

Rule 5

[RESERVED]

Option Contracts Traded on the Exchange

Section 1. General Provisions and Definitions

General Provisions and Definitions

Rule 5.1(a) The Exchange has a two-tier listing structure. Any put or call option or other security issued by The Options Clearing corporation that is listed on the Exchange shall be designated as a Tier I security.

(b) In considering underlying securities for options trading, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which the security is traded.

Rule 5.2(a). Definitions. Unless the context indicates otherwise, the following terms as used in Rules 5.3 through 5.5 shall have the meanings specified below:

(1) The term “security” shall be broadly interpreted to mean any security, as defined in Rule 3a11-1, promulgated under the Securities Exchange Act of 1934, which is appropriate for options trading.

(2) The term “shares” shall mean the unit of trading of such security.

Section 2. Underlying Securities

Criteria for Underlying Securities

Rule 5.3 Underlying securities with respect to which put or call option contracts are approved for listing and trading on the Exchange must meet the following criteria:

(a) The Exchange shall from time to time establish guidelines to be considered in arriving at such a determination, and the fact that a particular security may meet the guidelines established by the Exchange does not necessarily mean that it will be selected as an underlying security. Further, in exceptional circumstances an underlying security may be selected by the Exchange even though it does not meet all of the guidelines. The Exchange may also give consideration to maintaining diversity among various industries and issuers in selecting underlying securities. Notwithstanding the forgoing, however, absent exceptional circumstances, an underlying security will not be selected unless:

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

(2) There are a minimum of 2,000 shareholders of the underlying security.

(3) Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve months. In considering for approval underlying securities that have not been primarily traded on a national securities exchange or designated as national market system securities for the one year preceding such approval, the Exchange may take into account the volume of trading in such security in the over-the-counter market as reflected in the NASDAQ system. If the volume of trading in the over-the-counter market meets the requirements specified above, then the security may be deemed to have met the volume requirements set forth in the agreements between the Exchange and the Clearing Corporation.

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

(B) If the underlying security is not a "covered security", the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days, or (a) the underlying security meets the guidelines for continued listing in Rule 5.6; (b) options on such underlying security are traded on at least one other registered national securities exchange; and (c) the average daily trading volume for such options over the last three (3) calendar months preceding the date of selection has been at least 5,000 contracts.

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

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

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

(d) Preferred Stock and American Depositary Receipts. Securities deemed appropriate for options trading shall include non-convertible preferred stock and American Depositary

Receipts ("ADRs") meeting the criteria and guidelines set forth in this Rule and if, in the case of ADRs:

(1) the Exchange has an effective surveillance agreement, pursuant to Rule 3.6, with the primary exchange on which the security underlying the ADR trades or with a governmental regulatory authority overseeing such exchange;

(2) the combined trading volume of the ADR and other related ADRs and securities (as defined below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share-equivalent basis) at least 50% of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (collectively "other related ADRs and securities") over the three-month period preceding the date of selection of the ADR for options trading;

(3)(A) the combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market and in markets where the Exchange has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least 20% of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three-month period preceding the date of selection of the ADR for options trading, (B) the average daily trading volume for the security in U.S. markets over the three months preceding the selection of the ADR for options trading is 100,000 or more shares, and (C) the trading volume is at least 60,000 shares per day in U.S. markets on a majority of the trading days for the three months preceding the date of selection of the ADR for options trading ("Daily Trading Volume Standard"); or

(4) the ADR has been approved for options trading by the Securities and Exchange Commission.

(e) *International Funds.* Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries ("International Funds") if they meet the criteria and guidelines set forth in this Rule and either:

(1) the Exchange has a market information sharing agreement with the primary exchange for each of the securities held by the fund; or

(2) the International Fund is classified as a diversified fund as that term is defined in Section 5(b) of the Investment Company Act of 1940 and the securities held by the fund are issued by issuers based in five or more countries.

A "market information sharing agreement" for purposes of this Rule is an agreement that would permit the Exchange to obtain trading information relating to the securities held by the fund, including the identity of the member of a foreign exchange executing a trade. International

Funds not meeting the requirements of either (1) or (2) above shall be deemed appropriate for options trading if the Commission specifically authorizes the listing.

(f) Securities of Restructured Companies.

(1) Definitions. The following definitions shall apply to the provisions of this paragraph (e):

(A) “Restructuring Transaction” refers to a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction.

(B) “Restructure Security” refers to an equity security that a company issues, or anticipates issuing, as the result of a Restructuring Transaction of the company.

(C) “Original Equity Security” refers to a company’s equity security that is issued and outstanding prior to the effective date of a Restructuring Transaction of the company.

(D) Relevant Percentage refers to either:

(i) twenty-five percent (25%), when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security;
or

(ii) thirty-three and one-third percent (33-1/3%), when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

(2) “Share” and “Number of Shareholder” Guidelines. In determining whether a Restructure Security satisfies the share guideline set forth in Rule 5.3(b)(1) (the “Share Guideline”) or the number of holders guideline set forth in Rule 5.3(b)(2) (the “Number of Shareholder Guideline”), the Exchange may rely upon the facts and circumstances that it expects to exist on the option’s intended listing date, rather than on the date on which the Exchange selects for options trading the underlying Restructure Security.

(A) The Exchange may assume that:

(i) both the “Share” and “Number of Shareholders” Guidelines are satisfied if, on the option’s intended listing date, the Exchange expects no fewer than forty (40) million shares of the Restructure Security to be issued and outstanding; and

(ii) either such Guideline is satisfied if, on the option’s intended listing day, the Exchange expects the Restructure Security to be listed on an exchange or automatic quotation system that has, and is subject to, an initial listing requirement in respect of public ownership of shares or number of shareholders or both that is no less stringent than the Guideline in question.

(B) The Exchange may not rely on any such assumption, however, if a reasonable investigation by the Exchange or that of another exchange demonstrates that either the Share Guideline of Number of Shareholders Guideline will not in fact be satisfied on an option’s intended listing date.

(C) In addition, in the case of a Restructuring Transaction in which shares of a Restructure Security are issued or distributed to the holders of shares of an Original Equity Security, the Exchange may determine that either the Share Guideline or the Number of Shareholders Guideline is satisfied based upon the Exchange’s knowledge of the outstanding shares or number of shareholders of the Original Equity Security.

(3) “Trading Volume” Guideline. In determining whether a Restructure Security that is issued or distributed to the holders of shares of an Original Equity Security (but not a Restructured Security that is issued pursuant to a public offering or rights distribution) satisfies the trading volume guidelines set forth in Rule 5.3(a) (the “Trading Volume Guideline”), the Exchange may consider the trading volume history of the Original Equity Security prior to the “ex-date” of the Restructuring Transaction if the Restructure Security satisfies the “Substantiality Test” set forth in subparagraph (c)(5) below.

(4) “Market Price” Guideline. In determining whether a Restructure Security satisfies the market price history guideline set forth in Rule 5.3(a) (the “Market Price Guideline”), the Exchange may consider the market price history of the Original Equity Security prior to the “ex-date” of the Restructuring Transaction if:

(A) the Restructure Security satisfies the “Substantiality Test” set forth in subparagraph (c)(5) below; and

(B) in the case of the application of the Market Price Guideline to a Restructure Security that is distributed pursuant to a public offering or a rights distribution:

(i) the Restructure Security trades “regular way” on an exchange or automatic quotation system for at least the five trading days immediately preceding the date of selection; and

(ii) at the close of trading on each trading day on which the Restructure Security trades “regular way” prior to the date of selection, and the opening of trading on the date of selection, the market price of the Restructure Security was at least \$7.50.

(5) The “Substantiality Test.” A Restructure Security satisfies the “Substantiality Test” if:

(A) the Restructure Security has an aggregate market value of at least \$500 million; or

(B) at least one of the following conditions is met:

(i) the aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage of the aggregate market value of the Original Equity Security;

(ii) the aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attribute to the business represented by the Original Equity Security; or

(iii) the revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

(6) A Restructure Security’s aggregate market value may be determined from “when issued” prices, if available.

(7) In calculating comparative aggregate market values for the purpose of assessing whether a Restructure Security qualifies to underlie an option, the Exchange shall use the Restructure Security’s closing price on its primary market on the last business day prior to the selection or the Restructure Security’s opening price on its primary market on the selection date and shall use the corresponding closing or opening price of the related Original Equity Security.

(8) In calculating comparative asset values and revenues, the Exchange shall use:

(A) the issuer’s latest annual financial statements; or

(B) the issuer’s most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

(9) Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, the Exchange may rely upon the trading volume of market history of an Original Equity Security as this paragraph (c) permits for any trading day unless it relies upon both of those measures for that trading day.

(10) Once the Exchange commences to rely upon a Restructure Security's trading volume and market history for any trading day, the Exchange may not rely upon trading volume and market history of the security's related Original Equity Security for any trading day thereafter.

(11) "When Issued" Trading Prohibited. The Exchange shall not list for trading options contracts that overlie a Restructure Security that is not yet issued and outstanding, regardless of whether the Restructure Security is trading on a "when issued" basis or on another basis that is contingent upon the issuance or distribution of shares.

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

(1)

(A) the Exchange-Traded Fund Shares meet the criteria and guidelines for underlying securities set forth in Rule 5.3(a); or

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

(2)

(A) any non-U.S. component stocks in the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance

agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;

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

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

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

(1)

(A) the Trust Issued Receipts meet the criteria and guidelines for underlying securities set forth in Rule 5.3(a); or

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

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

Rule 5.4 – 5.5 – Reserved.

Withdrawal of Approval of Underlying Securities

Rule 5.6(a). Whenever the Exchange determines that an underlying security previously approved for options transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, the Exchange will not open for trading any additional series of options of the class covering that underlying security and may prohibit any opening purchase transactions in series of options of that class previously opened to the extent it deems such action necessary or appropriate; provided, however, that where exceptional circumstances have caused an underlying security not to comply with the Exchange’s current approval maintenance requirements regarding number of publicly held shares, number of shareholders, trading volume or market price, the Exchange may, in the interest of maintaining a fair and orderly market or for the protection of investors, determine to continue to open additional series of options contracts of the class covering that underlying

security. When all options contracts with respect to any underlying security that is no longer approved have expired, the Exchange may make an application to the SEC to strike from trading and listing all such options contracts.

(b) Absent exceptional circumstances, an underlying security will not be deemed to meet the Exchange’s requirements for continued approval whenever any of the following occur:

(1) There are fewer than 6,300,000 shares of the underlying security held by persons other than those who are required to report their security holdings under Section 16(a) of the Exchange Act.

(2) There are fewer than 1,600 holders of the underlying security.

(3) The trading volume (in all markets in which the underlying security is traded) has been less than 1,800,000 shares in the preceding twelve months.

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

(5) The issuer has failed to make timely reports as required by applicable requirements of the Exchange Act, and such failure has not been corrected within thirty days after the date the report was due to be filed.

(6) The issue, in the case of an underlying security that is principally traded in a national securities exchange, is delisted from trading on that exchange and neither meets Nasdaq National Market (“NNM”) criteria nor is traded through the facilities of a national securities association, or the issue, in the case of an underlying security that is principally traded through the facilities of a national securities association, is no longer designated as an NNM security.

If an underlying security is approved for options listing and trading under the provisions of Rule 5.3(a), the trading volume and price history of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including “when-issued” trading, may be taken into account in determining whether the trading volume and market price requirements of (3) and (4) of this paragraph (b), as well as the trading volume and market price requirements of paragraph (e) of this Rule are satisfied.

(c) In connection with paragraph (b)(4) of this Rule, the Exchange shall direct that no additional series of options contracts of the class covering an underlying security be opened at any time when the market price per share of the subject underlying security is less than \$3.00. Subject to paragraph (b)(4) of this Rule, the market price per share of the underlying security will be determined as follows:

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

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

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

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

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

(e). If an ADR was initially deemed appropriate for options trading on the grounds that 50% or more of the worldwide trading volume (on a share-equivalent basis) in the ADR and other related ADRs and securities takes place in U.S. markets or in markets with which the Exchange has in place an effective surveillance sharing agreement, or if an ADR was initially deemed appropriate for options trading based on the Daily Trading Volume Standard described in Rule 5.3(d), the Exchange may not open for trading additional series of options on that ADR unless:

(1) the percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which the Exchange has in place surveillance sharing agreements for any consecutive three-month period is either

(A) at least 30% without regard to the average daily trading volume in the ADR, or

(B) at least 15% when the average U.S. daily trading volume in the ADR for the previous three months is at least 70,000 shares; or

(2) the Exchange then has in place an effective surveillance sharing agreement with the primary exchange on which the security underlying the ADR is traded or with a governmental regulatory authority overseeing such exchange; or

(3) the Securities and Exchange Commission has otherwise authorized the listing.

(f) If, prior to the delisting of a class of options contracts covering an underlying security that has been found not to meet the Exchange’s requirements for continued approval, and the Exchange determines that the underlying security again meets the Exchange’s requirements, the Exchange may open for trading additional series of options of that class and may lift any restriction on opening purchase transactions imposed under this Rule.

(g) Whenever the Exchange announces that approval of an underlying security has been withdrawn for any reason or that the Exchange has been informed that the issuer of an underlying security has ceased to be in compliance with SEC reporting requirements, each OTP Holder and OTP Firm shall, prior to effecting any transaction in options contracts with respect to such underlying security for a customer, inform such customer of such fact and of the fact that the Exchange may prohibit further transactions in such options contracts to the extent it shall deem such action necessary or appropriate.

(i) Whenever the Exchange withdraws the approval of an underlying security, it shall not open a class of option contracts covering that underlying security until such security is able to comply with the provisions of Rule 5.3.

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

(k) Absent exceptional circumstances, securities initially approved for options trading pursuant to Rule 5.3(g) (such securities are defined and referred to in that Commentary as “Exchange-Traded Fund shares”) shall not be deemed to meet the Exchange’s requirements for continued approval, and the exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares, whenever the Exchange-Traded Fund Shares are delisted and trading in the Shares is suspended on a national securities exchange, or the Exchange-Traded Fund Shares are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

(1) In accordance with the terms of paragraphs 1 through 7 of Rule 5.6(b) in the case of options covering Exchange-Traded Fund Shares when such options were approved pursuant to Rule 5.3(g).

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

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

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

(l) Absent exceptional circumstances, securities initially approved for options trading pursuant to Rule 5.3(h) (such securities are defined and referred to in that Rule as “Trust Issued Receipts”) shall be deemed to meet the Exchange’s requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

(1) In accordance with the terms of Rule 5.6(b) in the case of options covering Trust Issued Receipts when such options were approved pursuant to Rule 5.3(h);

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

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

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

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

Commentary:

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

Rules 5.7 – 5.9 – Reserved.

Section 3. Stock Index Options

Applicability, Definitions and References

Rule 5.10(a). In general, the Rules of the PCX's Board of Directors applicable to the trading of stock options, in particular Rule 6, shall be applicable to the trading of index options as that term is defined below. Section 3 of this Rule supplements or replaces those rules relating to stock options where required by the nature of index options. In cases where Section 3 of this Rule is silent on an issue, the applicable section of the rules relating to stock options shall be read so as to apply to index options.

Definitions

Rule 5.10(b). *Definitions.* Unless the context indicates otherwise, the following terms as used in this Section 3 shall have the meanings specified below:

(1) The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the index value times the index multiplier.

(2) The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the index value times the index multiplier.

(3) The term "index" shall mean the sum of the reported last sales on their primary market of those underlying securities which, as a group, have been designated by the Exchange as underlying an option contract, divided by the Divisor.

(4) The term "class" shall mean an option contract of the same type of option on the same group of underlying securities.

(5) The term "aggregate exercise price" shall mean the exercise price of the option contract times the index multiplier.

(6) The term "exercise price" shall mean the specified price per unit at which the index value may be purchased or sold upon the exercise of the option.

(7) The term "index multiplier" means the value designated by the Exchange by which the index is multiplied.

(8) The term "index value" in respect to a particular index shall mean the sum of the prices of the underlying securities divided by the Divisor, and as reported by the reporting authority for the index.

(9) The term "closing index value" shall be the last index value reported by the reporting authority on a business day. The reporting authority shall use the closing last

sales of the underlying securities on their primary market to calculate the closing index value.

(10) The term "divisor" shall mean that number which the sum of the reported last sales of the underlying securities are divided by to obtain the index value, as shall be designated by the Exchange pursuant to Rule 5.15.

(11) The term "underlying security" or "underlying securities" with respect to an index option contract means all of the stocks that are the basis for the calculation of the index.

(12) The term "reporting authority" in respect of a particular index means the institution or reporting service designated by the Exchange as the official source for calculating and disseminating the value of the index.

(13) The term "European-style option" means an option contract that can be exercised only on the last business day prior to the day it expires.

(14) The term "European-style index option" means an option contract on an industry or market index that can be exercised only on the last business day prior to the day it expires.

(15) The term "American-style option" means an option contract that can be exercised on any business day prior to expiration.

(16) The term "American-style index option" means an option contract on an industry or market index that can be exercised on any business day prior to expiration.

(17) The term "capped-style option" means an option contract that is automatically exercised when the cap price is reached or exceeded based upon the closing index value. If the cap price is not reached, the option can only be exercised at its expiration pursuant to the rules of the Options Clearing Corporation.

(18) The term "capped-style index option" is a capped-style option on a specific market index that is automatically exercised any time prior to its expiration when the cap price is less than or equal to the closing index value for calls or when the cap price is greater than or equal to the closing index value for puts.

(19) The term "cap-interval" means a value specified by the Exchange which, when added to the exercise price for such series (in the case of a series of calls) or subtracted from the exercise price for such series (in the case of a series of puts), results in the cap price for such series.

(20) The term "cap-price" means the exercise price plus the cap interval for a call or the exercise price minus the cap interval for a put. The cap price is assigned to the capped-style index option when listed.

(21) The term "Quarterly Index Expiration" or "QIX" means an index option contract that expires on the first business day of the month following the end of a calendar quarter.

Index Multiplier

Rule 5.11. The index multiplier shall be 100 unless otherwise determined by the Exchange.

Designation of the Index

Broad-Based Index Options

Rule 5.12(a). *Broad-Based Index Options.*

(1) The underlying securities comprising the index shall be selected by the Exchange and may be revised from time to time to maintain the integrity and purpose of the index.

(2) No single underlying security may have a weighted value greater than 50% of the index value at the time options on the index are opened for trading.

(3) An underlying security selected for inclusion in the index must meet the initial and maintenance listing standards in Rule 5.3 and Rule 5.6, if its weighted value represents 10% or more of the index value.

(4) If an index is comprised of 20 or fewer underlying securities, 50% of the index value must be derived from underlying securities meeting the initial listing standards in Rule 5.3 at the time options on the index are initially opened for trading. Thereafter, 40% of the index value must be derived from underlying securities meeting the maintenance listing standards in Rule 5.6.

(5) If an index is comprised of 21 or more underlying securities, 35% of the index value must be derived from underlying securities meeting the initial listing standards in Rule 5.3, at the time options on the index are initially opened for trading. Thereafter, 30% of the index value must be derived from underlying securities meeting the maintenance listing standards in Rule 5.6.

(6) If an index fails to meet the maintenance listing standards described in paragraphs (4) and (5), above, the Exchange shall either:

(A) withdraw approval for options on the index as provided in Rule 5.6 and Commentary thereunder; or

(B) change the composition of the index so as to meet the initial listing standards contained in this Section.

(7) All underlying securities included in an index must be last sale reported on a real-time basis, through Consolidated Tapes A or B, or as National Market System securities (defined in SEC Rule 11Aa2-1, as amended) through the NASDAQ system.

(8) The initial and maintenance listing standards and procedures described in paragraphs (2) through (7), above, may be waived given exceptional circumstances, e.g., the structure of the companies in a particular industry.

(9) The requirement in Rule 5.3 that underlying securities be listed on a national securities exchange shall not be applicable to index option underlying securities.

(10) The requirements of Rule 5.12 shall apply unless otherwise determined by the Exchange and approved by the Securities and Exchange Commission.

Commentary:

.01 In addition to the requirements of Rule 5.12, the Exchange's Technology Index ("Index"), as designated "broad based" index, shall meet the following requirements:

(a) an average daily trading volume of at least 40,000 shares in the preceding six months for each underlying security selected for inclusion in the Index;

(b) an average daily trading volume of at least 20,000 shares in the preceding six months for each underlying security included in the Index;

(c) no more than 20% of the total weighting of the Index shall be represented by underlying securities that each have an average daily trading volume less than 75,000 shares in the preceding six months;

(d) no underlying security shall represent more than 10% of the total weighting of the Index, unless such underlying security is exempted by the Exchange from this requirement. Only an underlying security that is already included in the Index shall be eligible for such an exemption. However, at no time shall any underlying security represent more than 15% of the total weighting of the Index;

(e) the five (5) heaviest weighted underlying securities shall represent no more than 25% of the total weighting of the Index; and

(f) at least ten (10) industry sub-sectors representing a total of no less than eighty (80) underlying securities shall comprise the Index.

.02 The requirements set forth in Commentary .01 above shall be applied pursuant to semi-annual reviews of the underlying securities included in the Index.

Designation of the Index

Narrow-Based Index Options

Rule 5.13(a). The listing of a class of index options on a new narrow-based index will be treated by the Exchange as a proposed rule change subject to filing with and approval by the Securities and Exchange Commission (“Commission”) under Section 19(b) of the Exchange Act. A rule change proposing the listing of a class of index options on a new underlying index may be designated by the Exchange as constituting a stated policy, practice or interpretation with respect to the administration of this Rule 5.13(a) within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act, thereby qualifying the rule change for effectiveness upon filing with the Commission if the Exchange prefiles with the Commission a draft copy of the rule change not less than one week before it is filed, and if the Exchange proposes to commence trading in the subject class of index options not earlier than 30 days after the date of filing, and if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted or equal dollar-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least \$50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 25% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (60% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Rule 5.3 applicable to individual underlying securities;

(8) All component securities are “reported securities” as defined in Rule 11Aa3-1 under the Exchange Act;

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected a “Chinese Wall” around its personnel who have access to information concerning changes in and adjustments to the index.

Maintenance Requirements

Narrow-Based Index Options

Rule 5.13(b). The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (a) above:

(1) The conditions stated in subparagraphs (a)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the conditions stated in subparagraph (a)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of

the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

Dissemination of Information

Rule 5.14(a). The Exchange shall assure that the index value is disseminated to the public after the close of business and from time-to-time on days on which index options are traded on the Exchange.

(b) The Exchange shall maintain, in files available to the public, information identifying the stocks whose prices are the basis for calculation of the index and the method used to determine the index value.

Adjustments in the Divisor

Rule 5.15. The Divisor ordinarily will be adjusted in the event of a stock dividend, stock distribution, stock split or reverse split, rights offering, distribution, reorganization, recapitalization or reclassification or similar event in respect of any component stock, or in the event a stock is added to or deleted from the index, or one stock is substituted for another. The purpose of adjusting the Divisor in the context of such events is to maintain continuity of index values; the Divisor will not be revised for any other purpose.

Position Limits for Index Options

Narrow-Based Index Options

Rule 5.16(a). In determining compliance with Rule 6.8, narrow based (industry) index option contracts shall be subject to position limits determined as follows:

- 9,000 contracts if the Exchange determines, at the time of a review conducted pursuant to paragraph (b) below, that any single stock in the group accounted, on

average, for 30% or more of the index value during the 30-day period immediately preceding the review; or

- 12,000 contracts if the Exchange determines, at the time of a review conducted pursuant to paragraph (b) below, that any single stock in the group accounted, on average, for 20% or more of the index value or that any five stocks in the group together accounted, on average, for more than 50% of the index value, but that no single stock in the group accounted, on average, for 30% or more of the index value, during the 30-day period immediately preceding the review; or

- 15,000 contracts if the Exchange determines that the conditions specified above, which would require the establishment of a lower limit, have not occurred.

(b) The Exchange shall determine the appropriate position limit at the time options on an index are initially opened for trading and shall review its determination semi-annually, at the same time it reviews position and exercise limits for stock options, pursuant to Rule 6.8 and Rule. 6.9. If the Exchange determines after conducting its review that a higher position limit is appropriate for an index the Exchange shall increase the limit as soon as practicable. If the Exchange determines that a lower limit is appropriate for an index, the lower limit shall take effect after the expiration of the farthest term series open for trading at the time of the Exchange's review.

(c) Option contracts on an index shall not be aggregated with option contracts on any stocks whose prices are the basis for the calculation of the index.

Broad-Based Index Options

(d) The position limit for a broad based index option shall be 15,000 contracts, except as follows:

(1) The position limit for options on the Wilshire Small Cap Index shall be 37,500 contracts on the same side of the market, with no more than 22,500 of such contracts in the series with the nearest expiration date.

(2) Quarterly Index Expirations (QIXs) on the Wilshire Small Cap Index shall be excluded from the aggregation of options on such indexes for purposes of subsection (d)(1). In determining compliance with applicable position limits, QIXs on the Wilshire Small Cap Index shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than 37,500 contracts on the same side of the market. For purposes of determining compliance with this subsection (d)(2), all Wilshire Small Cap Index options (including all QIXs on the Wilshire Small Cap Index) shall be aggregated. In no event shall the aggregate of all option contracts on the Wilshire Small Cap Index exceed 37,500 contracts on the same side of the market.

(3) The position limit for options on the PCX Technology Index shall be 37,500 contracts on the same side of the market, with no more than 22,500 of such contracts in the series with the nearest expiration date.

(4) The position limit for options on the Dow Jones & Co. Taiwan Index shall be 50,000 contracts on the same side of the market, with no more than 30,000 contracts in the series with the nearest expiration date.

(5) The position limit for options on the Morgan Stanley Emerging Growth Index shall be 37,500 contracts on the same side of the market, with no more than 22,500 contracts in the series with the nearest expiration date.

(e) Capped-style index options shall be aggregated with standard option contracts on the same stock index group.

Commentary:

.01 All OTP Holders and OTP Firms acquiring positions of 200 contracts or more in index options shall report such information to the Department of Options Surveillance. The report shall be filed in accordance with the provisions of Rule 6.6(a).

.02 Broad-Based Index Hedge Exemption. The broad-based index hedge exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. The following procedures and criteria must be satisfied to qualify for a broad-based index hedge exemption:

(a) The account in which the exempt option positions are held (the “hedge exemption account”) has received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Commentary. The Exchange may grant approval on the basis of verbal representations, in which case the hedge exemption account must, within two business days (or such other time designated by the Exchange), furnish the Exchange with appropriate documentation substantiating the basis for the exemption. A hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(b) The hedge exemption account has provided all information required on Exchange-approved forms and has kept such information current.

(c) A hedge exemption account that is not carried by an Exchange OTP Holder or OTP Firm must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(d) The hedge exemption account maintains a qualified portfolio, or will effect transactions necessary to obtain a qualified portfolio concurrent with or at or about the same time as the execution of the exempt options positions, of:

(1) a net long or short position in common stocks in at least four industry groups and contains at least twenty stocks, none of which accounts for more than fifteen percent of the value of the portfolio or in securities readily convertible, and additionally in the case of convertible bonds, economically convertible, into common stocks which would comprise a portfolio, and/or

(2) a net long or short position in index futures contracts or in options on index futures contracts, or long or short positions in index options or index warrants, for which the underlying index is included in the same margin or cross-margin product group cleared at the Options Clearing Corporation as the index option class to which the hedge exemption applies. To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

(e) The exemption applies to positions in broad-based index options dealt in on the Exchange and is applicable to the unhedged value of the qualified portfolio. The unhedged value will be determined as follows:

(1) the values of the net long or short positions of all qualifying products in the portfolio are totaled;

(2) for positions in excess of the standard limit, the underlying market value

(A) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and

(B) of any opposite side of the market positions in stock index futures, options on stock index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and

(3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows: the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(f) The hedge exemption customer shall agree to, and any OTP Holder or OTP Firm carrying an account for the customer, shall

(1) liquidate and establish option and stock positions or their equivalent in an orderly fashion; not initiate or liquidate positions in a manner calculated to

cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option

(2) liquidate any options prior to or contemporaneously with a decrease in the hedged value of the qualified portfolio which options would thereby be rendered excessive

(3) promptly notify the Exchange of any material change in the stock portfolio or its equivalent or stock index futures positions which materially affects the unhedged value of the qualified portfolio

(4) abide by prevailing exercise limits allowed pursuant to Rule 5.17, without regard to the exemption provision, except in expiring series from the last business day prior to expiration until expiration.

(g) Only the following qualified hedging transactions and positions are eligible for purposes of hedging a qualified portfolio (i.e., stocks, futures, options and warrants) pursuant to this Commentary:

(1) Long put(s) used to hedge the holding of a qualified portfolio;

(2) Long call(s) used to hedge a short position in a qualified portfolio;

(3) Short call(s) used to hedge the holding of a qualified portfolio; and

(4) Short put(s) used to hedge a short position in a qualified portfolio.

The following strategies may be effected only in conjunction with a qualified stock portfolio:

(5) For non-P.M. settled, European-style index options only – a short call position accompanied by long put(s), where the short call(s) expire with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s)(a "collar"). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 6.8 and 5.16, a collar position will be treated as one (1) contract;

(6) For non-P.M. settled, European-style index options only – a long put position coupled with a short put position overlying the same broad-based index and having an equivalent underlying aggregate index value, where the short put(s) expire with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s)(a "debit put spread position"); and

(7) For non-P.M. settled, European-style index options only – a short call position accompanied by a debit put spread position, where the short call(s) expire with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rules 6.8 and 5.16, the short call and long put positions will be treated as one (1) contract.

(h) Compliance.

(1) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the qualified portfolio.

(2) Positions included in a qualified portfolio that serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.

(3) Any OTP Holder or OTP Firm that maintains a broad-based index option position in such OTP Holder or OTP Firm's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rules 6.8 and 5.16 by the OTP Holder or OTP Firm.

(4) Violation of any of the provision of Rule 5.16 and the commentaries thereunder, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

.03 Narrow-Based Index Hedge Exemption. Narrow-based (industry) index option positions may be exempt from established position limits for each option contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each option position to be exempted is hedged by a position in at least 75% of the number of component securities underlying the index. In addition, the underlying value of the option position may not exceed the value of the underlying portfolio. The value of the portfolio is:

(a) the total market value of the net stock position, less

(b) the value of:

(1) any offsetting calls and puts in the respective index option; and

(2) any offsetting positions in related stock index futures or options; and

(3) any economically equivalent positions.

Prior Exchange approval on the appropriate form designated by the Exchange is required. This exemption requires that both the option and stock positions be initiated and liquidated in an orderly manner. Specifically, a reduction of the option position must occur at or before the corresponding reduction in the stock portfolio position. The position in a narrow-based index option may not exceed the total of: (a) the limit established under Rule 5.16, plus (b) two times that limit (for hedged positions). The Exchange may determine, in its discretion, to grant a hedge exemption for a number of contracts that is less than the maximum number permitted under this Commentary. The Exchange may also grant other position limit exemptions under Exchange rules, and such exemptions shall be applied in addition to any exemption provided under this Commentary.

Exercise Limits

Rule 5.17(a). In determining compliance with Rule 6.9, index option contracts shall be subject to the same exercise limit as the established position limit for that particular index option contract.

(b) Capped-style index options shall not be aggregated with standard option contracts on the same stock index group.

Terms of Option Contracts

Rule 5.18(a). The Exchange shall determine fixed point intervals of exercise prices for call and put options.

(b) The Exchange shall determine the expiration dates as provided in Rule 6.4, except that the Exchange may establish expiration dates in no more than four consecutive months.

(c) Capped-style index options.

(1) Capped-style index options on the following indexes are approved for trading on the Exchange:

(A) Wilshire Small Cap Index.

(B) PSE Technology Index.

(2) Unless modified by the Exchange, the cap interval shall be \$20.

(3) Initially, one at-the-money call and put will be listed with an expiration of up to one year in the future. Additional at-the-money series may be listed every two months with expirations up to one year in the future.

(4) Series may be added to expiration months with three or more months remaining to their expiration, if there has been a move of ten or more points in the index value.

(d) Quarterly Index Options (QIXs). The Exchange may open for trading up to eight near-term quarterly index expirations at any one time. The index multiplier for QIXs shall be 100. Unless otherwise specified, QIXs shall be p.m. settled. QIXs on the following indexes are approved for trading on the Exchange:

(1) Wilshire Small Cap Index.

(e) A.M.-Settled Index Options.

(1)(A) The last day of trading for A.M.-settled index options shall be the business day preceding the last day of trading in the underlying securities prior to expiration. The current index value at the expiration of an A.M.-settled index option shall be determined on the last day of trading in the underlying securities prior- to expiration. The current index value shall be determined by reference to the reported level of such index as derived from the first reported sale (opening) prices of the underlying securities on such day. In any case where the security does not open for trading on that day, the last reported sale price of such security shall be used unless the exercise settlement amount is fixed in accordance with the Rules and By-Laws of the Options Clearing Corporation.

(B) In any case where an exercise settlement amount is fixed for any series of index options pursuant to the Rules and By-laws of the Options Clearing Corporation, the amount so fixed shall be the amount required to be paid upon exercise of options of that series notwithstanding any difference between the current index value used by the Options Clearing Corporation in fixing that amount and the index value determined pursuant to Exchange Rules or practices.

(2) The following A.M.-settled index options are approved for trading on the Exchange:

- (A) PSE Technology Index
- (B) Wilshire Small Cap Index
- (C) Dow, Jones & Co. Taiwan Index
- (D) Morgan Stanley Emerging Growth Index

Meaning of Premium Bids and Offers

Rule 5.19. Bids and offers shall be expressed in terms of dollars and cents per unit of the index (e.g. a bid of 5 1/2 would represent a bid of \$5.50 per unit).

Trading Rotations

Rule 5.20. The provisions of Rule 6.64 regarding trading rotations shall apply to index options, except as otherwise provided in Rule 5. The Order Book Official shall open first those series of a class which have the nearest expiration. Thereafter the Order Book Official shall open the remaining series in a manner he deems appropriate under the circumstances. One and one-half hours after the opening rotation, trading shall become subject to Rule 5.21, unless the Exchange determines it is in the public interest to suspend trading at an earlier time.

Trading Halts or Suspensions

Rule 5.21(a). Trading on the Exchange in any index option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than 20%, in the case of a broad based index, and 10% for all other indices, of the index value is halted or is suspended. Trading in an index option shall also be halted whenever the Exchange deems such action appropriate in the interests of a fair and orderly market or to protect investors. Among the factors that may be considered by the Exchange are the following:

- (1) all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;
- (2) the current calculation of the index derived from the current market prices of the stocks is not available; or
- (3) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present.

Trading in index options of a class or series that has been the subject of a halt or suspension by the Exchange may resume if the Exchange determines that the conditions which led to the halt or suspension are no longer present, or that the interests of a fair and orderly market are best served by a resumption of trading.

Limitation of Liability

Rule 5.22. Each reporting authority with respect to any index underlying an option traded on the Exchange, and any affiliate of such reporting authority (together, the “Reporting Authority”) does not guarantee the accuracy and/or completeness of such index or any data included therein. The Reporting Authority makes no warranty, express or implied, as to the results to be obtained by any person or any entity from the use of such index or any data included therein. The Reporting Authority makes no express or implied warranties, and expressly disclaims all warranties of merchantability and fitness for a particular purpose or use with respect to such index or any data contained therein. Without limiting any of the foregoing, in no event

shall the Reporting Authority have any liability for any direct, special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages. In addition, the Reporting Authority shall have no liability for any damages, claims, losses or expenses caused by any errors or delays in calculating or disseminating such index.

Commentary:

.01 The disclaimers set forth in Rule 7.13 shall apply to Dow Jones & Company, Inc. with respect to the Dow Jones Taiwan Stock Index and the Dow Jones Asia Pacific ex-Japan Stock Index, and Morgan Stanley & Co. Incorporated with respect to the Morgan Stanley Emerging Growth Index, the Exchange in respect to the indexes for which it is the designated reporting authority, and any other index reporting authority in respect to any index for which it acts as such.

Exercise of Option Contracts

Rule 5.23(a). The provisions of Rule 6.24 shall apply to index options, except as follows:

(1) With respect to all index option contracts except European-style index option contracts, Clearing OTP Holders or OTP Firms must follow the procedures of the Clearing Corporation for tendering exercise notices. OTP Holders or OTP Firms also must follow the procedures set forth below:

(A) a memorandum to exercise any contract issued or to be issued in a customer or Market-Maker account at the Clearing Corporation must be received or prepared by the OTP Holder or OTP Firm no later than five (5) minutes after the close of trading on that day, and must be time-stamped at the time it is received or prepared. OTP Holders or OTP Firms must accept exercise instructions until five (5) minutes after the close of trading on that day;

(B) a memorandum to exercise any contract issue or to be issued in a firm account at the Clearing Corporation must be prepared by the OTP Holder or OTP Firm no later than five (5) minutes after the close of trading on that day, and must be time-stamped at the time it is prepared;

(C) failure of any OTP Holder or OTP Firm to follow the procedures and meet the deadlines in this Section may result in the assessment of fines in an amount determined by the Exchange, and further disciplinary action as may be appropriate;

(D) all memoranda of exercise instructions are subject to SEC Rules 17a-3(a)(6) and 17a-4(b); and

(E) any OTP Holder or OTP Firm that intends to submit an exercise notice for 25 or more contracts in the same series on the same business day on behalf of

an individual customer, market maker or firm account must deliver an “exercise advice,” on a form prescribed by the Exchange, to a place designated by the Exchange, no later than five (5) minutes after the close of trading on that day. For purposes of this rule, exercises for all accounts controlled by same individual must be aggregated.

(F) The above provisions specified in Rule 6.24(a) through Rule 6.24(e) are not applicable to expiring series on the business day prior to expiration.

(2) With respect to European-style index option contracts, no OTP Holder or OTP Firm shall accept or tender to the Options Clearing Corporation an exercise notice prior to the opening of business on the day before such option contracts will expire.

Margins

Rule 5.24(a). This Rule sets forth the minimum amount of margin which must be deposited and maintained in margin accounts of customers having positions in index option contracts dealt in on a registered national securities exchange or a registered national securities association and issued by a registered clearing corporation. The Exchange may at any time impose higher margin requirements in respect of such positions when it deems such higher margin requirements to be advisable. The initial deposit of margin required under this Rule must be made promptly, pursuant to Regulation T promulgated by the Federal Reserve Board. For purposes of this Rule, the term “current market value” of an index option shall mean the total cost or net proceeds of the option transaction on the day the option was purchased or sold and at any other time shall mean the closing price of that series of options on the Exchange on any day with respect to which a determination of current market value is made.

(b) The margin requirements shall be as follows:

(i) For option contracts on a broad based index: For each put or call option contract on a broad based index carried in a short position in the account, margin must be deposited and maintained equal to at least 100% of the current market value of the contract plus 15% of the index value times the index multiplier. In each case, the amount shall be decreased by any excess of the aggregate exercise price of the option over the index value as multiplied by the index multiplier in the case of a call, or any excess of the index value as multiplied by the index multiplier over the aggregate exercise price of the option in the case of a put; provided, however, that the minimum margin required on each such option contract shall not be less than the option market value plus 10% of the index value times the index multiplier.

(ii) For all other index option contracts: For each put or call index option contract carried in a short position in the account, margin must be deposited and maintained equal to at least 100% of the current market value of the contract plus 20% of the product of the current index value times the index multiplier. In each case, the amount shall be decreased by any excess of the aggregate exercise price of the option over the current

index value as multiplied by the index multiplier in the case of a call, or any excess of the current index value as multiplied by the index multiplier over the aggregate exercise price of the option in the case of a put; provided, however, that the minimum margin required on each such option contract shall not be less than the option market value plus 10% of the current index value times the index multiplier.

(c) The requirement set forth in paragraph (b) hereof is subject to the following exceptions, which in each case may be applied at the discretion of the OTP Holder or OTP Firm with which the account is maintained.

(1) Short option offset by long option where long option expires with or after short option. This subparagraph (c)(1) applies to accounts carrying positions in long call index options (or long put index options) which are offset by positions in short call index options (or short put index options) for the same underlying index with the same index multiplier, provided that the expiration date of the long calls (or long puts) is the same as or subsequent to the expiration date of the offsetting short calls (or short puts).

(A) When the exercise price of the long call index option (or short put index option) is greater than the exercise price of the offsetting short call index option (or long put index option) margin is required equal to the difference in aggregate exercise prices.

(B) When the exercise price of the long call index option (or short put index option) is greater than the exercise price of the offsetting short call index option (or long put index option) margin is required equal to the difference in aggregate exercise prices.

(2) Short put and short call. This subparagraph (c)(2) applies to accounts carrying positions in short put index options which are offset by positions in short call index options for the same underlying index with the same index multiplier. The margin required for such a position shall be the margin required for the short put option contract or the margin required for the short call option contract (pursuant to paragraph (b) of this Rule), whichever is greater, as determined by (b) above, plus 100% of the current market value of the other option contract.

(d) No margin is required in respect of a call option contract on a market index carried in a short position where the customer has delivered promptly, after the options are written, to the OTP Holder or OTP Firm with which such position is maintained, an Index Option Escrow Receipt in a form satisfactory to the Exchange, issued by a bank or trust company pursuant to specific authorization from the customer which certifies that the issuer of the agreement holds for the account of the customer;

1) cash,

2) cash equivalent,

3) one or more qualified equity securities, or

4) a combination thereof; that such deposit has an aggregate market value, at the time the option is written, of not less than 100% of the option aggregate current 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.

(e) Option Contracts on a Capped Market Index.

(1) Cash Accounts. For each capped-style put or call option contract carried in a short position in a cash account, the customer must deposit, in an amount equal to the cap interval times the index multiplier, cash or cash equivalents as defined in Regulation T, Section 220.8(a)(3).

(2) Margin Accounts. For a capped-style put or call option contract carried in a short position in a margin account, margin must be deposited and maintained equal to at least 100% of the current market value of the contract plus 15% of the current index value multiplied by the index multiplier. In each case, the amount shall be decreased by any excess of the aggregate exercise price of the option over the current index value as multiplied by the index multiplier in the case of a call, or any excess of the current index value as multiplied by the index multiplier over the aggregate exercise price of the option in the case of a put; provided, however, that the minimum margin required on each such option contract shall not be less than (a) the option market value plus 10% of the current index value multiplied by the index multiplier or (b) the cap interval multiplied by the index multiplier, whichever is less. The maximum margin required on each such option contract shall not exceed the cap interval multiplied by the index multiplier.

Commentary:

.01 The term “aggregate current index value” means the current index value times the index multiplier; the term “aggregate exercise price” means the service price times the index multiplier; and the term “exercise settlement amount” means 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).

.02 For purposes of paragraph (d), above, a bank or trust company is qualified to issue an Index Option Escrow Receipt if it is a corporation organized under the laws of the United States or a State thereof and is regulated and examined by federal or state authorities having regulatory authority over banks or trust companies. The issuing bank or trust company must be approved by the Options Clearing Corporation if Market Index Option Escrow Receipts are to be forwarded to the Corporation for the purpose of meeting margin requirements.

.03 A security is qualified if it is an equity security (with the exception of warrants, rights and options):

(a) traded on a national securities exchange and it substantially meets the listing standards of the New York Stock Exchange or the American Stock Exchange; or

(b) traded over-the-counter and is included on the Federal Reserve Board's list of Over-the-Counter Margin Stocks.

.04 The term “cash equivalent” is defined in Regulation T, Section 220.8(a)(3)(ii), to mean securities issued or guaranteed by the United States or its agencies, negotiable bank certificates of deposit, or banker's acceptances issued by banking institutions in the United States and payable in the United States with one year or less to maturity.

.05 When one or more securities are substituted for securities held by the bank or trust company, the substitution should not impair the value of the collateral held by the bank at the time the substitution is made.

Settlement

Rule 5.25. In accordance with the applicable Rules of the Options Clearing Corporation, the settlement of index option contracts will be by the delivery of the difference between the closing index value on the day of exercise and the exercise price times the index multiplier, denominated in United States dollars.

Rules 5.26 – 5.29 – Reserved.

Section 4. Flexible Exchange Options **Applicability, Definitions and References**

Rule 5.30(a). *Applicability.* The rules in this Section 4 are applicable only to Flexible Exchange Options. Except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the provisions of the Bylaws, Rules and procedures of the Board of Directors shall be applicable to the trading on the Exchange of such securities. Pursuant to the provisions of Rule 1, Flexible Exchange Options are included within the definition of “security” or “securities” as such terms are used in the Bylaws and Rules of the Exchange.

(1) Flexible Exchange Options on the following indexes are approved for trading on the Exchange:

- (A) the Wilshire Small Cap Index.
- (B) the PCX Technology Index.
- (C) the Dow Jones & Co. Taiwan Index
- (D) the Morgan Stanley Emerging Growth Index.

(2) Flexible Exchange Options on the following Exchange-Traded Fund Shares, as defined in Rule 6.1(b)(32), are approved for trading on the Exchange:

(A) Nasdaq-100 Index Tracking Stock (Symbol: QQQ)

(b) Definitions. The following terms as used in this Section 4 shall, unless the context otherwise indicates, have the meanings herein specified.

(1) The term “BBO” means the best bid or offer, or both as applicable, entered in response to a Request for Quotes.

(2) The term “BBO; Improvement Interval” means the minimum period of time established by the Exchange during which OTP Holder’s or OTP Firm’s may submit FLEX Quotes to meet or improve the BBO established during the Request Response Time.

(3) The term “Cap Interval” for purposes of this Section 4 means the value specified by the Submitting OTP Holder or OTP Firm in a Request for Quotes that is to be added to the exercise price for a European-capped FLEX Option (in the case of a call) or subtracted from the exercise price for a European-capped FLEX Option (in the case of a put) in setting the cap price.

(4) The term “Flexible Exchange Option” or “FLEX Option” means a customized options contract.

(5) The term “FLEX Equity Option” means an option on a specified underlying equity security or Exchange-Traded Fund Share.

(6) The term “FLEX Index Option” means an index option.

(7) The term “FLEX Post Official” means the Exchange employee designated to perform the FLEX post functions set forth in Rule 5.38.

(8) The term “FLEX Quote” means:

(A) FLEX bids and offers entered by Market Makers and

(B) orders to purchase and orders to sell FLEX Options entered by Floor Brokers, in each case in response to a Request for Quotes.

(9) The term “Index Multiplier” means the monetary amount, stated in terms of the settlement currency specified in the contract, by which the current index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the option. The Exchange has established the following Index Multipliers for FLEX Index Options on domestic indexes: U.S. Dollars-\$100; Canadian Dollars-\$100; Japanese Yen-10,000Y; Deutsche Marks-200DM; British Pounds-100pounds; Swiss Francs-200SF; French Francs-500F; E.C.U.-100ECU.

(10) The term “Non-FLEX Options” means an option contract that is not a FLEX Option.

(11) The term “Non-FLEX Equity Option” means a Non-FLEX Option that is an option on a specified underlying equity security or Exchange-Traded Fund Share.

(12) The term “Non-FLEX Index Option” means a Non-FLEX Option that is an index option.

(13) The term “Request for Quotes” means the initial request supplied by a Submitting OTP Holder or OTP Firm to initiate FLEX bidding and offering.

(14) The term “Request Response Time” means the minimum period of time established by the Exchange during which Exchange OTP Holder or OTP Firm participating in FLEX Options may provide FLEX Quotes in response to a Request for Quotes.

(15) The term “Series of FLEX Options” means in the case of FLEX Index Options, all such options contracts of the same class having the same exercise price, exercise style, exercise settlement value, expiration date, and index multiplier, and denominated in the same settlement currency, and, in the case of FLEX Equity Options, all such option contracts of the same class having the same exercise price, exercise style and expiration date.

(16) The term “Submitting OTP Holder or OTP Firm” means an Exchange OTP Holder or OTP Firm (who is deemed eligible by the Exchange to trade FLEX Options) who initiates FLEX Option bidding and offering by submitting a FLEX Request for Quotes.

(17) The term “Underlying Equivalent Value” in respect of a given number of FLEX Index Options means the aggregate underlying monetary value of a FLEX Option derived by multiplying the index multiplier by the current index value times the given number of FLEX Index Options.

(18) The term “Market Maker” shall include Lead Market Makers.

(c) The Automatic Execution System shall not be available for transactions in FLEX Options.

(d) The following rules shall not apply to transactions in FLEX Options Rule 6.75 (Priority on Split Price Transactions) and Rule 6.80 (Accommodation Transactions).

Hours of Trading

Rule 5.31(a). FLEX transactions may be effected during normal Exchange options trading hours on any business day; provided, however, that the Board of Directors, in its discretion at any time, may determine to narrow or otherwise restrict the time set for FLEX options trading.

Trading Rotations

(b) There shall be no trading rotations in FLEX Options.

Terms of FLEX Options

Rule 5.32(a). Option series will not be pre-established for FLEX trading. The terms of a particular FLEX contract shall be established through the Request for Quotes process and the bidding and offering mechanics detailed in this Rule. The applicable index multiplier in the case of the U.S. dollar-denominated FLEX Index Options shall be the same multiplier that applies to Non-FLEX Options.

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

(1) Underlying security in the case of FLEX Equity Options and underlying index in the case of FLEX Index Options;

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

(3) Exercise Style (American, European or Capped);

(4) Expiration date (specified as to day, month and year, except that a FLEX Option may not expire on any day that falls on or within two business days of a third Friday-of-the-month expiration day for any non-FLEX option);

(5) Exercise Prices (specified as described in Rule 5.32(e)(2) for FLEX Index Options and in Rule 5.32(f)(2) for FLEX Equity Options);

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

(1) Quote Type and Form Sought (i.e., specify whether bid, offer, or both is sought; and whether the quote, which must be stated in the currency designated in the Request for Quotes, is to be submitted as a specific dollar amount, or in the case of a FLEX Equity Option, as a percentage of the underlying stock or Exchange-Traded Fund Share price, or in the case of a FLEX Index Option, as a percentage of the Underlying Equivalent Value, and whether such price is contingent on specified factors in other related markets);

(2) Submitting OTP Holder or OTP Firm Crossing Intention (specify any intention to cross in compliance with Exchange Rules); and

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

(d) Every FLEX Request for Quotes and every responsive FLEX Quote, as applicable, must satisfy the following contract and transaction specifications:

(1) The maximum term shall be three years for any FLEX Equity Option, provided, however, that a Submitting OTP Holder or OTP Firm may request a longer term to a maximum of five years, and upon assessment by the FLEX Post Official that sufficient liquidity exists among Equity FLEX Qualified Market-Makers, such request will be granted. The maximum term shall be five years for any FLEX Index Option;

(2) The minimum value size for an opening transaction (other than FLEX Quotes responsive to FLEX Request for Quotes) in any FLEX series in which there is no open interest at the time the Request for Quotes is submitted will be the lessor of 250 contracts or the number of contracts overlying \$1 million Underlying Equivalent Value in the case of FLEX Equity Options and \$10 million Underlying Equivalent Value in the case of FLEX Index Options;

(3) The minimum value size for a transaction in any currently-opened FLEX series shall be 100 contracts for opening transactions and 25 contracts for closing transactions in the case of FLEX Equity Options and \$1 million Underlying Equivalent Value in the case of FLEX Index Options, or in either case the remaining underlying size or Underlying Equivalent Value on a closing transaction, whichever is less; and

(4) The minimum value size for FLEX Quotes responsive to a Request for Quotes shall be 25 contracts in the case of FLEX Equity Options and \$1 million Underlying Equivalent Value in the case of FLEX Index Options, or in either case the remaining underlying size or Underlying Equivalent Value on a closing transaction, whichever is less; provided, however, that FLEX Appointed Market Makers must provide a FLEX Quote in response to every Request for Quotes respecting a class of FLEX Index Options to which they are appointed of \$10 million Underlying Equivalent Value or the dollar amount indicated in the Request for Quotes, whichever is less.

(e) Special Terms for FLEX Index Options.

(1) FLEX Index Options are limited to transactions in options on:

- (A) the Wilshire Small Cap Index
- (B) the PCX Technology Index.
- (C) the Dow Jones Co. Taiwan Index.
- (D) the Morgan Stanley Emerging Growth Index.

(2) Exercise prices shall be specified in terms of

(A)(i) a specific index value number,

(ii) a method for fixing such a number at the time a FLEX Quote is accepted, or

(iii) a percentage of index value calculated as of the open or close of trading on the Exchange on the trade date; and

(B) the cap interval in the case of a European-Capped style option

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

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

(f) Special Terms for FLEX Equity Options

(1) FLEX Equity Option transactions are limited to transactions in options on underlying securities or Exchange-Traded Fund Shares that have been approved by the Exchange in accordance with Rule 5.3.

(2) Exercise prices and premiums may be stated in dollar amount or percentage of the price of the underlying security or Exchange-Traded Fund Shares rounded to the nearest minimum tick or, in the case of exercise prices, to the nearest .10 or one-eighth of a dollar.

(3) Exercise settlement shall be by physical delivery of the underlying security or Exchange-Traded Fund Shares.

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

(5) Exercise prices and premiums may be stated in dollar amount or percentage of the price of the underlying security, rounded to the nearest minimum tick or, in the case of exercise prices, to the nearest .10.

FLEX Trading Procedures and Principles

Rule 5.33(a). Initiating a FLEX Request for Quotes.

(1) To initiate a FLEX transaction, a Submitting OTP Holder or OTP Firm shall submit to the FLEX Market Maker a Request for Quotes, utilizing for that purpose the forms, formats and procedures established by the Exchange.

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

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

(1) OTP Holders or OTP Firms may enter at the FLEX post FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the Request Response Time.

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

(3) All FLEX Quotes may be entered, modified or withdrawn at any point during the Request Response Time. At the Expiration of the Request Response Time, the BBO shall be identified in accordance with the price and time priority principles set forth in Rule 5.33(e).

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

(1) At the expiration of the Request Response Time, the BBO shall be visibly displayed both at the post and on such market data systems as are available.

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

(3) If the Submitting OTP Holder or OTP Firm has indicated an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement

Interval. Prior to the BBO Improvement Interval, the Submitting OTP Holder or OTP Firm must indicate at the post the price at which the member expects to trade. In these circumstances, the Submitting OTP Holder or OTP Firm may participate with all other FLEX-participating members in attempting to improve or match the BBO during the BBO Improvement Interval. At the expiration of the BBO Improvement Interval, the Submitting OTP Holder or OTP Firm must promptly accept or reject the BBO(s).

(4) The Submitting OTP Holder or OTP Firm has no obligation to accept any FLEX bid or offer.

(5) Whenever, following the completion of FLEX bidding and offering responsive to a given Request for Quotes, the Submitting OTP Holder or OTP Firm rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the Request for Quotes, OTP Holders or OTP Firms may accept the entire order or the unfilled balance of the BBO.

(d) **Quote Acceptance and Rejection.** Acceptance of the BBO(s) will take place when each party to the FLEX transaction signs a Trade Sheet, which will create a binding contract.

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

(1) **Bids.** The highest bid shall have priority, but where the two or more best bids are submitted at the same price, the bid(s) submitted first in time will have priority, and where the two or more best bids are submitted at the same time and at the same price, priority will be given to such of those bid(s) as were submitted by FLEX Appointed Market Maker(s) appointed to FLEX Index Options on that underlying index or by FLEX Qualified Market Makers appointed to FLEX Equity Options of that class.

(2) **Offers.** The lowest offer shall have priority, but where the two or more best offers are submitted at the same price, the offer(s) submitted first in time will have priority, and where the two or more best offers are submitted at the same time and at the same price, priority will be given to such of those offer(s) as were submitted by FLEX Appointed Market Maker(s) appointed to FLEX Index Options on that underlying index or by FLEX Qualified Market Makers appointed to FLEX Equity Options of that class.

(3) Notwithstanding the foregoing Subsections (1) and (2) of this Rule, whenever the Submitting OTP Holder or OTP Firm has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the following priority principles will apply:

(A) In the event that the Submitting OTP Holder or OTP Firm has matched the BBO, the Submitting OTP Holder or OTP Firm will be have priority to execute the contra side of the trade that is the subject of the Request for Quotes,

but only to the extent of the largest of 1/2 of the trade, \$1 million Underlying Equivalent Value, or the remaining Underlying Equivalent Value on a closing transaction valued at less than \$1 million in the case of FLEX Index Options; and

(B) In the event that the Submitting OTP Holder or OTP Firm has improved the BBO by at least the MPV and any other FLEX-participating member matches the improved BBO, the Submitting OTP Holder or OTP Firm will have priority to execute the contra side, but only to the extent of the largest of 2/3 of the trade, \$1 million Underlying Equivalent Value, or the remaining Underlying Equivalent Value on a closing transaction valued at less than \$1 million in the case of FLEX Index Options, or 25% of the trade in the case of FLEX Equity Options.

(f) **Crossing Limitations.** A Submitting OTP Holder or OTP Firm may effect crossing transactions only on public customer orders or orders respecting the Submitting OTP Holder's or OTP Firm's propriety account.

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

Discretionary Transactions

Rule 5.34. Notwithstanding Rule 6.48, a Floor Broker may be given discretion with respect to the number of FLEX contracts to be purchased or sold. Such discretion must be granted by the customer in clear terms in a manner approved by the Exchange and must be reflected in a contemporaneously-prepared, time-stamped document prepared by the Floor Broker, one copy of which shall be promptly sent to the customer and one copy of which shall be maintained by the Floor Broker for the full term of the FLEX contract or the time required by SEC Rule 17a-4 under the Securities Exchange Act of 1934, whichever period is longer.

Position Limits for FLEX Index Options

Rule 5.35(a). *FLEX Index Options.* In determining compliance with Rule 5.16, FLEX Index Options shall be subject to FLEX contract position limitations fixed by the Exchange. In no event shall those limits exceed in the aggregate 200,000 contracts on the same side of the market.

(b) At the close of trading two business days prior to the last day of trading of the calendar quarter, positions in p.m. settled FLEX Index Options (i.e., options having a settlement value that is determined by the level of the index at the close of trading on the last trading day

before expiration) shall be aggregated with positions in Quarterly Index Options on the same index with the same expiration shall be subject to the position limits set forth in Rule 5.16(a).

(c) There shall be no position limits for FLEX Equity Options. However, every OTP Holder or OTP Firm (other than a Market Maker) that maintains a position on the same side of the market in excess of the standard position limit established pursuant to Rule 6.8 for Non-FLEX Equity Options overlying the same underlying issue on behalf of its own account or for the account of a customer shall report information on such FLEX Equity Option position, positions in any related instrument, the purpose or, strategy for the position, and the collateral used by the account. This report shall lie in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX Equity Option position in excess of the standard position limit established for Non-FLEX Equity Options overlying the same underlying issue, the Exchange may, pursuant to its authority under Exchange Rule 4.16(a), consider imposing additional margin upon the account maintaining such under-hedged position. It should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirement.

(d) *Aggregation of Positions.* Except as provided in Rule 5.35(d), FLEX Option positions shall not be aggregated with positions in Non-FLEX Options, and positions in FLEX Index Options on a given index shall not be aggregated with options on any stocks included in the index or with FLEX Index Options positions on another index.

Exercise Limits

Rule 5.36(a). Exercise limits for FLEX Options shall be equivalent to the FLEX position limits prescribed in Rule 5.35.

(b) The minimum value size for FLEX Equity Option exercises shall be 100 contracts or the remaining size of the position, whichever is less.

(c) The minimum value size for FLEX Index Option exercises shall be \$1 million Underlying Equivalent Value or the remaining Underlying Equivalent Value of the position, whichever is less.

(d) FLEX Options shall not be taken into account when calculating exercise limits for non-FLEX option contracts.

Appointment of FLEX Market Makers and Market-Making Obligations

Rule 5.37(a). A registered Market Maker may apply on a form prescribed by the Exchange to be a “FLEX Appointed Market Maker” in one or more classes of FLEX Index Options and for settlement in one or more currencies, or to be a “FLEX Qualified Market Maker” in one or more classes of FLEX Equity Options. From among the applicants, the Exchange shall appoint two or more FLEX Appointed Market Makers to each FLEX Index

Option of a given class and settlement currency, and three or more FLEX Qualified Market Makers to each FLEX Equity Option of a given class. In making such appointments and in taking other action with respect to FLEX Appointed Market Makers or FLEX Qualified Market Makers, the Exchange shall take into account the following factors:

- (1) the preference of the registrants;
- (2) the maintenance and enhancement of competition among Market Makers; and
- (3) the assurance that the Market Maker will have adequate financial resources.

Notwithstanding the foregoing, the Exchange may determine to solicit applications from registered Market Makers to be FLEX Appointed Market Makers in one or more specified classes of FLEX Equity Options, and from among such applicants may appoint two or more FLEX Appointed Market Makers to such classes of FLEX Equity Options in lieu of appointing FLEX Qualified Market Makers to such classes.

(b) A FLEX Appointed Market Maker shall have an obligation to enter a FLEX Quote in response to any Request for Quotes on any FLEX Option of the class to which the Market Maker is appointed. Except as provided in Rule 5.37(c), a FLEX Qualified Market Maker may, but shall not be obligated to, enter a FLEX Quote in response to a Request for Quotes on a FLEX Equity Option of the class in which he or she is qualified. Every FLEX Quote entered by a FLEX Appointed Market Maker or a FLEX Qualified Market Maker shall meet or exceed the minimum size parameters set forth in Rule 5.32(d)(4) and shall be entered within the indicated Request Response Time plus any applicable BBO Improvement Interval. Unless withdrawn or modified during the Request Response Time, such Quotes shall be considered firm for the duration of the Request Response Time and, in the event the Quote is the BBO, the BBO Improvement Interval.

(c) A FLEX Post Official may call upon FLEX Qualified Market Makers appointed in a class of FLEX Equity Options to make FLEX Quotes in response to a specific Request for Quotes in that class of FLEX Equity Options whenever in the opinion of the FLEX Post Official the interests of a fair, orderly and competitive market are best served by such action and shall make such a call upon FLEX Qualified Market Makers whenever no FLEX Quotes are made in response to a specific Request for Quotes.

(d) FLEX Appointed Market Makers need not provide continuous FLEX Quotes or quote a minimum bid-offer spread in FLEX Options.

FLEX Post Official

Rule 5.38(a). The Exchange may at any time designate an Exchange employee to act as a FLEX Post Official in one or more classes of FLEX Options. The FLEX Post Official shall perform the functions set forth in paragraph (b) of this Rule. The Exchange may also designate other qualified employees to assist the FLEX Post Official as the need arises.

(b) A FLEX Post Official is responsible for:

(1) reviewing the conformity of FLEX Requests for Quotes and FLEX Quotes to the terms and specifications contained in Rule 5.32;

(2) posting FLEX Requests for Quotes for dissemination;

(3) determining the BBO;

(4) ensuring that FLEX contracts are executed in conformance with the priority principles set forth in Rule 5.33; and

(5) calling upon FLEX Qualified Market Makers to make FLEX Quotes in specific classes of FLEX Equity Options as provided in paragraph (c) of Rule 5.37.

Market Maker Account Equity

Rule 5.39(a). No Market Maker shall effect any FLEX Index Option transaction unless such Market Maker has demonstrated to the satisfaction of the Financial and Operational Compliance Department that the net liquidating equity maintained in the Market Maker's individual or joint accounts with any one clearing member in which transactions in FLEX Index Options will be conducted is at least \$100,000. Joint account equity may not be combined with the Market Maker's individual account equity for this purpose unless the participants in the joint account and in the individual accounts all trade for the salve broker-dealer through those accounts. Failure to remain in compliance with the foregoing requirements shall be grounds for suspension or termination of a Market Maker's authorization to effect transactions in any class of FLEX Index Options, except for closing transactions and except as otherwise determined by the Exchange in unusual circumstances. A Market Maker or its clearing firm, as applicable, shall inform the Financial and Operational Compliance Department immediately whenever such Market Maker ceases to remain in compliance with these requirements.

FLEX Appointed Market Maker Financial Requirements

Rule 5.40. A FLEX Appointed Market Maker shall be required to maintain at least \$1 million net liquidating equity and/or \$1 million net capital, as applicable. As used herein, the term “net capital” shall mean a net capital amount computed in accordance with the requirements of Securities and Exchange Commission Rule 15c3-1 under the Securities Exchange Act of 1934. A FLEX Appointed Market Maker or its clearing member, as applicable, shall immediately inform the Financial and Operational Compliance Department whenever such Market Maker fails to be in compliance with such requirements. The Exchange may waive the financial requirements of this Rule in unusual circumstances.

Letter of Guarantee

Rule 5.41(a). No Market Maker shall effect any transaction in FLEX Options unless one or more Letter(s) of Guarantee has been issued by a Clearing Member and filed with the Exchange pursuant to Rule 6.36(a) accepting financial responsibility for all FLEX transactions made by the Market Maker and such letter has not been revoked under Rule 6.36(c). Upon approval by the Options Clearing Corporation and filing with the Exchange, an existing Letter of Guarantee may be amended specifically to include FLEX transactions.

(b) No Floor Broker shall act as such in respect of FLEX Option contracts unless one or more Letters of Authorization has been issued by a Clearing Member and filed with the Exchange under Rule 6.45(a) specifically accepting responsibility for the clearance of FLEX Option transactions of the Floor Broker and such letter has not been revoked under Rule 6.45(c). Upon approval by the Options Clearing Corporation and filing with the Exchange, an existing Letter of Authorization may be amended to include FLEX Option transactions.

Rules 5.42 – 5.44 – Reserved.

Section 5. Buy-Write Option Unitary Derivatives (“BOUNDS”)

Applicability

Rule 5.45(a). Section 5 is applicable only to Buy-Write Option Unitary Derivatives (“BOUNDS”). Except to the extent that specific rules in this section govern or unless the context otherwise requires, the provisions of the Bylaws and all other rules and policies of the Board of Directors shall be applicable to the trading of BOUNDS. Pursuant to the provisions of Rule 1, BOUNDS are included within the definition of “security” or “securities” as such terms are used in the Bylaws and Rules of the Exchange. For purposes of this Rule 5, BOUNDS are designated as Tier I securities.

Compliance with Rules 6.6 and 6.8 shall be determined as set forth in Rules 5.49 and 5.50.

Definitions

(b) The following terms as used in this Section 5 shall, unless the context otherwise indicates, have the meanings herein specified.

(1) The term “Buy-Write Option Unitary Derivatives” (“BOUND”) means a security issued, or subject to issuance, by the Options Clearing Corporation pursuant to the By-Laws and Rules of the Options Clearing Corporation which give holders and writers thereof such rights and obligations as may be provided for the By-Laws and Rules of the Options Clearing Corporation.

(2) The term “underlying security” in respect of a BOUND contract means the security that is required to be delivered if the closing price of such security at expiration of the BOUND is less than or equal to the strike price of the BOUND.

(3) The term “strike price” in respect of a BOUND contract means a stated price per share for the underlying security which price shall be the basis for determining the manner of settlement for each BOUND contract on the specified expiration date. Any reference to the term "exercise price" in Rule 6 shall, when applied to BOUNDS, refer to the strike price of a BOUND.

(4) The term “LEAP” shall mean a long-term option listed on the Exchange pursuant to Rule 6.4(d).

BOUND Contracts to be Traded

Rule 5.46. The Exchange may from time to time approve for listing and trading on the Exchange BOUND contracts in respect of underlying securities which have been selected in accordance with Rule 5.3. Only BOUND contracts approved by the Exchange and currently open for trading on the Exchange may be purchased or sold on the Exchange. All such BOUND contracts shall be designated as to expiration month, expiration year, strike price and underlying stock.

Rights and Obligations of Holders and Sellers

Rule 5.47. Subject to the provisions of Rules 6.9 and 6.11, the rights and obligations of holders and sellers of BOUNDS dealt in on the Exchange shall be as set forth in the By-Laws and Rules of the Options Clearing Corporation.

BOUND Expiration Schedule, Series of BOUNDS Open for Trading, Strike Prices

Rule 5.48(a). After the Exchange has approved for listing and trading BOUND contracts relating to a specific underlying security, the Exchange shall from time to time open for trading additional BOUND contracts in respect of such underlying securities. Prior to opening of trading in such BOUNDS, the Exchange shall fix the expiration month, expiration year, and strike price of such BOUND contracts. The Exchange may list BOUND contracts having the same number of months from the time they are listed until expiration as provided in Rule 6.4(d). There may be up to twenty expiration months.

(b) Strike price interval, bid/ask differential and continuity rules applicable to transactions in put and call options shall not apply to transactions in BOUNDS until the time to expiration is less than nine months. Further, BOUNDS will open for trading either when there is buying or selling interest, or 40 minutes prior to the close, whichever occurs first. No quotations need to be posted for such BOUNDS until they are opened for trading.

(c) The unit of trading and strike price initially established for BOUND contracts of a particular series is subject to adjustment in accordance with the By-Laws and Rules of the Options Clearing Corporation. When such adjustment or adjustments have been determined, announcement thereof shall be made by the Exchange and, effective as of the time specified in

such announcement, the adjusted unit of trading and adjusted strike price shall be applicable with respect to all subsequent transactions in such BOUNDS.

(d) BOUND contracts are subject to adjustments in accordance with the By-Laws and Rules of the Options Clearing Corporation.

Position Limits

Rule 5.49. Position limits relating to BOUNDS shall be governed by the provisions of Rule 6.8 except that, for purposes of determining BOUND position limits, the holder of a long BOUND shall be considered to be short a put on the underlying security, and the seller of a BOUND shall be considered to be long a put on the underlying security. In determining compliance with position limits, positions in BOUNDS and put and call options shall be aggregated.

Reporting of BOUNDS Positions

Rule 5.50. Positions in BOUNDS shall be reported pursuant to Rule 6.6 with the minimum position in an account to be reported being 200 BOUNDS. In computing and reporting reportable positions under Rule 6.6 and this Rule, positions in BOUNDS and put and call options on the same underlying security shall be aggregated on the basis of a long BOUND equaling one short put option and a short BOUND equaling one long put option.

Rules 5.51 – 5.59 Reserved.

Section 6. Portfolio Depositary Receipts

Definitions

Rule 5.60(a). The following terms as used in this Section 6 shall, unless the context otherwise indicates, have the meanings herein specified.

(1) The term “Portfolio Depositary Receipt” means a security

(a) that is based on a unit investment trust (“Trust”) that holds the securities that comprise an index or portfolio underlying a series of Portfolio Depositary Receipts;

(b) that is issued by the Trust in a specified aggregate minimum number in return for a “Portfolio Deposit” consisting of specified numbers of shares of stock plus a cash amount;

(c) that, when aggregated in the same specified minimum number, may be redeemed from the Trust which will pay to the redeeming holder the stock and cash then comprising the “Portfolio Deposit”; and

(d) that pays holders a periodic cash payment corresponding to the regular cash dividends or distributions declared with respect to the component securities of the stock index or portfolio of securities underlying the Portfolio Depositary Receipts, less certain expenses and other charges as set forth in the Trust prospectus.

(2) The term “Reporting Authority” in respect of a particular series of Portfolio Depositary Receipts means the Exchange, an institution (including the Trustee for a series of Portfolio Depositary Receipts), or a reporting service designated by the Exchange or by the exchange that lists a particular series of Portfolio Depositary Receipts (if the Exchange is trading such series pursuant to unlisted trading privileges) as the official source for calculating and reporting information relating to such series, including, but not limited to, any current index or portfolio value; the current value of the portfolio of securities required to be deposited to the Trust in connection with the issuance of Portfolio Depositary Receipts; the amount of any dividend equivalent payment or cash distribution to holders of Portfolio Depositary Receipts, net asset value, or other information relating to the creation, redemption or trading of Portfolio Depositary Receipts.

Applicability

(b) This Rule is applicable only to Portfolio Depositary Receipts. Except to the extent inconsistent with this Rule, or unless the context otherwise requires, the provisions of the By-Laws and all other rules and policies of the Board of Directors are applicable to the trading on the Exchange of such securities. Portfolio Depositary Receipts are included within the definition of “security” or “securities” as such terms are used in the By-Laws and Rules of the Exchange.

(c) OTP Holders and OTP Firms shall provide to all purchasers of a series of Portfolio Depositary Receipts a written description of the terms and characteristics of such securities, in a form approved by the Exchange, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, OTP Holders and OTP Firms shall include such a written description with any sales material relating to a series of Portfolio Depositary Receipts that is provided to customers or the public. Any other written materials provided by a OTP Holder and OTP Firm to customers or the public making specific reference to a series of Portfolio Depositary Receipts as an investment vehicle must include a statement in substantially the following form: “A circular describing the terms and characteristics of the [the series of Portfolio Depositary Receipts] is available from your broker. It is recommended that you obtain and review such circular before purchasing [the series of Portfolio Depositary Receipts]. In addition, upon request you may obtain from your broker or prospectus for [the series of Portfolio Depositary Receipts].”

An OTP Holder and OTP Firm carrying an omnibus account for a non-OTP Holders or non-OTP Firm broker-dealer is required to inform such non-OTP Holders or non-OTP Firm that execution of an order to purchase a series of Portfolio Depositary Receipts for such omnibus account will be deemed to constitute agreement by the non-OTP Holders or non-OTP Firm to

make such written description available to its customers on the same terms as are directly applicable to OTP Holders and OTP Firms under this rule.

Upon request of a customer, a OTP Holder and OTP Firm shall also provide a prospectus for the particular series of Portfolio Depositary Receipts.

Designation of an Index or Portfolio

(d) The trading of Portfolio Depositary Receipts based on one or more stock indexes or securities portfolios, whether by listing or pursuant to unlisted trading privileges, shall be considered on a case-by-case basis. The Portfolio Depositary Receipts based on each particular stock index or portfolio shall be designated as a separate series and shall be identified by a unique symbol. The stocks that are included in an index or portfolio on which Portfolio Depositary Receipts are based shall be selected by the Exchange or by such other person as shall have a proprietary interest in and authorized use of such index or portfolio, and may be revised from time to time as may be deemed necessary or appropriate to maintain the quality and character of the index or portfolio.

Initial and Continued Listing and/or Trading

(e) A Trust upon which a series of Portfolio Depositary Receipts is based will be traded on the Exchange, whether by listing or pursuant to unlisted trading privileges, subject to the following criteria:

- (1) Commencement of Trading – For each Trust, the Exchange will establish a minimum number of Portfolio Depositary Receipts required to be outstanding at the time of commencement of trading on the Exchange.
- (2) Continued Trading – Following the initial twelve-month period following formation of a Trust and commencement of trading on the Exchange, the Exchange will consider the suspension of trading in or removal from listing of or termination of unlisted trading privileges for a Trust upon which a series of Portfolio Depositary Receipts is based under any of the following circumstances:
 - (A) if the Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Portfolio Depositary Receipts for 30 or more consecutive trading days; or
 - (B) if the value of the index or portfolio of securities on which the Trust is based is no longer calculated or available; or
 - (C) if such other event shall occur or condition exists which in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

Upon termination of a Trust, the Exchange requires that Portfolio Depositary Receipts issued in connection with such Trust be removed from Exchange listing or have their unlisted trading privileges terminated. A Trust may terminate in accordance with the provisions of the Trust prospectus, which may provide for termination if the value of securities in the Trust falls below a specified amount.

- (3) Term – The stated term of the Trust shall be as stated in the Trust prospectus. However, a Trust may be terminated under such earlier circumstances as may be specified in the Trust prospectus.
- (4) Trustee – The trustee must be a trust company or banking institution having substantial capital and surplus and the experience and facilities for handling corporate trust business. In cases where, for any reason, an individual has been appointed as a trustee, a qualified trust company or banking institution must be appointed co-trustee.
- (5) Voting – Voting rights shall be as set forth in the Trust prospectus. The trustee of a Trust may have the right to vote all of the voting securities of such Trust.

Limitation of Exchange Liability

Rule 5.61. Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current index or portfolio value, the current value of the portfolio of securities required to be deposited to the Trust; the amount of any dividend equivalent payment or cash distribution to holders of Portfolio Depositary Receipts; net asset value; or other information relating to the creation, redemption or trading of Portfolio Depositary Receipts, resulting from any negligent act or omission by the Exchange, or the Reporting Authority, or any agent of the Exchange, or any act, condition or cause beyond the reasonable control of the Exchange or its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission or delay in the reporting of transactions in one or more underlying securities. The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of Portfolio Depositary Receipts or any underlying index or data included therein and the Exchange makes no express or implied warranties, and disclaims all warranties of merchantability or fitness for a particular purpose with respect to Portfolio Depositary Receipts or any underlying index or data included therein. This limitation of liability shall be in addition to any other limitation contained in the Exchange's By-Laws and Rules.

Nasdaq-100 Index

Rule 5.62. The Nasdaq Stock Market, Inc. ("Nasdaq") has licensed the use of the Nasdaq-100 Index® for certain purposes in connection with trading in a particular series of Portfolio

Depository Receipts on the Exchange (Nasdaq-100 SharesSM). Nasdaq and their affiliates do not guarantee the accuracy and/or completeness of the Nasdaq-100 Index or any data included therein. Nasdaq, the Exchange and their affiliates make no warranty, express or implied, as to results to be obtained by any person or entity from the use of the Nasdaq-100 Index or any data included therein in connection with the rights licensed or for any other use. Nasdaq, the Exchange and their affiliates make no express or implied warranties, and disclaim all warranties of merchantability or fitness for a particular purpose with respect to the Nasdaq-100 Index or any data included therein. Without limiting any of the foregoing, in no event shall Nasdaq, the Exchange and their affiliates have any liability for any lost profits or special, punitive, incidental, indirect or consequential damages, even if notified of the possibility of such damages. In addition, Nasdaq, the Exchange and their affiliates shall have no liability for any damages, claims, losses or expenses caused by any errors or delays in calculating or disseminating the Nasdaq-100 Index.

Commentary:

.01 The Exchange will trade, pursuant to unlisted trading privileges, Portfolio Depository Receipts based on the Standard and Poor's Corporation's S&P 500 Index, known as SPDRs.

.02 The Exchange will trade, pursuant to unlisted trading privileges, Portfolio Depository Receipts based on the S&P MidCap 400 Index, known as MidCap SPDRs.

.03 The Exchange will trade, pursuant to unlisted trading privileges, Portfolio Depository Receipts based on the Nasdaq-100 Index, known as Nasdaq-100 Shares.