sale of bullion?

IV. Supervision

A. Identify the individuals, by title and responsibility, who will fulfill the principal supervisory roles in the review of bullion activity.

B. Provide a resume of these individuals' experience in the securities industry and industries related to gold or silver bullion trading.

C. Supply a brief description of the procedures which will be implemented to provide compliance with the various rules and regulations relative to bullion trading.

D. What are the OTP Holder or OTP Firm's plans for recruiting and training personnel in this area? Is it the OTP Holder or OTP Firm's intention to restrict activity in bullion to selected registered representatives? If so, what are the standards utilized in determining eligibility?

V. Good Deliverable Form

A. State the sizes (weights) and purity of gold and/or silver to be traded.

B. State means by which the OTP Holder or OTP Firm has assured itself that the gold and silver bullion sold to customers will be that the refiners and/or assayers recognize as acceptable to those organized national U. S. commodity exchanges trading in gold or silver, the London Gold Market, the London Silver Market or the London Metals Exchange.

VI. Control Location and Insurance Coverage

A. Will the OTP Holder or OTP Firm offer to store gold and silver bullion for customers? If so, at what locations? Outline security arrangements and method of identifying customer's bullion.

B. Name the insurance underwriter of the OTP Holder or OTP Firm's broker's blanket bond.

C. Submit a letter from the insurance underwriter which clearly and specifically designates the extent of coverage for bullion trading and, where applicable, states that control locations for the bullion including the depository or depositories and the gold and silver bullion stored therein meets the insurance carrier's standards so as to preclude non-coverage of the bullion as an inventory loss.

D. Does the OTP Holder or OTP Firm have additional insurance coverage to provide for full coverage of bullion in excess of the amount of the broker's blanket bond? If so, please give details.

E. What provisions have been made to insure bullion at full market value when in transit?

F. Outline the OTP Holder or OTP Firm's procedures to monitor the limit of the aggregate dollar value of bullion stored in a depository and in transit to the sum of the OTP Holder or OTP Firm's insurance coverage and excess net capital.

VII. Settlement Procedures

A. Provide a detailed description of settlement procedures by type of account—cash or margin.

B. Outline the OTP Holder or OTP Firm's procedures to monitor customers' obligations to satisfy settlement within prescribed time frames.

C. What action will the OTP Holder or OTP Firm take in the event of non-payment by a customer by the settlement date?

D. Outline the OTP Holder or OTP Firm's margin policy as it will pertain to bullion transactions by customers.

E. What will be the OTP Holder or OTP Firm's policy with respect to requiring an initial deposit in a cash or margin account?

VIII. Buy-Back of Customer Bullion

A. What is the OTP Holder or OTP Firm's policy and procedure with respect to buy-back of customer bullion?

IX. Books and Records

A. Are the OTP Holder or OTP Firm's books and records currently adequate to reflect bullion trading activities? If so, please explain; if not, please detail the nature and extent of corrective action.

B. Will the necessary records be readily available for the determination of compliance with appropriate financial and reporting rules?

C. Identify records to be maintained to separately identify customers' pledged gold and silver bullion subject to lien from that customers' bullion not pledged and fully paid for.

X. Reconciliation and Periodic Verification

A. What records (confirmations, statements, etc.) and how frequent will such records be furnished to you by the bullion dealer(s) or supplier(s) and depository(ies)?

B. What are the OTP Holder or OTP Firm's procedures for verifying and reconciling positions in gold and silver bullion held by depositories?

.03 OTP Holders and OTP Firms exempt from the provisions of this Rule 4.1 are set forth in Rule 4.7.

Corporate Affiliates and Subsidiaries
[Trading Sessions]

Rule 4.2 (a). An OTP Holder or OTP Firm shall not form a corporate affiliate or subsidiary without the prior written approval of the Exchange. All affiliates or subsidiaries of an OTP Holder or OTP Firm shall be subject to compliance with the Bylaws, Rules and procedures of the Exchange, or other conditions as may be established by the Exchange. OTP Holders and Allied Persons of OTP Firms shall be responsible for any fraud committed by a corporate affiliate or subsidiary organization or for any act or proceeding thereof contrary to just and equitable principles of trade or detrimental to the interest or welfare of the Exchange.

An OTP Holder or OTP Firm proposing to organize an affiliate or subsidiary corporation shall submit full details to the Exchange.

The above Rule shall apply to all OTP Holders and OTP Firms of the Exchange unless the OTP Holder or OTP Firm is subject to the jurisdiction of another national securities exchange or association designated by the Board of Directors as having comparable standards, or it is

subject to the jurisdiction of another national securities exchange or association designated by the Securities and Exchange Commission as the primary regulatory body.

[Unless otherwise ruled by the Board, the Exchange shall be open for the transaction of business daily except on Saturdays and Sundays. The hours at which trading sessions shall open and close shall be established by the Board.

Dealings upon the Exchange shall be limited to the hours during which the Exchange is open for the transaction of business. No member shall make any bid, offer or transaction upon the Floor before the official opening of the Exchange and loans of securities may be made after those hours.]

Changes in Stockholder Status

Rule 4.2(b). Whenever a person owning 5% or more of any class of equity securities, directly or indirectly, of an OTP Firm ceases to be an OTP Holder, Allied Person or Approved Person, the firm shall redeem or convert such securities to fixed income securities so that such security interest is less than 5%. Provided, however, that if such redemption or conversion would cause such OTP Firm not to comply with the capital requirement of Rule 4, the OTP Firm will so notify the Exchange and the assets which the person receives upon redemption of such securities, will be loaned by the person to the OTP Firm as a loan subordinated to the claims of all customers and general creditors of the OTP Firm, or the fixed income securities which the person receives upon conversion of such securities will be subordinated to the claims of all customers and general creditors of the OTP Firm. Any such subordination shall be pursuant to an agreement approved by the Exchange.

Trading in Firm's Securities

Rule 4.2(c). An OTP Firm shall not trade in (except on an unsolicited basis) or make recommendations with respect to its own securities or those of its parents or affiliates (other than registered investment companies) and any parents or affiliates of an OTP Firm shall not trade in (except on an unsolicited basis) or make recommendations with respect to its own securities or those of its affiliates, or those of the OTP Firm (other than registered investment companies).

Change in Capitalization

Rule 4.2(d). No OTP Firm shall make any change in its capitalization without prior written approval of the Exchange.

Owners of 5% or More Equity Securities

Rule 4.2(e). Every party who owns beneficially 5% or more of any class of equity security, either directly or indirectly, of the firm shall be an OTP Holder, Allied Person or Approved Person.

Conditions for Issuance of Freely Transferable Securities

Rule 4.2(f). OTP Firms which issue freely transferable securities must maintain a ratio of not more than 50 percent of properly subordinated debt equity (including common and preferred stock) after giving effect to any public financing, and OTP Firms or parents thereof which issue freely transferable securities must:

- (1) Have a net worth of \$250,000 (net worth being determined by generally accepted accounting principles);
- (2) Have two years of operations by the OTP Firm as a bona fide broker-dealer;
- (3) Submit all advertising related to its freely transferable securities and reports to holders of such securities to the staff for approval; and
- (4) Pay a filing fee for approval by the Exchange of the OTP Firm's issuance of freely transferable securities.

Voting Agreement

Rule 4.2(g). None of the stock of a corporate OTP Firm shall at any time be held under or subject to any voting agreement whereby the voting of such stock is pooled or joined with the stock of any then OTP Holder, OTP Firm, Allied Person, or Approved Person unless approved by the Board of Directors.

Participation in OTP Firms

Rule 4.2(h). The Exchange hereby specifically approves the beneficial ownership of an interest in any other OTP Firm by an OTP Holder, Allied Person, or Approved Person of any OTP Firm:

- (1) If the interest owned is stock and such stock is freely transferable and is publicly held, provided that less than 5% of such stock is owned. Under appropriate circumstances, the Exchange may treat as a single holding stock, which is nominally held by different persons or firms;
- (2) In connection with an underwriting of such stock; or
- (3) In connection with his, her or its activity as a market maker in such stock, in which event the OTP Holder, Allied Person, or Approved Person of any OTP Firm shall be required to be registered with the Exchange as a Market Maker in such stock.

[Commentary :

.01 The Board of Governors has resolved that transactions may be effected on the Options Floor of the Exchange until 1:02 p.m. for equity options and until 1:15 for index options each business day at which time no further transactions may be made.

.02 The hours for trading options on Nasdaq-100 Index Tracking Stock will commence at 6:30 a.m. and end at 1:15 p.m. each business day, except the last trading day of each calendar month, when trading in options on Nasdaq-100 Index tracking Stock will end at 1:05 p.m.]

Restrictions on OTP Activities
[Holidays]

Rule 4.3. The Exchange may restrict the conduct of an OTP Holder or OTP Firm's activities if at any time the OTP Holder or OTP Firm appears to be approaching financial difficulties or appears to be experiencing difficulties in its daily operations. [The Exchange will not be open for business on New Year's Day, Martin Luther King Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. The Board of Governors will determine whether to open the Exchange on Presidential Election Days.

When a holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday unless unusual business conditions exist, such as the ending of a monthly or yearly accounting period.]

(a) The Exchange may implement the provisions of Paragraph (b) of this Section if it determines the existence of one or more of the following conditions:

(1) The OTP Holder or OTP Firm fails to maintain net capital, above the requirements of Rule 4, equivalent to the greater of (i) one-half of the losses of an OTP Holder or OTP Firm in the twelve-month period immediately preceding the date of such computation, or (ii) the loss experienced by the OTP Holder or OTP Firm in the six-month period immediately preceding such computation.

In determining profit or loss, the OTP Holder or OTP Firm shall mark its trading accounts to the market, and, its expenses shall reflect, among other things, all partners' drawings and salaries, and appropriate amounts for assets doubtful of collection.

(2) The OTP Holder or OTP Firm has subordinated capital which will mature within the next 180 days, and which, if not renewed, would cause (i) the ratio of aggregate indebtedness to net capital to exceed 12 to 1, or, in the case of an OTP Holder or OTP Firm which is operating pursuant to paragraph (f) of SEC Rule 15c3-1 (Alternative Net Capital Requirement), net capital to be less than 6% of the aggregate debits; (ii) a reduction in excess of net capital below the standard set forth in subparagraph (1) of this Section, or (iii) a reduction in net capital below 120% of the minimum required net capital.

(3) The OTP Holder or OTP Firm has experienced a reduction in net capital of 15% in the preceding month or 30% in the three-month period immediately preceding such computation, other than as a result of increased capital haircuts on firm proprietary securities positions.

(4) The OTP Holder or OTP Firm's net capital is less than \$1,000,000 and (i) its ratio of aggregate indebtedness to net capital equals or exceeds 8 to 1, or (ii) its net capital is less than 150% of the minimum required net capital.

(5) The OTP Holder or OTP Firm's net capital equals or exceeds \$1,000,000 and (i) its ratio of aggregate indebtedness to net capital equals or exceeds 10 to 1, or (ii) its net capital is less than 120% of the minimum required net capital.

(6) Notwithstanding the provisions of subparagraphs (4) and (5) above, if the OTP Holder or OTP Firm is operating pursuant to Paragraph (f) of SEC Rule 15c3-1 (Alternative Net Capital Requirement), its net capital is less than the greater of \$200,000 or 6% of its aggregate debits.

(7) The OTP Holder or OTP Firm has experienced a substantial change in the nature of the business conducted which, in the view of the Exchange, increases the potential risk of loss to customers, OTP Holders, and OTP Firms.

(8) The OTP Holder or OTP Firm's books and records are not maintained in accordance with the provisions of SEC Rules 17a-3 and 17a-4.

(9) The OTP Holder or OTP Firm is unable to demonstrate compliance with applicable net capital requirements.

(10) The OTP Holder or OTP Firm has substantial unsecured loans, advances or other similar receivables relative to its net capital position. For purposes of this provision, 15% is considered substantial.

(11) The OTP Holder or OTP Firm's subordinated capital equals or exceeds 40% of its debt-equity total, as defined under paragraph (d) of SEC Rule 15c3-1.

(12) The OTP Holder or OTP Firm is subject to undue concentration charges on proprietary positions, the aggregate market value of which equals or exceeds 25% of the total market value of all proprietary positions.

(13) The OTP Holder or OTP Firm is unable to clear and settle transactions promptly.

(14) The OTP Holder or OTP Firm is not in compliance, or is unable to demonstrate compliance, with SEC Rule 15c3-3 (Customer Protection-Reserves and Custody of Securities).

(15) The OTP Holder or OTP Firm is subject to the reporting provisions of SEC Rule 17a-11.

(b) If the Exchange determines that any of the conditions listed under Paragraph (a) of this Section exist, or otherwise determines that an OTP Holder or OTP Firm is guilty of (i) conduct inconsistent with just and equitable principles of trade, (ii) acts detrimental to the interest or welfare of the Exchange; or (iii) conduct contrary to an established practice of the Exchange, the Exchange may require that the OTP Holder or OTP Firm take appropriate action by effecting one or more of the following or similar steps, until such time as the Exchange determines otherwise:

(1) Promptly pay all free credit balances to customers.

(2) Promptly effect delivery to customers of all fully-paid securities in the OTP Holder or OTP Firm's physical possession or control.

(3) Introduce all or a portion of its business to another OTP Holder or OTP Firm on a fully-disclosed basis.

(4) Reduce the size or modify the composition of its inventory.

(5) Postpone the opening of new branch offices or require the closing of one or more existing branch offices.

(6) Promptly collect outstanding unsecured loans, advances or other similar receivables, where practicable.

(7) Accept no new customer accounts.

(8) Undertake an immediate audit by an independent public accountant at the OTP Holder or OTP Firm's expense.

(9) Restrict the payment of salaries or other sums to partners, officers, directors, shareholders or affiliated persons of the OTP Holder or OTP Firm.

(10) Effect liquidating transactions only.

(11) Accept unsolicited orders only.

(12) File special financial and operating reports.

(c) The provisions contained in this Section do not limit the Exchange's authority to use other standards or to impose other restrictions, or take other action deemed appropriate under the circumstances in the public interest and for the protection of OTP Holders and OTP Firms.

Commentary:

.01 For purposes of this Rule, “SEC Rules” refer to the rules and regulations promulgated under the Securities Exchange Act of 1934, as amended.

OTP Clearing Firm Financial Requirements
[Access to Trading Facilities]

Rule 4.4(a). An OTP Clearing Firm issuing a Letter of Guarantee for one or more Market Makers must at all times be in compliance with the net capital requirements of the Options Clearing Corporation and with the capital requirements of securities laws as they may exist from time to time. [Non-members shall not consummate transactions on the trading floor.]

[(b). No employee, participant or person connected with or related to a member or member firm may participate in the Floor operations or transactions of any member or member organization of the PCX, unless he is registered with and approved by the Exchange prior to engaging in such activity. Such member or member organization shall be responsible for all the acts of such non-registered employee, participant, or person, while such non-registered employee, participant, or person is on the Floor of the Exchange.]

Section 2. Financial Reports

Reports To Be Filed by Certain OTP Holders and OTP Firms
[Excessive Member Trading]

Rule 4.5(a). Unless the Exchange determines otherwise, every OTP Holder or OTP Firm, except as otherwise provided in Rule 4.7, shall file with the Exchange the reports prescribed by this Section. [No member, nor his firm, nor any participant therein shall effect on the Exchange purchases or sales for any account in which such member, firm or participant therein is directly or indirectly interested, which purchases or sales are excessive in view of the financial resources of such member, firm or participant therein or in view of the market for such security.]

Monthly Reports

Rule 4.5(b). Part I of SEC Form X-17A-5 shall be filed monthly by any OTP Holder or OTP Firm that carries or clears accounts for customers. Such report shall be due by the tenth business day following the end of the month being reported upon.

Part II Quarterly Reports

Rule 4.5(c). Two manually signed copies of Part II of SEC Form X-17A-5 shall be filed for each calendar quarter by any OTP Holder or OTP Firm which carries or clears accounts for customers. Such report shall be due by the fifteenth calendar day following the end of the calendar quarter being reported upon.

Part IIA Quarterly Reports

Rule 4.5(d). Two manually signed copies of Part IIA of SEC Form X-17A-5 shall be filed for each calendar quarter by any OTP Holder or OTP Firm which does not carry or clear accounts for customers. Such report shall be due by the fifteenth calendar day following the end of the calendar quarter being reported upon.

Part II or Part IIA Filings on Other Than Calendar Quarters

Rule 4.5(e). An OTP Holder or OTP Firm shall file an additional Part II or Part IIA of SEC Form X-17A-5, as appropriate, within fifteen calendar days after the date selected for the annual audited financial statements of the OTP Holder or OTP Firm, pursuant to the provisions of Rule 4.10, where such date does not coincide with the end of a calendar quarter.

Periodic Reports

Rule 4.5(f). Every OTP Holder and OTP Firm shall submit, as required by the Exchange, periodic reports with respect to short positions in securities.

Commentary:

.01 Short Positions. OTP Holders and OTP Firms for which the Exchange is the Designated Examining Authority (“DEA”) are required to report “short” positions, including odd lots, in each stock or warrant listed or traded on the Exchange, and in each other stock or warrant not listed or traded on the Exchange (and not otherwise reported to another self-regulatory organization), using such automated format and methods as prescribed by the Exchange. Such reports must include customer and proprietary positions and must be made at such times and covering such time period as may be designated by the Exchange.

Every OTP Holder and OTP Firm for which the Exchange is not the DEA must report “short” positions to the self-regulatory organization that is the DEA for such OTP Holder or OTP Firm if such DEA has a requirement for such reports. If the DEA does not have such a reporting requirement, then such OTP Holder or OTP Firm must comply with the provisions of this Rule 4.5(f).

OTP Holders or OTP Firms whose short positions have been properly reported to, and are carried by, a non-OTP clearing organization will be in compliance with this Rule 4.5(f) if adequate arrangements have been made for such clearing organization to report such positions to the Exchange or to another self-regulatory organization.

“Short” positions to be reported are those resulting from “short” sales as defined in SEC Rule 3b-3, but excluding positions resulting from sales specified in clauses (1), (6), (7), (8), (9) and (10) of paragraph (e) of SEC Rule 10a-1. Also to be excluded are “short” positions carried for other OTP Holders and OTP Firms reporting for themselves.

Only one report should be made for each stock or warrant in which there is a short position. If more than one account has a short position in the same stock or warrant, the combined aggregate should be reported.

The term “Designated Examining Authority” means the self-regulatory organization that has been assigned responsibility for examining an OTP Holder or OTP Firm for compliance with applicable financial responsibility rules.

.02 OTP Holders and OTP Firms for which the Exchange is the DEA need not report “short” positions to the Exchange as provided in Commentary .01 if such OTP Holder or OTP Firm has made arrangements, satisfactory to the Exchange, to report such positions to another self-regulatory organization.

Accelerated Reporting **[Manipulation]**

Rule 4.6(a). Unless the Exchange determines otherwise, if any of the conditions described in this Section are applicable, an OTP Holder or OTP Firm subject to the provisions of Rule 4.5 shall file with the Exchange on a monthly basis (or more frequently if the Exchange so determines) Part II or Part IIA of SEC Form X-17A-5, as appropriate, together with a schedule of proprietary securities and commodities, and related “haircuts”, and any other supplementary schedules deemed appropriate by the Exchange. Such reports shall be due by the fifteenth calendar day following the end of the month during which this Section becomes applicable to an OTP Holder or OTP Firm, and such accelerated reports shall continue to be filed each month thereafter (or more frequently if the Exchange so determines) until the OTP Holder or OTP Firm is otherwise advised by the Exchange. [No member, member firm or any participant therein shall effect or induce the purchase or sale or otherwise effect transactions in any security for the purpose of creating or inducing a false, misleading or artificial appearance of activity in such security, or for the purpose of unduly or improperly influencing the market price of such security, or for the purpose of making a price which does not reflect the true state of the market in such security.]

SIPC Referral **[Rumors]**

Rule 4.6(b). An OTP Holder or OTP Firm subject to the referral provisions of Section 5(a) of the Securities Investor Protection Act will be notified by the Exchange to file accelerated reports. [No member, member firm or any participant therein shall circulate, in any manner, rumors of a character which might affect market conditions on the Exchange; provided, however, that this rule shall not prohibit discussion of unsubstantiated information when its source and unsubstantiated nature are disclosed.]

Financial or Operational Condition **[Miscellaneous Prohibitions]**

Rule 4.6(c). An OTP Holder or OTP Firm that has exceeded or is exceeding the financial or operational parameters set forth in Rule 4.3, shall file without further notice the reports required by this Section. [No member, member firm or any participant therein shall:

(1) Directly or indirectly participate in or have any interest in the profits of a manipulative operation, or knowingly manage or finance a manipulative operation. For the purpose of this paragraph, (A) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purpose of unfairly influencing the market price of any security, by means of options or otherwise, and for the purpose of making a profit thereby, shall be deemed to be a manipulative operation; (B) the soliciting of subscriptions to any such pool, syndicate or joint account, or the accepting of discretionary orders from any such pool, syndicate or joint account, shall be deemed to be managing a manipulative operation; and (C) the carrying on margin of either a "long" or a "short" position in securities for, or the advancing of credit through loans of money or securities to, any such pool, syndicate or joint account, shall be deemed to be financing a manipulative operation.

- (2) Offer publicly on the Floor
- (A) to buy or sell securities "at the close";
 - (B) to buy or sell dividends; or
 - (C) to bet upon the course of the market.

(3) Participate in a prearranged trade. An offer to sell coupled with an offer to buy back at the same or at an advanced price, or the reverse, is a prearranged trade and is prohibited. This provision applies both to transactions in the unit of trading and in lesser or greater amounts.]

General Conditions

Rule 4.6(d). The Exchange requires the filing of accelerated reports for reasons relating to (i) the financial or operational condition of the OTP Holder or OTP Firm (notwithstanding the provisions of paragraph (b) of this Section), (ii) the condition of the securities markets, or (iii) the condition of the securities industry, in which events the Exchange will notify the OTP Holder or OTP Firm to file accelerated reports.

Exemptions

[Front-running of Block Transactions]

Rule 4.7 An OTP Holder or OTP Firm shall be exempt from the filing requirements prescribed by Rules 4.5 and 4.6 under the following conditions: [A member obtaining information of an immediate pending transaction or a transaction executed but not yet reported on any national securities exchange or association involving 5,000 shares or more of a security including an equivalent number of option contracts admitted to dealings on this Exchange, or securities underlying options so admitted, shall not initiate or transmit an order in the security involved, or options relating to that security, to an exchange for any account in which he or his organization are participants until after the transaction appears on the ticker or is otherwise disclosed, in the case of orders pertaining to equities, or until two minutes after such disclosure,

in the case of orders pertaining to options. Exceptions will require prior approval from a member of the Floor Trading Committee.]

- (a) Any Floor Broker, Market Maker in listed options, or Lead Market Maker in listed options, registered with the Exchange in any such capacity, who is exempt from the minimum net capital requirements prescribed by Rule 4.1.

An OTP Holder or OTP Firm qualifying for an exemption from the regular filing requirements pursuant to this Paragraph shall file with the Exchange for each calendar quarter a balance sheet and income statement in such form as prescribed by the Exchange. Such balance sheet and income statement shall be due by the fifteenth calendar day following the end of each calendar quarter in which the exemption provided in this Paragraph is applicable.

- (b) Any OTP Holder or OTP Firm that is a member of another self-regulatory organization, which has been designated the examining authority for such OTP Holder or OTP Firm by the Securities and Exchange Commission.

An OTP Holder or OTP Firm qualifying for an exemption pursuant to this Paragraph shall file with the Exchange a copy of Notice and Part II of SEC Form X-17A-5, including such supplementary schedules as may be required, pursuant to the provisions of Rule 17a-11 under the Securities Exchange Act of 1934, as amended, at such time and at such frequency as prescribed by such other Designated Examining Authority or by any applicable rule.

Report Filed Upon Termination of Membership Interest

Rule 4.8. [Reserved.] If an OTP Holder or OTP Firm holding any membership interest in a national securities exchange ceases to be a member in good standing of such exchange, such OTP Holder or OTP Firm shall, within two business days after such event, file with the Securities and Exchange Commission and with the Exchange, Part II of Form X-17A-5, as of the date of such event, pursuant to the provisions of Paragraph (b) of Rule 17a-5 under the Securities Exchange Act of 1934, as amended.

Customer Statements **[Discretionary Transactions]**

Rule 4.9. Every OTP Holder or OTP Firm shall furnish to its customers, principal stockholders and subordinated lenders, and shall file with the Securities and Exchange Commission, the Exchange, and any other self-regulatory organizations of which it is a member, certain financial statements in accordance with the provisions of Paragraph (c) of Rule 17a-5 under the Securities Exchange Act of 1934, as amended. [No member while on the Floor shall execute or cause to be executed on the Exchange or through ITS or any other Application of the System any transaction for the purchase or sale of any security admitted to dealings on the Exchange with respect to which transaction such member is vested with discretion as to (1) the

choice of security to be bought or sold; (2) the total amount of any security to be bought or sold or (3) whether any such transaction shall be one of purchase or sale.

The provisions of the preceding paragraph shall not apply to any discretionary transaction executed by such member for any bona fide cash investment account or for the account of any person, who due to illness, absence or similar circumstances, is actually unable to effect transactions for his own account, provided that such member shall keep available for inspection a detailed record of any such transaction and the grounds for exercising such discretion and shall file with the Exchange quarterly a report showing the name of each account for which any such transaction was executed, the amount of such discretionary purchases or sales and the grounds for exercising such discretion with respect to each account; or to any transaction permitted under Rule 4.10(b) for any account in which the member executing such transaction is directly or indirectly interested. No member, nor his firm nor any participant therein shall execute or cause to be executed on the Exchange purchases or sales of any security admitted to dealings on the Exchange for any account with respect to which such member, firm or participant therein is vested with any discretionary power, which purchases or sales are excessive in size or frequency in view of the financial resources in such account.]

Annual Filing of Audited Financial Statements
[Joint Accounts]

Rule 4.10[(a)]. Every OTP Holder or OTP Firm shall file annually a report which shall be audited by an independent public accountant in accordance with the provisions of paragraphs (d) through (n) of Rule 17a-5 under the Securities Exchange Act of 1934, as amended. [No member, while on the Floor, shall without the prior approval of the Exchange, initiate the purchase or sale on the Exchange of any security admitted to dealings on the Exchange for any account in which he, or his firm or any participant therein is directly or indirectly interested with any person other than such firm or participant therein.

The provisions of this rule shall not apply to any purchase or sale (1) by any member for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions or (2) by a specialist for any joint account in which he is expressly permitted to have an interest or participation by this Rule.

Rule 4.10(b). No member, nor his firm nor any participant therein shall directly or indirectly hold any interest or participation in any substantial joint account for buying or selling any security on the Exchange, unless such joint account is reported to and not disapproved by the Exchange. Such reports, in form prescribed by the Exchange, shall be filed with the Exchange before any transaction is completed on the Exchange for such joint account.

The Exchange shall require weekly reports, in form prescribed by the Exchange, to be filed with it with respect to every substantial joint account for buying or selling any specific security on the Exchange and with respect to every joint account which actively trades in any security on the Exchange in which any member, firm or participant therein holds any interest or participation or of which such member firm or participant therein has knowledge by reason of

transactions executed by or through such member, firm or participant therein; provided, however, that this paragraph shall not apply to joint accounts specifically permitted by this Rule.

In the event the requirements hereof should be applicable to a security also dealt in on another national securities exchange having requirements substantially equivalent hereto and a member or member firm is a member or member firm of such other exchange and complies with such requirements of such other exchange, then such member or member firm need not comply with the reporting provisions hereof.]

Financial Reports

Rule 4.11(a). [Reserved.] Every OTP Holder or OTP Firm that is not a member of another national securities exchange or registered national securities association which is the Designated Examining Authority for that OTP Holder or OTP Firm shall file with the Exchange answers to Financial Questionnaires, Reports of Income and Expenses and additional financial information in the type, form, manner and time prescribed by the Exchange.

Rule 4.11(b)(1). Each OTP Holder or OTP Firm shall file with the Exchange a Report of Financial Condition on SEC Form X-17A-5 as required by Securities and Exchange Commission Rules 17a-5 and 17a-10. Any OTP Holder or OTP Firm who fails to file such Report of Financial Condition in a timely manner shall be subject to late filing charges as follows:

<u>Number of Days Late</u>	<u>Amount of Charge</u>
<u>1—30</u>	<u>\$200.00</u>
<u>31—60</u>	<u>400.00</u>
<u>61—90</u>	<u>800.00</u>

Repeated or aggravated failure to file such Report of Financial Condition or failure to file such report for more than ninety days will be referred to the Ethics and Business Conduct Committee for appropriate disciplinary action.

Rule 4.11(b)(2). Each OTP Holder or OTP Firm for which the Exchange is the designated collection agent must file with the Exchange such forms and assessments as are required pursuant to the Securities Investor Protection Act of 1970. Any OTP Holder or OTP Firm that fails to file such form or assessment in a timely manner will be subject to a late filing charge as follows:

<u>Number of Days Late</u>	<u>Amount of Charge</u>
<u>1—30</u>	<u>\$100.00</u>
<u>31—60</u>	<u>200.00</u>
<u>61—90</u>	<u>300.00</u>

Provided however: (A) if an OTP Holder or OTP Firm files its SIPC form and assessment after its receipt of SIPC's final late notice, but files within five business days after its receipt of SIPC's final late notice, such OTP Holder or OTP Firm will be subject to a fine pursuant to Rule

10.12; and (B) if an OTP Holder or OTP Firm fails to file its SIPC form and assessment within five business days after its receipt of SIPC's final late notice, such OTP Holder or OTP Firm will be subject to formal disciplinary action pursuant to Rule 10.4.

Commentary:

.01 An OTP Holder or OTP Firm that files its SIPC form and assessment more than 90 days late but before its receipt of SIPC's final late notice will be subject to a late charge of \$800.

.02 Repeated or aggravated failure to file a SIPC form and assessment will be referred to the Ethics and Business Conduct Committee for appropriate disciplinary action.

Financial Responsibility and Operational Condition
[Deceased Member]

Rule 4.12. The Exchange shall have the authority to examine the financial responsibility and/or operational conditions of any OTP Holder or OTP Firm. In conducting such examinations, the Exchange may require an OTP Holder or OTP Firm to furnish requested information. If the Exchange deems it necessary, OTP Holders and OTP Firms shall make available their books and records as well as provide sworn or unsworn testimony. All examinations shall be conducted in a manner consistent with the rules and regulations governing the duty of the Exchange. [Upon the death of a member, the Board may, for such period as it shall determine, allow other members to execute orders on the facilities of the Exchange for the member organization of which the deceased was a member.]

Underwriting Commitments
[Disciplinary Action By Other Organizations]

Rule 4.13. Each OTP Holder or OTP Firm, for which the Exchange is the Designated Examining Authority, which enters into a security underwriting commitment, either with respect to an original or a secondary distribution of securities, whether or not admitted to dealing on the Exchange, shall notify the Exchange thereof in such manner as the Exchange shall prescribe. [Every member organization shall promptly notify the Exchange in writing of any disciplinary action, including the basis therefore, taken by any national securities exchange or association, clearing corporation, commodity futures market or government regulatory body against the member organization or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the member organization itself against any of its associated persons involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500.00, or any other significant limitation on activities.]

Lawsuits

Rule 4.14[-4.16. Reserved.] Each OTP Holder or OTP Firm, for which the Exchange is the Designated Examining Authority, shall give written notice to the Exchange regarding all lawsuits involving such OTP Holder or OTP Firm or any participant therein, including a

description of the nature and principal allegations of such lawsuits, and a statement of the amount of damages claimed therein. Similar notice shall be given to the Exchange regarding any claims or contingent liabilities that appear likely to result in litigation.

Section 3. Margins **Daily Margin Record**

Rule 4.15(a). Each OTP Holder or OTP Firm registered on the Exchange, carrying margin accounts for customers shall make and maintain a record of every case in which initial or additional margin must be obtained in a customer's account because of transactions effected in such account. This record shall show for each account the date of the transaction, the customer's name, the amount of margin required and the time when and manner in which such margin is furnished or obtained. This record shall be in a form acceptable to the Exchange and contain such additional information as the Exchange may from time to time prescribe. This record shall be preserved for at least twelve months.

Margin by Liquidation

Rule 4.15(b). No OTP Holder or OTP Firm registered on the Exchange shall permit a customer to make a practice of effecting transactions requiring initial or additional margin pursuant to rules of the Exchange or regulations of the Board of Governors of the Federal Reserve System and then furnishing such margin by the liquidation of the same or other commitments; except that the provisions of this section shall not apply to any account maintained for another broker or dealer in which are carried only the commitments of the customers of such other broker or dealer exclusive of his partners, provided such other broker or dealer (i) is an OTP Holder of the Exchange or an OTP Firm registered thereon; or (ii) has agreed in good faith with the OTP Holder or OTP Firm carrying the account that he will maintain a record equivalent to that referred to in Rule 4.15(a); or (iii) is not subject to the regulations of the Board of Governors of the Federal Reserve System.

Members of Other Exchanges

Rule 4.15(c). An OTP Holder or OTP Firm registered as a member on another national securities exchange or association which has comparable standards and which has been designated by the Securities and Exchange Commission as the primary regulator is exempt from the provisions of this rule, unless otherwise stated.

Customer Defined

Rule 4.15(d). For the purpose of this rule, the term customer shall include any person or entity for whom securities are purchased or sold or to whom securities are sold or from whom securities are purchased whether on a regular way, when issued, delayed or future delivery basis. It will also include any person or entity for whom securities are held or carried. The term will not include a broker or dealer from whom a security has been purchased or to whom a security has been sold for the account of the OTP Holder or OTP Firm or its customers.

Initial Margin

Rule 4.15(e). Initial margin shall be required and obtained in accordance with the provisions of Regulation T of the Board of Governors of the Federal Reserve System.

Margin Requirements

Rule 4.16(a). For the purpose of effecting new securities transactions and commitments, the margin required shall be an amount equivalent to the requirements of paragraph (b) of this section, or such greater amount as the Exchange may from time to time require for specific securities, with a minimum equity in the account of at least \$2,000, except that cash need not be deposited in excess of the cost of any security purchased. The foregoing minimum equity and cost of purchase provisions shall not apply to “when distributed” securities in cash accounts and the exercise of rights to subscribe.

Withdrawals of cash or securities may be made from any account, provided that after such withdrawal the equity in the account is at least the greater of \$2,000 or the amount required by the maintenance requirement of this rule.

Maintenance Margin Rule

Rule 4.16(b). The margin which must be maintained in margin accounts of customers, whether OTP Holders, OTP Firms, Allied Persons, or non-OTP Firms, shall be as follows:

- (1) 25% of the market value of all securities “long” in the account; plus
- (2) \$2.50 per share or 100% of the market value, in cash, whichever amount is greater, of each stock “short” in the account selling at less than \$5.00 per share; plus
- (3) \$5.00 per share or 30% of the market value, in cash, whichever amount is greater, of each stock “short” in the account selling at \$5.00 per share or above; plus
- (4) 5% of the principal amount or 30% of the market value, in cash, whichever amount is greater, of each bond “short” in the account.
- (5) In the case of securities listed pursuant to PCXE Rule 5.2, 100% of the market value, in cash, of each security held “long” in the account.

Exceptions to Rule

Rule 4.16(c). The foregoing requirements of this Rule are subject to the following exceptions:

(1) “Long” and “Short” Positions in Exchangeable or Convertible Securities (Excluding Options). When a security carried in a “long” position is exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into a security carried in a “short” position for the same customer, the minimum margin on such positions shall be 10% of the market value of the “long” securities, plus 10% of any payment of money. In determining such margin requirement, “short” positions shall be marked to the market.

(2) Exempted Securities.

(A) Positions in United States Government Obligations.—The minimum margin on any positions in obligations issued or unconditionally guaranteed as to principal or interest by the United States Government shall be 5% of the principal amount of such obligations.

(B) Positions in “Exempted Securities” Other Than Obligations of the United States Government.—The minimum margin on any positions in such obligations shall be 15% of the principal amount of such obligations or 25% of the market value, whichever amount is lower.

(The term “exempted securities” has the meaning given it in section 2(g) of Regulation T of the Board of Governors of the Federal Reserve System.)

(C) Cash Transactions With Customers—Special Provisions—When a customer purchases an issued “exempted” security from or through an OTP Holder or OTP Firm, in a cash account, full payment shall be made promptly. If, however, delivery or payment therefore is not made promptly after the trade date, a deposit shall be required as if it were a margin transaction, unless it is a transaction with a bank, trust company, insurance company, investment trust or charitable or nonprofit educational institution.

In connection with any net position resulting from any transaction in issued “exempted” securities made for an OTP Holder or OTP Firm, or a non-OTP Firm, or made for or with a bank, trust company, insurance company, investment trust or charitable or non-profit educational institution, no margin need be required and such net position need not be marked to market. However, where such net position is not marked to the market, an amount equal to the loss at the market in such position shall be considered as cash required to provide margin in the computation of the net capital of the OTP Holder or OTP Firm under the Exchange's capital requirements.

(3) Joint Accounts in Which the Carrying Firm or a Partner or Stockholder Therein Has an Interest.—In the case of a joint account carried by an OTP Firm, in which such firm, or any partner, OTP Holder, Allied Person or any stockholder (other than a holder of freely transferable stock only) of such OTP Firm participate with others, the interest of each participant other than the carrying OTP Firm shall be margined by each

such participant pursuant to the provisions of this rule as if such interest were in a separate account.

(4) Offsetting “Long” and “Short” Positions in the Same Security (Excluding OPTIONS). No margin shall be required on either position if delivery has been made by the use of the “long” securities. Otherwise, the minimum margin shall be 10% of the market value of the “long” securities. In determining such margin requirement “short” positions shall be marked to the market.

(5) Specialists' and Market Makers' Accounts

(A) The account of an OTP Holder or OTP Firm in which only transactions in securities in which he is registered and acts as a specialist are effected, may be carried upon a margin basis which is satisfactory to the specialist and the OTP Holder or OTP Firm. The amount of any deficiency between the margin deposited by the specialist and the haircut requirements of SEC Rule 15c3-1 shall be considered as a debit item in the computation of the Net Capital of the OTP Holder or OTP Firm under the Exchange's capital requirements.

(B) In the case of joint accounts carried by an OTP Holder or OTP Firm for specialists, in which the OTP Holder or OTP Firm participates, the margin deposited by the other participants may be in any amount which is mutually satisfactory. The amount of any deficiency between the amount deposited by the other participant, or participants, based upon their proportionate share of the haircut requirements of SEC Rule 15c3-1, shall be considered as a debit item in the computation of the Net Capital of the OTP Holder or OTP Firm under the Exchange's capital requirements.

(6) Broker/Dealer Accounts

(A) An OTP Holder or OTP Firm may carry the proprietary account of another broker-dealer that is registered with the Securities and Exchange Commission, upon a margin basis that is satisfactory to both parties, provided the requirements of Regulation T of the Board of Governors of the Federal Reserve System are adhered to and the account is not carried in a deficit equity condition. The amount of any deficiency between the equity maintained in the account and the haircut requirements of SEC Rule 15c3-1 shall be deducted in computing the Net Capital of the member organization under the Exchange's Capital Requirements.

(B) Joint Back Offices Arrangements. An arrangement may be established between two or more registered broker-dealers pursuant to Regulation T, Section 220.11 to form a joint back office ("JBO") arrangement for carrying and clearing, or carrying accounts of

participating broker-dealers. OTP Holders and OTP Firms must provide written notification to the Exchange prior to establishing a JBO.

(i) A carrying and clearing, or clearing OTP Holder or OTP Firm must:

(a) maintain a minimum Tentative Net Capital of \$25 million as computed pursuant to SEC Rule 15c3-1, except that an OTP Holder or OTP Firm whose primary business consists of the clearance of options market maker accounts may carry JBO accounts provided that it does not allow its Net Capital, as computed pursuant to SEC Rule 15c3-1, to fall below \$7 million for a period in excess of three consecutive business days. In addition, the OTP Holder or OTP Firm must include in its ratio of gross options market maker deductions to Net Capital required by the provisions of SEC Rule 15c3-1, gross deductions for JBO participant accounts. Clearance of options market maker accounts shall be deemed to be a broker-dealer's primary business if a minimum of 60% of the aggregate deductions in the above ratio are options market maker deductions;

(b) maintain a written risk analysis methodology for assessing the amount of credit extended to participating broker-dealers which shall be made available to the Exchange upon request; and

(c) deduct from Net Capital haircut requirements pursuant to SEC Rule 15c3-1 in excess of the equity maintained in the accounts of participating broker-dealers.

(ii) A participating broker-dealer must:

(a) be a registered broker-dealer subject to the SEC's Net Capital Rule;

(b) maintain an ownership interest in the carrying/clearing OTP Holder or OTP Firm pursuant to Regulation T, Section 220.11; and

(c) maintain a minimum liquidating equity of \$1 million in the joint Back Office arrangement exclusive of the ownership interest established in (b) above. When the minimum liquidating equity decreases below the \$1 million

requirement, the participant must deposit an amount sufficient to eliminate this deficiency within 5 business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T.

(d) If at any time a clearing OTP Holder or OTP Firm operating pursuant to subsection 6(b)(1)(a) above determines that its tentative net capital or that its net capital, respectively, has fallen below the applicable requirements, such clearing OTP Holder or OTP Firm must immediately notify the Exchange of such deficiency by telegraphic or facsimile notice; and such clearing OTP Holder or OTP Firm will be subject to the prohibitions against withdrawal of equity capital set forth in SEC Rule 15c3-1(e) and to the prohibitions against reduction, prepayment, and repayment of subordination agreements set forth in paragraph (b)(1) of SEC Rule 15c3-1, as if such broker or dealer's net capital were below the minimum standards specified by each of these paragraphs.

Other Provisions

Rule 4.16(d). Determination of Value for Margin Purposes.

(1) Active securities dealt in on a recognized exchange shall, for margin purposes, be valued at current market prices. Other securities shall be valued conservatively in light of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required in all cases where the securities carried are subject to unusually rapid or violent changes in value, or do not have an active market on a recognized exchange, or where the amount carried is such that it cannot be liquidated promptly.

To qualify for margin value, securities shall be in negotiable form and, except for bearer securities, shall be registered in street name (firm name, or firm agent, or firm nominee or in process of being transferred to such) after constructive receipt thereof. A cash margin deficiency shall be treated as a debit item in the computation of Net Capital.

(2) Puts, Calls, Other Options, Currency Warrants, Currency Index Warrants and Stock Index Warrants.

(A) Except as provided below, no put, call, currency warrant, currency index warrant or stock index warrant carried for a customer shall be considered of any value for the purpose of computing the margin required in the account of such customer.

(B) The issuance, guarantee or sale (other than a “long” sale) for a customer of a put or a call shall be considered as a security transaction subject to Rule 4.16(a). The short sale for a customer of a currency warrant, currency index warrant or stock index warrant shall be considered as a security transaction subject to paragraph (a) of this Rule 4.16(d).

(C) For purposes of this paragraph (2), obligations issued by the United States Government shall be referred to as United States Government obligations. Mortgage pass-through obligations guaranteed as to timely payment of principal and interest by the Government National Mortgage Association shall be referred to as GNMA obligations. The terms “current market value” or “current market price” of an option shall mean the total cost or net proceeds of the option contract on the day the option was purchased or sold and at any other time shall be the preceding business day's closing price of that option (times the appropriate unit of trading or multiplier) as shown by any regularly published reporting or quotation service. The term “exercise settlement amount” shall mean the difference between the “aggregate exercise price” and the “aggregate current index value” (as such terms are defined in Article XVII of the By-Laws of The Options Clearing Corporation.)

The term “stock option (contract)” shall mean an option contract on a single stock. The term “index stock group option (contract)” shall mean an option contract on an index stock group.

Definitions

The term “currency call warrant” means a warrant structured as a call on the underlying foreign currency.

The term “currency index warrant” means a warrant structured as a call on the underlying currency index group.

The term “currency index put warrant” means a warrant structured as a put on the underlying currency index group.

The term “currency put warrant” means a warrant structured as a put on the underlying foreign currency.

The term “currency warrant,” “currency index group,” “currency index warrant,” “stock warrant group” and “stock index warrant” when used in reference to a currency, currency index or stock index warrant shall have the meanings that PCXE Rule 8 assigns to them.

The terms “current market value” and “current market price” when used in reference to an option contract, currency warrant, currency index warrant or stock index warrant, shall mean the total cost or net proceeds of the option contract, currency warrant, currency index warrant or stock index warrant on the day it was purchased or sold and at any other time shall mean the preceding business day's closing price of that option contract, currency warrant, currency index warrant or stock index warrant indicated by any regularly published reporting or quotation service multiplied by the applicable multiplier in the case of an option contract or, in the case of a currency warrant, the units of underlying currency per warrant.

The term “index group value” in respect of a currency index warrant means the numerical index value of a particular currency index multiplied by \$1.00 U.S. with the product thereof divided by the applicable divisor stated in the prospectus, if any. The term “index group value” in respect of a stock index warrant means the numerical index value of a particular index multiplied by \$1.00 U.S. with the product thereof divided by the applicable divisor stated in the prospectus, if any.

The term “index stock group option (contract)” shall mean an option contract on an index stock group.

The term “numerical index value” in respect of a currency index warrant means the level of a particular currency index as reported by the reporting authority for the index. The term “numerical index value” in respect of a stock index warrant means the level of a particular index as reported by the reporting authority for the index.

The term “reporting authority” in respect of a currency index warrant means the institution or reporting service specified in the prospectus as the official source for calculating and reporting the levels of such currency index. The term “reporting authority” in respect of a stock index warrant means the institution or reporting service specified in the prospectus as the official source for calculating and reporting the levels of such stock index.

The term “spot price” in respect of a currency warrant means the noon buying rate per U.S. \$1.00 in New York City for cable transfers of the particular underlying currency as certified for customs purposes by the Federal Reserve Bank of New York.

The term “stock index call warrant” means a warrant structured as a call on the underlying stock index group.

The term “stock index put warrant” means a warrant structured as a put on the underlying stock index group.

The term “stock option (contract)” shall mean an option contract on a single stock.

The terms “strike price” or “exercise price” in respect of a currency warrant means the price per unit of underlying currency specified in the prospectus.

The terms “strike price” or “exercise price” in respect of a currency index warrant mean the index group value specified in the prospectus. The terms “strike price” or “exercise price” in respect of a stock index warrant mean the index group value specified in the prospectus.

The term “unit of underlying currency” in respect of a currency warrant means a single unit of the currency covered by a warrant (e.g., one British pound, one German mark, etc.).

(D) The margin on any put, call, currency warrant, currency index warrant or stock index warrant issued, guaranteed or carried “short” in a customer’s account shall be:

(i) In the case of puts and calls listed or traded on a registered national securities exchange or a registered securities association and issued by a registered clearing corporation, 100% of the current market value of the option plus the percentage of the current market value of the underlying security or index specified in column II of this subsection (D)(i) below; provided, however, that in the case of such options on Exchange-Traded Fund Shares, margin shall be 100% of the current market value of the contract plus: (I) 15% of the market value of equivalent units of the underlying security value if the Exchange-Traded Fund Share holds securities based upon a broad-based index or portfolio; or (II) 20% of the market value of equivalent units of the underlying security value if the Exchange-Traded Fund Share holds securities based upon a narrow-based index or portfolio.

Notwithstanding the margin required below, the minimum margin on any put or call issued, guaranteed or carried “short” in a customer’s account may be reduced by any “out-of-the-money amount” (as defined in this subparagraph (D)(i) below), but shall not be less than 100% of the current market value of the option plus the percentage of the current market value of the underlying security or index specified in column III of this subsection D(i) below.

<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>
<u>Security</u> <u>or</u> <u>Index</u>	<u>Initial and/or</u> <u>Maintenance</u> <u>Margin Required</u>	<u>Minimum</u> <u>Margin</u> <u>Required</u>	<u>Underlying</u> <u>Component Value</u>
(1) <u>Stock</u>	<u>20%</u>	<u>10%</u>	<u>The equivalent</u> <u>number of shares at</u> <u>current market</u> <u>prices</u>
(2) <u>Industry index</u> <u>stock group</u>	<u>20%</u>	<u>10%</u>	<u>The product of the</u> <u>current index group</u> <u>value and the</u>

(3)	<u>Broad index stock group</u>	<u>15%</u>	<u>10%</u>	<u>applicable index multiplier</u> The product of the <u>current index group value and the applicable index multiplier</u>
(4)	<u>U.S. Treasury Bills—95 days or less to maturity</u>	<u>.35%</u>	<u>1/20%</u>	<u>The underlying principal amount</u>
(5)	<u>U.S. Treasury notes</u>	<u>3%</u>	<u>1/2%</u>	<u>The underlying principal amount</u>
(6)	<u>U.S. Treasury bonds</u>	<u>3.5%</u>	<u>1/2%</u>	<u>The underlying principal amount</u>
(7)	<u>Foreign Currencies:</u>			
	<u>Australian dollar</u>	<u>4%</u>	<u>3/4%</u>	<u>The product of units per foreign currency contract and the closing spot price</u>
	<u>British pound</u>	<u>4%</u>	<u>3/4%</u>	
	<u>Canadian dollars</u>	<u>1%</u>	<u>3/4%</u>	
	<u>German marks</u>	<u>4%</u>	<u>3/4%</u>	
	<u>European Currency Unit</u>	<u>4%</u>	<u>3/4%</u>	
	<u>French franc</u>	<u>4%</u>	<u>3/4%</u>	
	<u>Japanese yen</u>	<u>4%</u>	<u>3/4%</u>	
	<u>Swiss franc</u>	<u>4%</u>	<u>3/4%</u>	
(8)	<u>Stock index warrant put or call</u>	<u>15%</u>	<u>10%</u>	<u>The product of the current index group value and the applicable index multiplier</u>
(9)	<u>Currency warrant put or call</u>			<u>The product of the units of underlying currency per warrant and the spot price of such currency</u>
	<u>Australian dollar</u>	<u>4%</u>	<u>3/4%</u>	<u>The product of units per foreign currency contract and the closing spot price</u>
	<u>British pound</u>	<u>4%</u>	<u>3/4%</u>	
	<u>Canadian dollars</u>	<u>4%</u>	<u>3/4%</u>	
	<u>German marks</u>	<u>4%</u>	<u>3/4%</u>	
	<u>European Currency Unit</u>	<u>4%</u>	<u>3/4%</u>	
	<u>French franc</u>	<u>4%</u>	<u>3/4%</u>	

<u>Japanese yen</u>	<u>4%</u>	<u>3/4%</u>
<u>Swiss franc</u>	<u>4%</u>	<u>3/4%</u>
(10) <u>Currency index warrant put or call:</u>		

The applicable margin requirements for currency index warrants shall be determined on a case-by-case basis and shall be subject to approval by the Securities and Exchange Commission.

For the purposes of this subsection (D)(i), “out-of-the-money amounts” are determined as follows:

<u>Option Issue</u>	<u>Call</u>	<u>Put</u>
<u>Stock or Exchange-Traded Fund Share options</u>	<u>Any excess of the aggregate exercise price of the option over the current market value of the equivalent number of shares of the underlying security.</u>	<u>Any excess of the current market value of the equivalent number of shares of the underlying security over the aggregate exercise price of the option.</u>
<u>U.S. Treasury options</u>	<u>Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.</u>	<u>Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.</u>
<u>Index stock group options</u>	<u>Any excess of aggregate exercise price of the option over the product of the current index group value and the applicable multiplier.</u>	<u>Any excess of the product of the current index group value and the applicable multiplier over the aggregate exercise price of the option.</u>
<u>Foreign currency options</u>	<u>Any excess of the aggregate exercise price of the option over the product of units per foreign currency contract and the closing spot prices.</u>	<u>The product of units per foreign currency contract and the closing spot prices over the aggregate price of the option.</u>

If the option contract provides for the delivery of obligations with different maturity dates or coupon rates, the computation of the “out-of-the-money amount” if any, where required by this Rule, shall be made in such a manner as to result in the highest margin requirement on the short option position.

<u>Warrant Issue</u>	<u>Call</u>	<u>Put</u>
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<u>Stock index warrant put call</u>	<u>Any excess of the strike price of the warrant over the current index group value</u>	<u>Any excess of the current index group value over the strike or price of the warrant.</u>
<u>Currency warrant put or call</u>	<u>Any excess of the strike price of the warrant over the product of the units of underlying currency per warrant and the spot price of the currency</u>	<u>Any excess of the product of the units of underlying currency per warrant and the spot price over the strike price of the warrant</u>
<u>Currency index warrant put or call</u>	<u>Any excess of strike price of the warrant over the index group value</u>	<u>Any excess of the product over the strike price of the warrant</u>

(ii) In the case of puts and calls listed or traded on a registered national securities exchange or a registered securities association and issued by a registered clearing corporation which represent options on GNMA obligations in the principal amount of \$100,000, 130% of the current market value of the option plus \$1,500, except that the margin required need not exceed \$5,000 plus the current market value of the option.

(iii) In the case of puts and calls not traded on a registered national securities exchange and not issued by a registered clearing corporation and representing stock options or index stock group options, 100% of the option premium received plus 45% of the current market value of the equivalent number of shares of the underlying security or the product of the current index group value of the underlying index stock group and the applicable index multiplier, reduced by any excess of the exercise price over the current market value of the underlying security or the product of the current index group value of the underlying index stock group and the applicable multiplier, in the case of a call, or any excess of the current market value of the underlying security or the product of the current index group value of the underlying index stock group and the applicable multiplier, over the exercise price, in the case of a put. In either case, the minimum margin shall not be less than 100% of the option premium received plus 10% of the current market value of the equivalent number of shares of the underlying security or the product of the current index group value of the underlying index stock group and the applicable index multiplier.

(E) Each such put or call shall be margined separately and any difference between the market price of the underlying security and the exercise price of a put or call shall be considered to be of value only in providing the amount of margin required on that particular put or call. Substantial additional margin must be required on options issued, guaranteed or carried "short" with an unusually long period of time to expiration (generally, more than six months and ten days), or written on securities which are subject to unusually rapid or violent changes in value, or which do not have an active market, or where the securities subject to the option cannot be liquidated or acquired promptly.

(F)(1) If both a put and call specifying the same number of shares of the same underlying security, the same principal amount of the same United States Government obligation or the same index multiplier for the same index stock group are issued, guaranteed or carried “short” for a customer, the amount of margin required shall be the margin on the put or call whichever is greater, as required pursuant to (D)(i) above, plus 100% of the current market value of the other option. The minimum margin requirement, however, shall not apply to the other option.

(2) If both a put and call for the same GNMA obligation in the principal amount of \$100,000 are issued, guaranteed or carried “short” for a customer, the amount of margin required shall be the margin on the put or call whichever is greater, as required pursuant to (D)(ii) above, plus the current market value of the other option.

(3) When a “short” position in a stock index call warrant is offset by a “short” position of equivalent underlying value in a stock index put warrant or stock index put option issued by the Options Clearing Corporation on the same index, or a “short” position in a stock index put warrant is offset by a “short” position of equivalent underlying value in a stock index call warrant or a “short” stock index call option issued by the Options Clearing Corporation on the same index, the margin required shall be the margin on the put or the call, whichever is greater, plus the current market value of the other position.

(4) When a “short” position in a currency call warrant is offset by a “short” position of equivalent underlying value in a currency put warrant or currency put option issued by the Options Clearing Corporation on the same currency or a “short” position in a currency put warrant is offset by a “short” position of equivalent underlying value in a currency call warrant or a “short” call issued by the Options Clearing Corporation on the same currency, the margin required shall be the margin on the put or the call, whichever is greater, plus the current market value of the other position. This same offset provision shall also be available to “short” call or put positions in currency index warrants.

(G) Spreads in Listed Options, Currency Warrants and Index Warrants

(1) Where a call that is listed or traded on a registered national securities exchange or registered securities association is carried “long” for a customer's account and the account is also “short” a call listed or traded on a registered national securities exchange, expiring on or before the date of expiration of the “long” listed call and specifying the same number of shares of the same underlying security, the same principal amount of the same United States Government obligation or the same index multiplier for the same index stock group, the margin required on the “short” call shall be the lower of (i) the margin required pursuant to (D)(i) above, in the case of stock options, United States Government obligations, or index stock group options or (ii) the amount, if any, by which the exercise price of the “long” call exceeds the exercise price of the “short” call.

For the purposes of this subparagraph (1), in instances where the exercise value of the “short” call equals or exceeds the exercise value of “long” call, no margin need be required.

(2) Where a put that is listed or traded on a registered national securities exchange or registered securities association is carried “long” for a customer's account and the account is also “short” a put listed or traded on a registered national securities exchange, expiring on or before the date of expiration of the “long” listed put and specifying the same number of shares of the same underlying security or the same principal amount of the same United States Government obligations or the same index multiplier for the same index stock group, the margin required on the “short” put shall be the lower of (i) the margin required pursuant to (D)(i) above, in the case of stock options, United States Government obligations, or index stock group options or (ii) the amount, if any, by which the exercise price of the “short” put exceeds the exercise price of the “long” put.

For purposes of this subparagraph (2), in instances where the exercise value of the “long” put equals or exceeds the exercise value of the “short” put, no margin need be required.

(3) Where a call that is listed or traded on a registered national securities exchange or registered securities association is carried “long” for a customer's account and the account is also “short” a call listed or traded on a registered national securities exchange, expiring on or before the date of expiration of the “long” listed call and, written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the “short” call shall be the lower of (i) the margin required pursuant to (D)(ii) above or (ii) the amount, if any, by which the exercise price of the “long” call exceeds the exercise price of the “short” call multiplied by the appropriate multiplier factor set forth below.

(4) When a “long” position in a stock index call warrant is offset by a “short” position of equivalent underlying value in a stock index call warrant or a “short” stock index call option on the same index and the “long” position expires no earlier than the “short” position, the margin required shall be the amount, if any, by which the strike price on the “long” position exceeds the strike price of the “short” position.

(5) When a “long” position in a stock index put warrant is offset by a “short” position of equivalent underlying value in a stock index put warrant or a “short” stock index put option issued by the Options Clearing Corporation on the same index and the “long” position expires not earlier than the “short” position, the margin required shall be the amount, if any, by which the strike price of the “short” position exceeds the strike price of the “long” position.

(6) When a “long” position in a currency call warrant is offset by a “short” position of equivalent underlying value in a currency call warrant or a “short” currency call option issued by the Options Clearing Corporation on the same currency and the

“long” position expires no earlier than the “short” position, the margin required shall be the amount, if any, by which the strike price of the “long” position exceeds the strike price of the “short” position, times the units of underlying currency per warrant. This same offset provision shall also be available to call positions in currency index warrants.

(7) When a “long” position in a currency put warrant is offset with a “short” position of equivalent underlying value in a currency put warrant or a “short” currency put option issued by the Options Clearing Corporation on the same currency and the “long” position expires not earlier than the “short” position, the margin required shall be the amount, if any, by which the strike price of the “short” position exceeds the strike price of the “long” position times the units of underlying currency per warrant. This same offset provision shall also be available to put positions in currency index warrants.

Where a put that is listed or traded on a registered national securities exchange or registered securities association is carried “long” for a customer's account and the account is also “short” a put listed or traded on a registered national securities exchange, expiring on or before the date of expiration of the “long” listed put and, written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the “short” put shall be the lower of (iii) the margin required pursuant to (D)(ii) above or (iv) the amount, if any by which the exercise price of the “short” put exceeds the exercise price of the “long” put multiplied by the appropriate multiplier factor set forth below.

For purposes of this subparagraph (G)(3), the multiplier factor to be applied shall depend on the then current highest qualifying rate as defined by the rules of the national securities exchange on which the option is listed or traded. If the then current highest qualifying rate is less than 8%, the multiplier factor shall be 1; if the then current highest qualifying rate is greater than or equal to 8% but less than 10%, the multiplier factor shall be 1.2; if the then current highest qualifying rate is greater than or equal to 10% but less than 12%, the multiplier factor shall be 1.4; if the then current highest qualifying rate is greater than or equal to 12%, but less than 14%, the multiplier factor shall be 1.5; if the then current highest qualifying rate is greater than or equal to 14%, but less than 16%, the multiplier factor shall be 1.6; and if the then current highest qualifying rate is greater than or equal to 16%, but less than or equal to 18%, the multiplier factor shall be 1.7. The multiplier factor or factors for higher qualifying rates shall be established by the Exchange as required.

(H) “Long” and “Short” Positions in Securities and Options.

(1) “Long” Stock and “Short” Call.—

Where a call is issued, guaranteed or carried “short” against an existing net “long” position in the underlying stock, no margin need be required on the “short” call, provided such net “long” stock position is adequately margined in accordance with this Rule.

(2) “Long” Exchangeable or Convertible Security and “Short” Call.—

Where a call is issued, guaranteed or carried “short” against an existing net “long” position in any security (excluding options) exchangeable or convertible within a reasonable time without restriction other than the payment of money into the security under option, no margin need be required on the “short” call, provided such net “long” security position is adequately margined in accordance with this Rule, except that margin shall also be required on the “short” call equal to any amount by which the conversion price of the net “long” security position exceeds the exercise price of the call.

For purposes of this subparagraph (2), no offsetting value may be given to a long position in an exchangeable or convertible security if the rights of the holder thereof to effect such exchange or conversion will expire prior to the expiration date of the related option contracts carried “short” in such account.

(3) “Specific Deposit” or “Escrow Deposit” —

To the extent that a short option contract is covered by a “specific deposit” or an “escrow deposit” of shares of the underlying stock represented by such option contract, no margin shall be required on the short option; provided, however, that in the case of a specific deposit, if such shares are carried in a margin account, they are margined in accordance with the provisions of this Rule. Where the short option contract is covered by an “escrow deposit”, executed and delivered to the Options Clearing Corporation, the underlying stock deposited in respect of such option contract shall not be deemed to have any value for margin purposes. A deposit of shares of the underlying stock represented by an option contract shall be deemed a “specific deposit” or “escrow deposit” for the purposes of this Rule if the agreements required by the Rules of the Options Clearing Corporation have been executed and delivered to the Options Clearing Corporation.

(4) “Short” Stock and “Short” Put.—

Where a put is issued, guaranteed or carried “short” against an existing net “short” position in the stock under option, no margin need be required on the “short” put, provided such net “short” stock position is adequately margined in accordance with this Rule.

(5) Bank Guarantee Letters.—

No margin need be required in respect of a put option contract carried in a “short” position where the customer has delivered to the OTP Holder or OTP Firm with which such position is maintained a letter of guarantee issued by a bank approved to issue escrow receipts under Rule 610 of the Rules of the Options Clearing Corporation, in form satisfactory to the Exchange, which certifies that such bank holds on deposit for the account of the customer cash in the full amount of the aggregate exercise price of such put option contract, and that such amount will be paid to the OTP Holder or OTP Firm against delivery of the underlying security covered by such put option contract.

(6) No margin is required in respect of a warrant on a market index carried in a short position where the customer has delivered, promptly after the warrant has been sold short, to the OTP Holder or OTP Firm with which such position is maintained, a Market Index Warrant Escrow Receipt in a form satisfactory to the Exchange, issued by a bank or trust company pursuant to specific authorization from the customer certifying that the issuer of the agreement holds for the account of the customer: (1) cash, (2) cash equivalents, (3) one or more qualified equity securities, or (4) a combination thereof; that such deposit has an aggregate market value, at the time the warrant has been sold short, of not less than 100% of the aggregate currency index value; and that the issuer will promptly pay the OTP Holder or OTP Firm the exercise settlement amount in the event the account is assigned an exercise notice.

(7) Determining Net “Long” and Net “Short” Positions.—

In determining net “long” and net “short” positions, in the underlying securities, offsetting “long” and “short” positions in exchangeable or convertible securities or in the same security, as discussed in Rule 4.16(c)(1) and Rule 4.16(c)(4), shall be deducted.

In computing margin on such an existing net position in the underlying security, including a specific deposit, carried against a put or call, the current market price to be used shall not be greater than the call price in the case of a call or less than the put price in the case of a put.

Under this subparagraph (G), therefore, in the case of so-called “convertible hedge” positions (i.e., where a security, other than an option, carried in a “long” position is exchangeable or convertible within a reasonable time, without restriction other than the payment of money, into a security carried in a “short” position) or “short against the box” positions in a customer's account, neither the “long” nor “short” position is available for purposes of offsetting the margin required on any option position carried for such customer.

(I) When an OTP Holder or OTP Firm issues or guarantees an option to receive or deliver securities for a customer, such option shall be margined as if it were a put or call.

(J) Option Specialists, Market Makers and Traders. Notwithstanding the other provisions of this sub-section (d)(2), an OTP Holder or OTP Firm may clear and carry the listed option transactions of one or more registered specialists, registered market makers or registered traders in options (which registered traders are deemed specialists for all purposes under the Securities Exchange Act of 1934 pursuant to the rules of a national securities exchange) (hereafter referred to as “specialist(s)”), upon a “Good Faith” margin basis satisfactory to the concerned parties, provided the “Good Faith” margin requirement is not less than the Net Capital haircut deduction of the OTP Holder or OTP Firm carrying the transaction pursuant to SEC Rule 15c3-1. In lieu of collecting the “Good Faith” margin requirement, a carrying OTP Holder or OTP Firm may elect

to deduct in computing its Net Capital the amount of any deficiency between the equity maintained in the account and the “Good Faith” margin required.

For purposes of the subsection (d)(2)(J), a permitted offset position means, in the case of an option in which a specialist makes a market, a position in the underlying asset or other related assets, and in the case of other securities in which a specialist makes a market, a position in options overlying the securities in which a specialist makes a market. Accordingly, a specialist in options may establish, on a share-for-share basis, a long or short position in the securities underlying the options in which the specialist makes a market, and a specialist in securities other than options may purchase or write options overlying the securities in which the specialist makes a market, if the account holds the following permitted offset positions:

(i) a short option position that is “in or at the money” and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security that is “in the money”;

(ii) a long option position that is “in or at the money” and is not offset by a long or short option position for an equal or greater number of shares of the same underlying security that is “in the money”;

(iii) a short option position against which an exercise notice was tendered;

(iv) a long option position that was exercised;

(v) a net long position in a security (other than an option) in which a specialist makes a market;

(vi) a net short position in a security (other than an option) in which a specialist makes a market; or

(vii) a specified portfolio type as referred to in SEC Rule 15c3-1, including its appendices, or any applicable SEC staff interpretation or no-action position.

Permitted offset transactions must be effected for market making purposes such as hedging, risk reduction, rebalancing of positions, liquidation, or accommodation of customer orders, or other similar market making purposes.

For purposes of this paragraph (d)(2)(J), the term “in or at the money” means the current market price of the underlying security is not more than two standard exercise intervals below (with respect to a call option) or above (with respect to a put option) the exercise price of the option; and, the term “overlying option” means a put option purchased or a call option written against a long position in an underlying asset; or a call option purchased or a put option written against a short position in an underlying asset.

Securities, including options, in such accounts shall be valued conservatively in the light of current market prices and the amount that might be realized upon liquidation. Substantial additional margin must be required or excess Net Capital maintained in all cases were the securities carried: (i) are subject to unusually rapid or violent changes in value including volatility in the expiration months of options, (ii) do not have an active market, or (iii) in one or more or all accounts, including proprietary accounts combined, are such that they cannot be liquidated promptly or represent undue concentration of risk

in view of the carrying organization's Net Capital and its overall exposure to material loss.

(K) The Exchange may at any time impose higher margin requirements with respect to any option or warrant position(s) if it deems such higher margin requirements are appropriate.

(L) Exclusive designation - A customer may designate at the time an option order is entered which security position held in the account is to serve in lieu of the required margin, if such service is offered by the OTP Holder or OTP Firm; or the customer may have a standing agreement with the OTP Holder or OTP Firm as to the method to be used for determining on any given day which security position will be used in lieu of the margin to support an option transaction. Any security held in the account that serves in lieu of the required margin for a short put or short call shall be unavailable to support any other option transaction in the account.

(M) Cash account transactions. – An OTP Holder or OTP Firm may make option transactions in a customer's cash account, providing:

(i) The transaction is permissible under Section 220.8 of Regulation T of the Board of Governors of the Federal Reserve System; and

(ii) The transaction is a debit put spread in listed broad-based index options with European-style exercise comprised of a long put(s) coupled with a short put(s) overlying the same broad-based index with an equivalent underlying aggregate index value and the short put(s) and long put(s) expire simultaneously, and the strike price of the long put(s) exceed the strike price of the short put(s).

(3) “When Issued” and “When Distributed” Securities.—

(A) Margin Accounts

The minimum amount of margin on any transaction or net position in each “when issued” security shall be the same as if such security were issued.

Each position in a “when issued” security shall be margined separately and any unrealized profit shall be of value only in providing the amount of margin required on that particular position.

When an account has a “short” position in a “when issued” security and it is held in the account in respect of which the “when issued” security may be issued, such “short” position shall be marked to the market and the balance in the account shall for the purpose of this rule be adjusted for any unrealized loss in such “short” position.

(B) Cash Accounts

In connection with any transactions or net position resulting from contracts for a “when issued” security in an account other than that of an OTP Holder or OTP Firm,

non-OTP broker or dealer, bank, trust company, insurance company, investment trust, or charitable or non-profit educational institution, deposits shall be required equal to the margin required were such transaction or position in a margin account.

In connection with any net position resulting from contracts for a “when issued” security made for or with a non-OTP broker or dealer, no margin need be required, but such net position must be marked to the market.

In connection with any net position resulting from contracts for a “when issued” security made for an OTP Holder or OTP Firm or for or with a bank, trust company, insurance company, investment trust, or charitable or non-profit educational institution, no margin need be required and such net position need not be marked to the market. However, where such net position is not marked to the market, an amount equal to the loss at the market in such position shall be considered as cash required to provide margin in the computation of the Net Capital of the OTP Holder or OTP Firm under the Exchange's Capital Requirements.

The provisions of this subparagraph shall not apply to any position resulting from contracts on a “when issued” basis in a security

(i) which is the subject of a primary distribution in connection with a bona fide offering by the issuer to the general public for “cash” , or

(ii) which is exempt by the Exchange as involving a primary distribution.
The term “when issued” as used herein also means “when distributed.”

(4) Guaranteed Accounts.—Any account guaranteed by another account may be consolidated with such other account and the required margin may be determined on the net position of both accounts, provided the guarantee is in writing and permits the OTP Holder or OTP Firm carrying the account, without restriction, to use the money and securities in the guaranteeing account to carry the guaranteed account or to pay any deficit therein; and provided further that such guaranteeing account is not owned directly or indirectly by (a) a partner, OTP Holder, Allied Person or any stockholder (other than a holder of freely transferable stock only) in the firm carrying such account or (b) an OTP Holder, OTP Firm, partner, Allied Person, or any stockholder (other than a holder of freely transferable stock only) therein having a definite arrangement for participating in the commissions earned on the guaranteed account. However, the guarantee of a limited partner or of a holder of non-voting stock, if based upon his resources other than his capital contribution to or other than his interest in an OTP Holder or OTP Firm, is not affected by the foregoing prohibition, and such a guarantee may be taken into consideration in computing margin in the guaranteed account.

(5) Consolidation of Accounts.—When two or more accounts are carried for any person or entity, the required margin may be determined on the net position of said

accounts, provided the customer has consented that the money and securities in each of such accounts may be used to carry, or pay any deficit in, all such accounts.

(6) Time Within Which Margin, Deposit or “Mark to Market” Must Be Obtained.—The amount of margin, deposit or “mark to market” required by any provision of this Rule shall be obtained as promptly as possible and in any event within a reasonable time.

(7) Practice of Meeting Margin Calls by Liquidation Prohibited.—No OTP Holder or OTP Firm shall permit a customer to make a practice of effecting transactions requiring margin and then either deferring the furnishing of margin beyond the time when such transactions would ordinarily be settled or cleared, or meeting such demand for margin by the liquidation of the same or other commitments in his account.

(8) Free Riding in Cash Accounts Prohibited.—No OTP Holder or OTP Firm shall permit a customer (other than a broker/dealer or bank, trust company, insurance company, investment trust, or charitable or non-profit educational institution) to make a practice, directly or indirectly, of effecting transactions in a cash account where the cost of securities purchased is met by the sale of the same securities. No OTP Holder or OTP Firm shall permit such a customer to make a practice of selling securities which were purchased in a cash account at another OTP Firm and are not yet paid for. A customer shall not be deemed to be continuing this practice if for a period of 90 days (or less with the approval of the Exchange) no such transactions have taken place. An OTP Holder or OTP Firm transferring an account which is under restraint to another OTP Firm shall inform the receiving OTP Firm of the restraint.

(9) BOUNDS

(A) Except as provided below, no BOUND carried for a customer shall be considered of any value for the purpose of computing the margin required in the account of such customer.

(B) The issuance, guarantee or opening sale (writing) for a customer of a BOUND shall be considered as a security transaction subject to paragraph (a) of this Rule 4.16.

(C) The terms “current market value” and “current market price,” when used with reference to a BOUND, shall mean the total cost or net proceeds of the BOUND on the day it was purchased or sold and at any other time shall mean the preceding business day's closing price of that BOUND indicated by any regularly published reporting or quotation service.

(D) Subject to the exception set forth in subparagraphs (F) through (J) of this paragraph (d)(9), the minimum margin on any BOUND issued, guaranteed or carried “short” in a customer's account shall be 100% of the BOUND price plus 20% of the

market value of the BOUND, provided, however, that the maximum margin required on each such BOUND shall not exceed the strike price for such BOUND.

(E) Except as provided below, each BOUND issued, guaranteed or carried “short” in a customer's account shall be margined separately.

(F) When a BOUND is carried “short” for a customer's account and the account is also “long” a BOUND expiring on or before the expiration date of the “short” BOUND and written on the same number of shares of the same equity security, the minimum margin that must be maintained in respect of the “short” position shall be the lesser of (1) the margin required pursuant to subparagraph (D) of this paragraph (d)(9), or (2) the amount, if any, by which the strike price of the “short” BOUND exceeds the strike price of the “long” BOUND.

(G)(i) When a BOUND is issued, guaranteed or carried “short” against an existing net “long” position in the security underlying the BOUND, or in any security which meets the requirements of Rule 6.1(b)(24) relating to covered options or in any security immediately exchangeable or convertible, other than warrants without restriction including the payment of money, into the security underlying the BOUND, no margin need be required on the BOUND, provided (1) such net “long” position is adequately margined in accordance with this Rule and (2) the right to exchange or convert the net “long” position does not expire on or before the expiration date of the “short” BOUND.

(ii) When a BOUND and a LEAP with the same expiration and strike price are issued, guaranteed or carried “short” against an existing net “long” position in the security underlying the BOUND and LEAP, or in any security that meets the requirements of Rule 6.1(a)(24) relating to covered options or in any security immediately exchangeable or convertible, other than warrants without restriction including the payment of money, into the security underlying the BOUND and LEAP, no margin need be required on either the BOUND or the LEAP provided (1) such net “long” position is adequately margined in accordance with this Rule and (2) the right to exchange or convert the net “long” position does not expire on or before the expiration date of the “short” BOUND or LEAP.

(iii) When a BOUND is issued, guaranteed or carried “short” against an existing net “long” position in a warrant convertible into an equivalent number of shares of the same underlying equity security, margin shall be required on the same BOUND equal to the lesser of (1) the margin required pursuant to subparagraph (D) of this Paragraph (d)(9), or (2) the amount, if any, by which the conversion price of the “long” warrant exceeds the strike price of the “short” BOUND, provided such net “long” position is adequately margined in accordance with this Rule and the right to convert the net “long” position does not expire on or before the date of expiration of the “short” BOUND. Such warrants shall have no value for purposes of this Rule.

(iv) In determining net “long” and “short” positions for purposes of subparagraphs (G)(i) and (ii) above, offsetting “long” and “short” positions in exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraphs (c)(1) and (c)(4) of this Rule, shall be deducted. In computing margin on such existing net security position carried against a “short” BOUND, the current market price to be used shall not be greater than the strike price, and the required margin shall be increased by an unrealized loss on the short security position.

(H) Notwithstanding the other provisions of this paragraph (d)(9), the account of a person in which are effected only transactions in which such person is registered and acts as a specialist or market maker on an exchange, and the account of a registered trader containing only transactions effected by him in his capacity as a registered trader, may be cleared and carried on a margin basis which is satisfactory to the specialist, market maker or registered trader and the OTP Holder or OTP Firm carrying the account.

(I) The Exchange may at any time impose higher margin requirements than those set forth above in respect to any BOUND position(s) when it deems such higher margin requirements are appropriate.

Notice to Exchange
[Officers and Employees Restricted]

Rule 4.17[(a)]. An OTP Holder or OTP Firm commencing to carry margin accounts shall immediately notify the Exchange in writing. [Every salaried officer or employee of the Exchange and every salaried officer or employee of any corporation in which the Exchange owns the majority of the stock shall report promptly to the Exchange every purchase or sale for his own account or the account of others of any security which is the underlying security of any option contract admitted to dealings on the Exchange.

(b) No salaried officer or employee of the Exchange or salaried officer or employee of any corporation in which the Exchange owns the majority of the corporate stock may purchase or sell for his own account or for the account of others any option contract which entitles the purchaser to purchase or sell any security described in paragraph (a) of Rule 4.17.]

Location of Records
[Disclosure of Financial Arrangements of Member]

Rule 4.18[(a)]. An OTP Holder or OTP Firm shall maintain at its main office the daily margin record required by Rule 4.15(a). An OTP Holder or OTP Firm maintaining margin records at two or more offices shall maintain such record at each office for inspection. [A Market Maker, Floor Broker, or Member Organization who enters into a financial arrangement with any other person or entity shall disclose to the Exchange the identity of such person or entity and the terms of the arrangement. For the purposes of this rule, a financial arrangement is defined as:

(1) the direct financing of a Member's dealings upon the Exchange; or

- (2) any direct equity investment or profit sharing arrangement; or
- (3) any consideration over the amount of \$5,000.00, including, but not limited to, gifts, loans, annual salaries or bonuses.

(b) Exchange Members with financial arrangements must submit to the Exchange notification of the initiation, modification or termination of such financial arrangements in a form, time and manner approved by the Exchange within ten business days of the effective date of such arrangements or within such shorter period of time as the Exchange may require. Failure to disclose the terms of such financial arrangements to the Exchange may result in disciplinary action.]

Determination of Margin
[Reporting Requirements Applicable to Short Sales in Nasdaq/NM Securities]

Rule 4.19[(a)]. Margin requirements shall be determined pursuant to Rule 4.15. [No member shall initiate, accept or transmit for execution, or execute a sale of a Nasdaq National Market (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 bid test exempt sale.

(b) For purposes of this Rule, a short sale shall have the same meaning as set forth in SEC Rule 3b-3 under the Securities Exchange Act of 1934.

(c) A short sale may be designated as a bid test exempt sale if:

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

(2)(A) During an eighteen-month period commencing with the effective date of this Rule, if the sale is by or for the account of a registered options Market Maker, provided that the short sale is an exempt hedge transaction in a designated Nasdaq/NM security underlying a class of stock options or included in an index underlying a class of index options for which the Market Maker holds an appointment under Rule 6.35.

(b) For purposes of this paragraph (c)(2):

(i) An "exempt hedge transaction" shall mean a short sale in a Nasdaq/NM security that was effected to hedge, and in fact serves to hedge, an existing offsetting options position or an offsetting position that was created in one or more transactions contemporaneous with the short sale, provided that, in the case of a stock option, when establishing the short position the Market Maker receives or is eligible to receive good faith margin pursuant to Section 220.12 of Regulation T of the Board of Governors of the Federal Reserve System for that transaction, and provided further that, in the case of an index option, (a) the Nasdaq/NM security sold short is a component security of the index underlying

such index option, (b) at least 10% of the value of the index underlying such index option is represented by one or more Nasdaq/NM securities, and (c) the current aggregate value of the Nasdaq/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 activity, such as index arbitrage or risk arbitrage that in either case is independent of the Market Maker's market making functions, will not be considered an "exempt hedge transaction."

(ii) A "designated Nasdaq/NM security" shall mean a Nasdaq/NM security that the Market Maker has designated as qualifying for the exemption provided in subparagraph (c)(2). Each Market Maker may designate Nasdaq/NM securities underlying options or included in an index underlying options for which he holds an appointment pursuant to Rule 6.35 on the Options Floor of the Exchange as "designated Nasdaq/NM securities." Such designations shall be made in writing and shall be filed with the Exchange's Options Surveillance Department in the same manner in which class appointments under Rule 6.35 are declared.

(iii) A registered Market Maker shall be considered to be a "qualified options Market Maker" in options on those Nasdaq/NM securities he has designated in accordance with subparagraph (c)(2)(B)(2) above for purposes of the exemption for qualified options Market Makers from the bid test established in the NASD Rules of Fair Practice, provided that such Market Maker's status as a qualified options Market Maker may be withdrawn, suspended or modified by the Exchange as the result of action of the Options Floor Trading Committee pursuant to Rule 6.35 or of the Options Allocation Committee pursuant to Options Floor Procedure Advice B-13.

(iv) Short sales of a security of a company involved in a publicly announced merger or acquisition by or for the account of a registered options market maker will be deemed to be an exempt hedge transaction qualifying for designation as bid test exempt pursuant to this subparagraph (c)(2) if the short sale was made to hedge existing or prospective positions (based on communicated, specific 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 market maker holds an appointment under Rule 6.35, and were or will be established in the course of bona fide market-making activity.

(d) This Rule may be modified, withdrawn or extended upon termination of the eighteen-month period noted in subparagraph (c)(2)(A) above, provided that so long as the exemption for options Market Makers from the short sale bid test contained in the NASD Rules of Fair Practice continues in effect, this Rule will also continue in effect until it is modified or withdrawn.

(e) It will not be deemed a violation of this Rule 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 when a member does not know or have reason to know that the criteria for designating such sale as bid test exempt are not satisfied.

(f) If a member initiates, accepts for execution, transmits for execution or executes a short sale of a Nasdaq/NM security without clearly and properly identifying it as required by paragraph (a) above, or if a member designates a short sale as a bid test exempt sale under paragraph (c) 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 this Rule, as well as Exchange Rules 4.6(a) and 6.37, and article XI, section 2(b) of the Constitution.

Commentary:

.01 This Rule is adopted in conjunction with the adoption of an addition to the Rules of Fair Practice of the NASD which imposes a bid test on short sales of stocks traded on the Nasdaq National Market, subject to certain exemptions including, during a pilot period, an exemption for certain transactions of options market makers. This Rule will continue in effect only so long as the options Market Maker exemption from the NASD bid test remains in effect.

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

.03 For purposes of subparagraph (c)(2)(B)(i), transactions will be considered to be "contemporaneous" if they occur simultaneously or within the same brief period of time.]

Rules 4.20 – 4.24. Reserved.

[Books and Records

Rule 4.20(a). Each Member and Member Organization must make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Securities Exchange Act of 1934 and the rules and regulations thereunder (including any interpretation relating thereto) as though such Members or Member Organization were a broker or dealer registered with the SEC pursuant to Section 15 of the Exchange Act. No Member or Member Organization may refuse to make available to the Exchange such books, records or other information as may be called for under the Rules or as may be requested in connection with an Exchange investigation.

Commentary:

.01 The following Exchange Rules contain specific requirements with regard to the maintenance, retention and furnishing of books, records and other information: Rules 1.16, 2.1, 2.4, 2.6, 2.7, 2.8, 2.10, 2.11, 2.12, 2.15, 2.18, 4.9, 4.10, 4.20, 4.21, 4.25, 6.14, 6.15, 6.16, 6.17, 6.18, 6.19, 6.39, 6.41, 6.46, 6.68, 6.69, 9.2, 9.17 and 9.18. The foregoing list is not intended to be exhaustive and Members and Member Organizations must comply with applicable record keeping and reporting requirements regardless of whether they are listed here.

Daily Position Statements

Rule 4.20(b). Each member and Member Organization must receive daily position statements with respect to securities held by the Options Clearing Corporation or any member thereof, the DTCC of any similar clearing organization and must reconcile securities and money balances at least once per month by comparing those position statements against the Member or Member Organization's books and records. Each Member or Member Organization must promptly report any differences to the contra organization and make every effort to resolve the differences. A Member or Member Organization who processes transactions through the Member or Member Organization's clearing firm's clearance account may utilize those clearance account records to satisfy this record keeping requirement provided that: (i) the Member Organization clearing firm complies with the provisions of SEC Rules 17a-3(b)(2) and 17a-4(i); (ii) the Member or Member Organization maintains those clearance account records pertaining to the daily activity and total position in each series of options; and (iii) the Member or Member Organization reconciles any discrepancies between the clearance account records and any financial reports that the Member or Member Organization is required to maintain pursuant to Rule 4.20(a). Each Member or Member Organization must maintain reports that evidence reconciliation for at least six years, the first two years in an easily accessible place.

Error Accounts

Rule 4.21(a). Each member organization which conducts business as a floor broker on the Exchange and who is not self-clearing must establish and maintain an account with a clearing member of the Exchange, for the sole purpose of carrying positions resulting from bona fide errors made in the course of its floor brokerage business. With respect to options floor brokers only, such an account for option transactions must be maintained with a clearing member that is also a member of the Options Clearing Corporation.

(b) Each such Member or Member Organization which conducts business as a floor broker must make available to the Exchange, upon request, accurate and complete records of all trades cleared in such Member or Member Organization's error account. These records must include the audit trail data elements prescribed below:

- (1) name or identifying symbol of the security;
- (2) number of shares or quantity of security;
- (3) transaction price;

- (4) time of trade execution;
- (5) executing broker badge number, or alpha symbol as may be used from time to time, in regard to its side of the contract;
- (6) executing broker badge number, or alpha symbol as may be used from time to time, of the contra side to the contract;
- (7) clearing firm number, or alpha symbol as may be used from time to time, in regard to its side of the contract;
- (8) clearing firm number, or alpha symbol as may be used from time to time, in regard to the contra side of the contract;
- (9) designation of whether the account for which the order was executed was that of a Member or Member Organization;
- (10) the nature and amount of the error;
- (11) the Member or Member Organization that cleared the error trade on the Member's or Member Organization's behalf;
- (12) an explanation of the means by which the Member or Member Organization resolved the error;
- (13) the aggregate amount of liability that the Member or Member Organization incurred and: (i) had outstanding as of the time each such error trade entry was recorded or (ii) had cleared by other Members or Member Organizations.

Trading Halts Due to Extraordinary Market Volatility

Rule 4.22(a). Trading in stocks will halt on the Exchange and will not reopen for the time periods described in this paragraph (a) if the Dow Jones Industrial Average* reaches Level 1 below its closing value on the previous trading day:

- (1) before 11:00 a.m. Pacific Time, for one hour;
- (2) at or after 11:00 a.m. but before 11:30 a.m. Pacific Time, for 30 minutes.

If the Dow Jones Industrial Average reaches Level 1 below its closing value on the previous trading day at or after 11:30 a.m. Pacific Time, trading will continue on the Exchange until the close, unless the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day, at which time trading will be halted for the remainder of the day.

(b). Trading in stocks will halt on the Exchange and will not re-open for the time periods described in this paragraph (b) if the Dow Jones Industrial Average reaches Level 2 below its closing value on the previous trading day:

- (1) before 10:00 a.m. Pacific Time, for two hours;
- (2) at or after 10:00 a.m. but before 11:00 a.m. Pacific Time, for one hour;
- (3) at or after 11:00 a.m. Pacific Time, for the remainder of the day.

(c). If the Dow Jones Industrial Average reaches Level 3 below its closing value on the previous trading day, trading in stocks will halt on the Exchange and will not reopen for the remainder of the day.

Commentary:

.01 Levels 1, 2 and 3 will be calculated at the beginning of each calendar quarter, using the average closing value of the Dow Jones Industrial Average for the month prior to the beginning of the quarter. Level 1 will be 10% of such average closing value calculation; Level 2 will be 20% of such average closing value calculation; Level 3 will be 30% of such average closing value calculation. Each Level will be rounded to the nearest fifty points. The values of Levels 1, 2 and 3 will remain in effect until the next calculation.

.02 The restrictions in this Rule will apply whenever the Dow Jones Industrial Average reaches the trigger values notwithstanding the fact that at any given time, the calculation of the value of the average may be based on the prices of less than all of the stocks included in the average.

.03 The reopening of trading following a trading halt under this Rule will be conducted pursuant to procedures adopted by the Exchange and communicated by notice to its members and member organizations.

.04 Nothing in this Rule should be construed to limit the ability of the Exchange to otherwise halt or suspend the trading in any stock or stocks traded on the Exchange pursuant to any other Exchange rule or policy.

Communications to and on the Floor

Rule 4.23. No Member or Member Organization may establish or maintain any telephonic or electronic communication between the Floor and any other location, or between locations on the Floor, without prior approval of the Exchange.

Miscellaneous Provisions

Rule 4.24(a). *Employees of Member Firms.* A member shall be responsible for all acts of their employees in the conduct of their business. Any action taken by an employee shall be considered to be binding as if made by the member firm the employee represents.

(b) *Orders Read for Amount.* All orders given to Floor brokers or LMMs that perform certain Floor Broker functions shall be deemed to read for the amount shown thereon or any part thereof, except as otherwise so specifically stated in the order.

(c) *Special Situations.* When special situations or unusual circumstances such as arbitrage related to a merger, tender offer, special offering, rights and warrants, etc. lead to abnormal bids or offers in the book, the Floor Trading Committee may suspend the normal procedure regarding priority of orders for the duration of the special situations.]

Fidelity Bonds

[Supervision]

Rule 4.25(a). [Adherence to Law] Each OTP Holder and OTP Firm that transacts business with the public or clears transactions for other OTP Holders or OTP Firms shall carry fidelity bonds in such form and in such amounts as the Exchange may require covering the individual OTP Holder or, in the case of an OTP Firm, its general partners or officers and its employees. [No member or member organization may engage in conduct in violation of the federal securities laws, the Constitution or the Rules of the Exchange. Every member or member organization must supervise persons associated with the member or member organization as to assure compliance therewith.]

(b) [Supervisory System] OTP Holders or OTP Firms subject to this Rule are required to maintain basic and specific coverages in amounts not less than those prescribed in this Rule. Where applicable such coverage must also extend to limited partners as employees, and outside organizations providing electronic data processing services and the handling of U.S. Government securities in bearer form. [Each member or member organization for whom the Exchange is Designated Examining Authority ("DEA") must establish and maintain a system to supervise the activities of its associated persons and the operations of its business. Such system must be reasonably designed to ensure compliance with applicable federal securities laws and regulations and PCX Rules. Final responsibility for proper supervision will rest with the member or member organization. The member's or member organization's supervisory system must provide, at a minimum, for the following:

- (1) The establishment and maintenance of written procedures as required by paragraph (c) of this Rule.
- (2) The designation of a person with authority to reasonably discharge his/her duties and obligation in connection with supervision and control of the activities of the associated persons of the member or member organization.
- (3) The member or member organization must undertake reasonable efforts to determine that all supervisory personnel are qualified by virtue of experience or training to carry out their assigned responsibilities.
- (4) Each member or member organization must designate and specifically identify to the Exchange one or more persons who will be responsible for such supervision.]

(c) [Written Procedures] Each OTP Holder and OTP Firm that introduces customers' accounts on a fully disclosed basis must maintain coverage as follows: [Each member or member organization must establish, maintain, and enforce written procedures to supervise the business in which it engages and to supervise the activities of its associated persons that are reasonably designed to ensure compliance with applicable federal securities laws and regulations, and with the PCX Rules.]

- (i) Minimum basic coverage for such OTP Holders and OTP Firms whose net capital requirement under Rule 4:

A. does not exceed \$670,000 shall be the greater of \$25,000 or 120% of their net capital requirement.

B. exceeds \$670,000 shall be determined by the schedule set forth in paragraph (d) of this Rule.

(ii) Specific coverage for such OTP Holders and OTP Firms shall be as follows:

A. Misplacement and Check Forgery—the amount of the basic bond minimum requirement.

B. Fraudulent Trading (not required of OTP Holders not associated with an OTP Firm or partnerships having no employees)—the greater of \$25,000 or 50% of the basic bond minimum requirement, up to \$500,000.

C. Security Forgery—the greater of \$25,000 or 25% of the basic bond minimum requirement, up to \$250,000.

(d) Each OTP Holder and OTP Firm that carries customers' accounts or clears transactions for other OTP Holders or OTP Firms must maintain coverage as follows:

(i) Minimum basic coverage for such OTP Holders and OTP Firms shall be based on their net capital requirement under Rule 4 as follows:

<u>Net Capital Requirement Under Rule 4</u>	<u>Basic Minimum Coverage</u>
<u>\$25,000—\$50,000</u>	<u>\$ 200,000</u>
<u>\$50,001—\$100,000</u>	<u>\$ 300,000</u>
<u>\$100,001—\$200,000</u>	<u>\$ 500,000</u>
<u>\$200,001—\$300,000</u>	<u>\$ 600,000</u>
<u>\$300,001—\$500,000</u>	<u>\$ 700,000</u>
<u>\$500,001—\$1,000,000</u>	<u>\$ 800,000</u>
<u>\$1,000,001—\$2,000,000</u>	<u>\$1,000,000</u>
<u>\$2,000,001—\$3,000,000</u>	<u>\$1,500,000</u>
<u>\$3,000,001—\$4,000,000</u>	<u>\$2,000,000</u>
<u>\$4,000,001—\$6,000,000</u>	<u>\$3,000,000</u>
<u>\$6,000,001—\$12,000,000</u>	<u>\$4,000,000</u>
<u>\$12,000,001 and higher</u>	<u>\$5,000,000</u>

(ii) Specific coverages for such OTP Holders and OTP Firms shall be as follows:

A. Misplacement and Check Forgery—the amount of the basic bond minimum requirement.

B. Fraudulent Trading (not required of partnerships having no employees)—the greater of \$100,000 or 50% of the basic bond minimum requirement, up to \$500,000

C. Security Forgery—the greater of \$100,000 or 25% of the basic bond minimum requirement, up to \$250,000.

(iii) Misplacement, Fraudulent Trading, Check Forgery and Securities Forgery.

A. Each OTP Holder and OTP Firm shall be expected to review carefully any need for coverage greater than that provided by the required minimums. Where experience or the nature of the business warrants additional coverage, the Exchange expects the OTP Holder or OTP Firm to acquire it.

B. OTP Holders and OTP Firms required to carry the above form(s) of insurance shall advise the Exchange in writing if such insurance is entirely or partially canceled.

(e) The highest net capital requirement during the preceding twelve months, based upon either the basic or alternative method for computing net capital requirements, whichever is applicable, and which shall be recalculated on an annual basis, shall determine the minimum required coverage for the succeeding twelve-month period.

[Anti-Money Laundering Compliance Program

Rule 4.26 Each Member and Member Organization for which the Exchange is the Designated Examining Authority must develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the Member or Member Organization's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each Member or Member Organization's anti-money laundering program must be approved in writing by a representative of its senior management staff. The anti-money laundering programs required by this Rule must include, at a minimum, a requirement to:

(a) establish and implement policies, procedures and controls that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and implementing regulations thereunder;

(b) establish and implement policies, procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;

(c) provide for independent testing for compliance to be conducted by Member or Member Organization personnel or a qualified outside party;

(d) designate an individual or individuals responsible for implementing and monitoring the day-to-day operations and controls of the program; and

(e) provide ongoing training for appropriate personnel.]