

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 447	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2019 - * 039	Amendment No. (req. for Amendments *)
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Filing by NASDAQ BX, Inc.  
Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934

Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" type="checkbox"/>	Section 19(b)(3)(B) * <input type="checkbox"/>
			Rule		
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)	
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)	
			<input type="checkbox"/> 19b-4(f)(3)	<input checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

A proposal to relocate rules from its current Rulebook into its new Rulebook shell.

**Contact Information**

Provide the name, telephone number, and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the action.

First Name * Angela	Last Name * Dunn
Title * Principal Associate General Counsel	
E-mail * angela.dunn@nasdaq.com	
Telephone * (215) 496-5692	Fax <input type="text"/>

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934,

has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

(Title \*)

Date 10/23/2019	EVP and Chief Legal Officer
By John Zecca	<input style="width: 100%;" type="text"/>
(Name *)	



NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFF website.

**Form 19b-4 Information \***

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

**Exhibit 1 - Notice of Proposed Rule Change \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change, security-based swap submission, or advance notice being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

**Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications**

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

**Exhibit 4 - Marked Copies**

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

**Exhibit 5 - Proposed Rule Text**

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

**Partial Amendment**

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) Nasdaq BX, Inc. (“BX” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to relocate rules from its current Rulebook into its new Rulebook shell.

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange (the “Board”) on September 25, 2019. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Angela Saccomandi Dunn  
Principal Associate General Counsel  
Nasdaq, Inc.  
215-496-5692

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of this rule change is to relocate BX rules into the new Rulebook shell with some amendments to the shell.<sup>3</sup> Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") recently relocated their rules.<sup>4</sup> BX proposes to relocate its rules so the Rulebook is similar to ISE, GEMX and MRX. The other Nasdaq affiliated markets will also relocate their Rulebooks in order to harmonize its rule structure, where applicable, across Nasdaq markets. The relocation and harmonization of the BX Rule structure is part of the Exchange's continued effort to promote efficiency and structural conformity of its rules with those of its Affiliated Exchanges. The Exchange believes that the placement of the BX Rules into their new location in the shell will facilitate the use of the Rulebook by Members and Members of Affiliated Exchanges.

The Exchange notes that the entire Rulebook is not being relocated at this time. Specifically, certain Equity Rules and the Disciplinary Rules are not being relocated. These rules will be relocated in other rule filings.

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<sup>3</sup> Previously, the Exchange added a shell structure to its Rulebook with the purpose of improving efficiency and readability and to align its rules closer to those of its five sister exchanges, The Nasdaq Stock Market LLC; Nasdaq PHLX LLC; ISE, GEMX and MRX ("Affiliated Exchanges"). See Securities Exchange Act Release No. 82174 (November 29, 2017), 82 FR 57492 (December 5, 2017) (SR-BX-2017-054).

<sup>4</sup> See Securities Exchange Act Release Nos. 86138 (June 18, 2019), 84 FR 29567 (June 24, 2019) (SR-ISE-2019-17); 86346 (July 10, 2019) 84 FR 33999 (July 16, 2019) (SR-GEMX-2019-08); and 86424 (July 22, 2019), 84 FR 36134 (July 26, 2019) (SR-MRX-2019-15).

The Exchange proposes to update all cross-references within the Rule to the new relocated rule cites and also proposes to correct certain citations. The Exchange proposes to replace internal rule references to simply state “this Rule” where the rule is citing itself without a more specific cite included in the Rule. For example, if BX Chapter VI, Section 3 refers currently to “Chapter VI, Section 3” the Exchange will amend the phrase to simply “this Rule.” The Exchange proposes to conform numbering and lettering in certain rules to the remainder of the Rulebook. The Exchange proposes to reflect the use of the General Equity and Options Rules in place of Equity Rules, where applicable (i.e. an Equity Rule that currently applies to both equities and options). Finally, the Exchange proposes to delete any current Rules that are reserved in the Rulebook.

#### General 1

The Exchange proposes to relocate rule text from Rule 0111, “Adoption of Rules”, Rule 0112, “Effective Date”, Rule 0113, “Interpretation,” certain definitions from Rule 0120, “Definitions” and Rule 0121 “Definitions in the By-Laws of the Exchange” into General 1. The Exchange proposes to relocate certain definitions from Chapter VI, Section 1 into General 1.<sup>5</sup> The Exchange proposes to delete certain definitions which are repetitive.<sup>6</sup> The Exchange will also alphabetize the definitions within General 1 and conform the text where applicable. Definitions related to the equities rules<sup>7</sup> currently

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<sup>5</sup> See note 13 below.

<sup>6</sup> The Exchange proposes to delete the term “Exchange Act” and “SEC” or “Commission.”

<sup>7</sup> The terms “Customer,” “Delegation Agreement,” “Equity Rules,” “Grandfathered Rules,” “Nasdaq BX Equities LLC” or BX Equities LLC,” “Nasdaq BX Equities Market” or “System,” and “Security” are being relocated into Equity 1 of the Rulebook as these terms are specific to the equity market.

within Rule 1020 will be relocated into Equity 1 as explained below. The Exchange is conforming the format of all definitions. Finally, the Exchange notes that the description of “MarketWatch” was amended to remove the phrase “a unit of BX Regulation” because that phrase is repetitive.

### General 2

General 2 would be comprised of the following rules:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Chapter VI, Section 16 Fees, Dues and Other Charges
Section 3	Reserved
Section 4	2130. Nasdaq Ownership Restriction (re-title “Limitation on Affiliation between the Exchange and Members”)
Section 5	0130. Regulation of the Exchange and Its Members
Section 6	0115. Applicability
Section 7	0150. Regulatory Independence
Section 8	0160. Delegation, Authority and Access
Section 9	1130. Reliance on Current Membership List
Section 10	1150. Executive Representative
Section 11	1160. Contact Information Requirements
Section 12	1170. The Exchange's Business Continuity and Disaster Recovery Plan Testing (re-title “Business Continuity and Disaster Recovery Plan Testing”)
Section 13	0140. Fingerprint-Based Background Checks of Employees and Independent Contractors
Section 14	2140. Restrictions on Affiliation

Section 15	3510. Business Continuity Plans
Section 16	3520. Emergency Contact Information

The Exchange is reserving Sections 1 and 3 at this time. The Exchange proposes to relocate Chapter VI, Section 16 Fees, Dues and Other Charges into the General section because this rule applies to both the equity and options products. This rule describes the power of BX's Board of Directors. The Exchange notes that the Board of Directors of BX has the power to set fees for the BX market, which includes fees for both options and equities.<sup>8</sup> The Exchange notes that Section 7, "Regulatory Independence" was amended to remove the placeholder for a date.

#### General 3

The Exchange proposes to relocate the rule text of Rule 1000, "Membership, Registration and Qualification Requirements" along with the title of Rule 1000 into General 3, Section 1.

#### General 4

The Exchange proposes to rename General 4 from "Regulation" to "Registration Requirements."

#### General 9

The Exchange proposes to adopt a new General 9, titled "Regulation." The Exchange proposes to relocate the following rules into General 9:

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<sup>8</sup> See By-Laws of BX, Article XII, Section 12.4 which provides the Board authority to set fees. In addition, the Exchange proposes to amend the word "Participant" in this rule to "member" to clearly indicate all members are subject to the Rule.

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	2110, Standards of Commercial Honor and Principles of Trade; IM-2110-2, Trading Ahead of Customer Limit Order; IM-2110-3, Front Running Policy; IM-2110-4, Trading Ahead of Research Reports; IM-2110-5, Anti-Intimidation / Coordination; IM-2110-6, Confirmation of Callable Common Stock; IM-2110-7, Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes; 2111, Trading Ahead of Customer Market Orders; and 2120, Use of Manipulative, Deceptive or Other Fraudulent Devices (re-title "General Standards")
Section 2	2150, Customers' Securities or Funds; IM-2150, Segregation of Customers' Securities
Section 3	2210, Communications with the Public; IM-2210-1, Guidelines to Ensure That Communications With the Public Are Not Misleading; and IM-2210-4, Limitations on Use of the Exchange's Name
Section 4	2211, Institutional Sales Material and Correspondence
Section 5	2212, Telemarketing
Section 6	2251, Forwarding of Proxy and Other Issuer-Related Materials
Section 7	2261, Disclosure of Financial Condition; 2262, Disclosure of Control Relationship with Issuer; and 2269, Disclosure of Participation or Interest in Primary or Secondary Distribution (re-title "Disclosure of Financial Condition, Control Relationship with Issuer and Participation or Interest in Primary or Secondary Distribution")
Section 8	2266, SIPC Information
Section 9	2290, Fairness Opinions
Section 10	2310, Recommendations to Customers (Suitability); IM-2310-2, Fair Dealing with Customers; and IM-2310-3, Suitability Obligations to Institutional Customers
Section 11	2320, Best Execution and Interpositioning; and IM-2320, Interpretive Guidance with Respect to Best Execution Requirements
Section 12	2340, Customer Account Statements
Section 13	2341, Margin Disclosure Statement

Section 14	2360, Approval Procedures for Day-Trading Accounts; and 2361, Day-Trading Risk Disclosure Statement
Section 15	2370, Borrowing From or Lending to Customers
Section 16	2430, Charges for Services Performed
Section 17	2441, Net Transactions with Customers
Section 18	2460, Payments for Market Making
Section 19	2510, Discretionary Accounts
Section 20	3010, Supervision; IM-3010-1, Standards for Reasonable Review; and IM-3010-2, Guidance on Heightened Supervision Requirements
Section 21	3012, Supervisory Control System
Section 22	3013, Annual Certification of Compliance and Supervisory Processes; and IM-3013, Annual Compliance and Supervision Certification
Section 23	3030, Outside Business Activities of an Associated Person
Section 24	3040, Private Securities Transactions of an Associated Person
Section 25	3050, Transactions for or by Associated Persons
Section 26	3060, Influencing or Rewarding Employees of Others
Section 27	3070, Reporting Requirements
Section 28	3080, Disclosure to Associated Persons When Signing Form U4
Section 29	3090, Transactions Involving Exchange Employees
Section 30	3110, Books and Records and IM-3110. Customer Account Information
Section 31	3120, Use of Information Obtained in Fiduciary Capacity
Section 32	3140, Approval of Change in Exempt Status Under SEC Rule 15c3-3
Section 33	3150, Reporting Requirements for Clearing Firms; and

	IM-3150, Exemptive Relief
Section 34	3160, Extensions of Time Under Regulation T and SEC Rule 15c3-3
Section 35	2040, Nonregistered Foreign Finder
Section 36	Reserved
Section 37	3011, Anti-Money Laundering Compliance Program
Section 38	2520, Margin Requirements
Section 39	3020, Fidelity Bonds
Section 40	4110A, Capital Compliance
Section 41	4120A, Regulatory Notification and Business Curtailment
Section 42	4140A, Audit
Section 43	Reserved
Section 44	Reserved
Section 45	Reserved
Section 46	Reserved
Section 47	Reserved
Section 48	4521A, Notifications, Questionnaires and Reports
Section 49	5230A, Payments Involving Publications that Influence the Market Price of a Security
Section 50	1090, Foreign Members
Section 51	1050, Research Analyst

The word "FINRA" is being added in certain places for greater clarity. The Exchange is amending Rule 2212, Telemarketing, to update the Rule reference to NASD

Rule 2212 to FINRA Rule 3230 in light of a FINRA rule change.<sup>9</sup> The Exchange is amending Rule 3010, Supervision, as well as IM-3010-1, Standards for Reasonable Review, to update the Rule reference to NASD Rule 3010 to FINRA Rule 3110 and 3170, respectively, in light of a FINRA rule change.<sup>10</sup> The Exchange also proposes to remove rule text from IM-3010-1 which states, “FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3010-1 are transferred into the FINRA rulebook, then Equity Interpretive Material 3010-1 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 3010-1 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.” The consolidation has already occurred with respect to this rule. The Exchange proposes to amend NASD Rule 3070 references within Rule 3070, Reporting Requirements, to FINRA Rule 4530 pursuant to a FINRA rule change.<sup>11</sup> The Exchange will also separately file another rule change to amend other NASD Rule references to the FINRA Rulebook. Finally, the Exchange is updating incorrect references to NASD Rules within General 9, Sections 3, 23 and 24.

#### Equity Rules

The Exchange proposes to amend the Equity Rules to re-title certain chapters in the new Rulebook. The Exchange proposes to relocate certain definitions currently

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<sup>9</sup> See Securities Exchange Act Release No. 66279 (January 30, 2012), 77 FR 5611 (February 3, 2012) (SR-FINRA-2011-059).

<sup>10</sup> See Securities Exchange Act Release No. 71179 (December 23, 2013), 79 FR 79542 (December 30, 2013) (SR-FINRA-2013-025).

<sup>11</sup> See Securities Exchange Act Release No. 63260 (November 5, 2010), 75 FR 69508 (November 12, 2010) (SR-FINRA-2010-034).

within Rule 0120, Definitions, into Equity 1.<sup>12</sup> The Exchange proposes to re-title Equity 2 from “Equity Trading Rules” to “Equity Market Participants.” The Exchange proposes to re-title Equity 3 from “Equity Market Participants” to “Equity Trading Rules.” The Exchange proposes to title Equity 4, which is currently reserved, as “Limit Up-Limit Down.” The Exchange proposes to reserve Equity 6, which is currently titled “Limit Up-Limit Down.” The Exchange proposes to title Equity 10, which is currently reserved, as “BX Venture Market Listing Rules.” Finally, the Exchange proposes to remove Equity 11, which is titled “BX Venture Market Listing Rules.”

### Options 1

The Exchange proposes to rename current Options 1 from “Options Definitions” to “General Provisions.” The Exchange proposes to relocate and alphabetize certain definitions from Chapter I, Section 1 into proposed General 1, Section 1. The Exchange also proposes to relocate definitions from Chapter VI, Section 1(a)-(c) and (h) into Options 1, Section 1. Certain definitions within Chapter 1, Section 1 and Chapter VI, Section 1 apply to both equities and options. These definitions<sup>13</sup> will be relocated to General 1, Section 1 from Chapter I, Section 1 and Chapter VI, Section 1. The Exchange proposes to conform the definitions by adding “the term” where necessary. The Exchange proposes to amend the term “System” from Chapter VI, Section 1 and apply that term to both “System” and “Trading System” and remove the separate definition for “Trading System” in Chapter I, Section 1(a)(62) which creates a circular reference to the

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<sup>12</sup> See note 13 below. The term “Exchange Manual” is being eliminated.

<sup>13</sup> The following definitions are being relocated from Chapter I, Section 1 and Chapter VI, Section 1 into General 1, Section 1: “Board,” “BX,” “BX Regulation,” “BX Rules,” “he,” “him,” or “his,” “MarketWatch,” “primary market,” “SEC” or Commission,” and “SRO.”

term “System.” The Exchange also proposes to eliminate the defined term “Participant” from Chapter VI, Section 1. The Exchange defines an “Options Participant” or “Participant” within its rules today. The separate defined term “Participant” is confusing and unnecessary. The term “Exchange” is redundant of the same terms that was already being relocated to General 1 from the Equity Rules. The Exchange proposes to delete the terms “Exchange” and “Order Entry Firms” in this rule because they are duplicative.

In addition the Exchange proposes to relocate the following rules into Options 1:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter I, Section 1, Definitions and Chapter VI, Section 1(a)-(c) and (h)
Section 2	Chapter I, Section 2, Applicability
Section 3	Chapter I, Section 3, Regulation of BX and its Members

The Exchange proposes to relocate Chapter V, Section 2, MarketWatch, to the end of the defined term “MarketWatch” which is currently within Chapter I, Section 1 and is being relocated to General 1 as that term applies to both options and equities. The sentence is merely descriptive and adds to the already defined term. The Exchange proposes to relocate Chapter VII, Section 1, Customer Orders and Order Entry Firms, into a definition for Order Entry Firms within Options 1, Section 1.

### Options 2

The Exchange proposes to rename Options 2 from “Options Trading Rules” to “Options Market Participants” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter VII, Section 2, Market Maker Registration; and Section 3 Continuing Market Maker Registration (re-title as “Registration of Market Makers”)

Section 2	Reserved
Section 3	Chapter VII, Section 13, Lead Market Makers Allocations (re-title as “Lead Market Maker Allocations”)
Section 4	Chapter VII, Section 5, Obligations of Market Makers; and Section 14, LMM Obligations and Quotations (re-title as “Obligations of Market Makers and Lead Market Makers”)
Section 5	Chapter VII, Section 6, Market Maker Quotations
Section 6	Reserved
Section 7	Chapter VII, Section 7, Securities Accounts and Orders of Market Makers
Section 8	Chapter VII, Section 9, Financial Requirements for Market Makers
Section 9	Chapter VII, Section 4, Good Standing for Market Makers
Section 10	Chapter VII, Section 15, Directed Market Makers

The Exchange proposes to reserve Sections 2 and 6. The Exchange proposes to relocate Chapter VII, Section 8, Letters of Guarantee, to Options 6, Section 4. The Exchange proposes to relocate Chapter VII, Sections 11, Mass Cancellation of Trading Interest, and Section 12, Order Exposure Requirements, to Options 3, Sections 19 and 22. Chapter VII, Section 1, Customer Orders and Order Entry Firms, was relocated to the definitions as described herein.

#### Options 2A

The Exchange proposes a new Options Section 2A titled “Options Participation” and proposes to relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter II, Section 1, Options Participation
Section 2	Chapter II, Section 2, Requirements for Options Participation

Section 3	Chapter II, Section 3, Persons Associated with Options Participants
Section 4	Chapter II, Section 4, Good Standing for Options Participants

The Exchange proposes to reserve Sections 5-7.

### Options 3

The Exchange proposes to rename Options 3 from “Options Market Participants” to “Options Trading Rules” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter VI, Section 2, Days and Hours of Business
Section 2	Chapter VI, Section 3. Units of Trading; and Section 4, Meaning of Premium Quotes and Orders (combined into one rule and retitle as “Units of Trading and Meaning of Premium Quotes and Orders”)
Section 3	Chapter VI, Section 5, Minimum Increments
Section 4	Chapter VI, Section 6, Entry and Display of Quotes
Section 5	Chapter VI, Section 7, Entry and Display of Orders
Section 6	Chapter V, Section 5, Unusual Market Conditions
Section 7	Chapter VI, Section 1(d)-(g) Definitions; and Chapter VI, Section 21 Order and Quote Protocols (re-title as “Types of Orders and Quote Protocols”)
Section 8	Chapter VI, Section 8, BX Opening and Halt Cross (re-title as “Opening and Halt Cross”)
Section 9	Chapter V, Section 3, Trading Halts; and Section 4, Resumption of Trading After a Halt (re-title as to “Trading Halts”)
Section 10	Chapter VI, Section 10, Book Processing (re-title as “Order Book Allocation”)
Section 11	Reserved
Section 12	Reserved
Section 13	Chapter VI, Section 9, Price Improvement Auction (“PRISM”)

Section 14	Reserved
Section 15	Chapter VI, Section 18, Risk Protections
Section 16	Reserved
Section 17	Chapter VI, Section 22, Kill Switch
Section 18	Chapter VI, Section 23, Detection of Loss of Communication
Section 19	Chapter VII, Section 11, Mass Cancellation of Trading Interest
Section 20	Chapter V, Section 6, Nullification and Adjustment of Options Transactions including Obvious Errors
Section 21	Chapter V, Section 1, Access to and Conduct on BX Options; and Chapter VI, Section 20 Exchange Sharing of Participant-Designated Risk Settings (re-title as “Access to and Conduct on BX Options”)
Section 22	Chapter VI, Section 12, Limitations on Order Entry
Section 23	Chapter VI, Section 19, Data Feeds and Trade Information
Section 24	Chapter VI, Section 13, Transaction Price Binding
Section 25	Chapter VI, Section 12, Anonymity
Section 26	Chapter VI, Section 17, Message Traffic Mitigation
Section 27	Chapter V, Section 9, Limitation of Liability
Section 28	Reserved

The Exchange proposes to combine the BX Rules and retitle them as indicated herein. The Exchange proposes to reserve certain rules. Chapter VI, Section 16, Fees, Dues and Other Charges was relocated to General 2 and Chapter VI, Sections 14, Authorization to Give Up, and Section 15, Submission for Clearance, were relocated to Options 6. The Exchange amended Options 3, Section 21(b)(8) to refer to Section 22 with describes the limitation on orders on BX.

Options 4

The Exchange proposes to amend Options 4, Options Listing Rules, to remove Section 5, which is reserved, and renumber Section 6, Series of Options Contracts Open for Trading, as Section 5.<sup>14</sup> The Exchange also proposes to reserve Section 6 and reserve a new Section 10.

Options 4A

The Exchange proposes to relocate rules within new proposed Options 4A, which is proposed to be titled “Options Index Rules” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XIV, Section 1, Application of Index Rules
Section 2	Chapter XIV, Section 2, Definitions
Section 3	Chapter XIV, Section 3, Designation of a Broad-Based Index
Section 4	Chapter XIV, Section 6, Designation of Narrow-Based and Micro-Narrow-Based Index Options
Section 5	Chapter XIV, Section 4, Dissemination of Information
Section 6	Chapter XIV, Section 5, Position Limits for Broad-Based Index Options
Section 7	Chapter XIV, Section 7, Position Limits for Industry and Micro-Narrow Based Index Options
Section 8	Reserved
Section 9	Chapter XIV, Section 8, Exemptions from Position Limits
Section 10	Chapter XIV, Section 9, Exercise Limits
Section 11	Chapter XIV, Section 10, Trading Sessions
Section 12	Chapter XIV, Section 11, Terms of Index Options Contracts

<sup>14</sup> The corresponding rule numbers are changing for removals of certain sections.

Section 13	Chapter XIV, Section 12, Debit Put Spread Cash Account Transactions
Section 14	Chapter XIV, Section 13, Disclaimers
Section 15	Chapter XIV, Section 14, Exercise of American-Style Index Options
Section 16	Reserved

The Exchange proposes to add a clarifying note to Options 4A, Supplementary Material .01 to Section 2 to explain that no reporting authorities are listed because BX does not currently list index options.

### Options 5

The Exchange proposes to rename Options 5 from “Options Trade Administration” to “Order Protection and Locked and Crossed Markets.” The current rules<sup>15</sup> within Options 5 are being relocated into Options 6B.

The Exchange proposes to relocate the following rules within Options 5 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XII, Section 1, Definitions
Section 2	Chapter XII, Section 2, Order Protection
Section 3	Chapter XII, Section 3, Locked and Crossed Markets
Section 4	Chapter VI, Section 11(a), Order Routing
Section 5	Chapter VI, Section 11(b) to be titled “Cancellation of Orders and Error Account”

<sup>15</sup> Options 5 currently includes the following rules: Section 101 Exercise of Options Contracts, Section 102 Allocation of Exercise Notices, and Section 103, Delivery and Payment.

The definitions of “Exchange Act” and “SEC” are being removed from Chapter XII, Section 1, Definitions, as these terms are repetitive of definitions within General 1.

#### Options 6

The Exchange proposes rename Options 6 from “Order Protection and Locked and Cross Markets” to “Options Trade Administration” and relocate rules within Options 6 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter VI, Section 14, Authorization to Give Up
Section 2	Chapter VI, Section 15, Submission for Clearance
Section 3	Reserved
Section 4	Chapter VII, Section 8, Letters of Guarantee

#### Options 6A

The Exchange proposes to relocate rules within new proposed Options 6A titled “Closing Transactions” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter X, Section 6, Contracts of Suspended Participants
Section 2	Chapter V, Section 8, Failure to Pay Premium

#### Options 6B

The Exchange proposes to relocate rules within new proposed Options 6B titled “Exercises and Deliveries” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Options 5, Section 101, Exercise of Options Contracts

Section 2	Options 5, Section 102, Allocation of Exercise Notices
Section 3	Options 5, Section 103, Delivery and Payment

Options 6C

The Exchange proposes to relocate rules within new proposed Options 6C titled “Margins” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XIII, Section 1, General Rule
Section 2	Chapter XIII, Section 2, Time Margin Must Be Obtained
Section 3	Chapter XIII, Section 3, Margin Requirements
Section 4	Reserved
Section 5	Chapter XIII, Section 4, Margin Required Is Minimum
Section 6	Reserved

Chapter XIII, Section 5, Joint Back Office Participants, is being relocated to Options 6D.

Options 6D

The Exchange proposes to relocate rules within new proposed Options 6D titled “Net Capital Requirements” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Reserved
Section 3	Reserved
Section 4	Chapter XIII, Section 5, Joint Back Office Participants

With respect to the relocation of Joint Back Office Participants, Supplementary Material .01 was removed and the text was retained as part of the main rule in paragraph (c) of Section 4.

#### Options 6E

The Exchange proposes to relocate rules within new proposed Options 6E titled “Records, Reports and Audits” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter IX, Section 1, Maintenance, Retention and Furnishing of Books, Records and Other Information
Section 2	Chapter IX, Section 2, Reports of Uncovered Short Positions
Section 3	Chapter IX, Section 3, Financial Reports and Audits
Section 4	Reserved
Section 5	Chapter IX, Section 4, Automated Submission of Trade Data
Section 6	Chapter IX, Section 6, Risk Analysis of Market Maker Accounts
Section 7	Chapter IX, Section 5, Regulatory Cooperation
Section 8	Reserved
Section 9	Chapter V, Section 7, Audit Trail

The Exchange proposes to relocate Chapter IX, Section 7, Anti-Money Laundering Compliance Program, to Options 9, Section 21.

#### Options 7

The Exchange is updating cross-references within Options 7 to the introductory section of the Rule and Sections 2 and 4.

#### Options 9

The Exchange proposes to relocate rules within new proposed Options 9, which is

currently reserved, and title the chapter as “Business Conduct.” The following rules will be relocated within Options 9 with certain rules reserved:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Chapter III, Section 1, Adherence to Law and Chapter III; and Section 2 Conduct and Compliance with Rules (re-title as “Adherence to Law and Compliance with BX Options Rules”)
Section 3	Reserved
Section 4	Chapter III, Section 16, Disruptive Quoting and Trading Activity Prohibited
Section 5	Reserved
Section 6	Reserved
Section 7	Reserved
Section 8	Chapter III, Section 3, Rumors
Section 9	Chapter III, Section 4, Prevention of the Misuse of Material Nonpublic Information
Section 10	Chapter III, Section 5, Disciplinary Action by Other Organizations
Section 11	Chapter III, Section 6, Other Restrictions on Participants
Section 12	Chapter III, Section 15, Significant Business Transactions of Options Clearing Participants
Section 13	Chapter III, Section 7, Position Limits
Section 14	Chapter III, Section 8, Exemptions from Position Limits
Section 15	Chapter III, Section 9, Exercise Limits
Section 16	Chapter III, Section 10, Reports Related to Position Limits
Section 17	Chapter III, Section 11, Liquidation Positions
Section 18	Chapter III, Section 14, Limit on Outstanding Uncovered Short Positions
Section 19	Chapter III, Section 12, Other Restrictions on Options Transactions and Exercises

Section 20	Chapter III, Section 13, Mandatory Systems Testing
Section 21	Chapter IX, Section 7, Anti-Money Laundering Compliance Program
Section 22	Reserved
Section 23	Reserved

### Options 10

The Exchange proposes to relocate rules within new proposed Options 10 titled “Doing Business with the Public” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XI, Section 1, Eligibility
Section 2	Chapter XI, Section 2, Registration of Options Principals
Section 3	Chapter XI, Section 3, Registration of Representatives
Section 4	Chapter XI, Section 5, Discipline, Suspension, Expulsion of Registered Persons
Section 5	Chapter XI, Section 6, Branch Offices
Section 6	Chapter XI, Section 7, Opening of Accounts
Section 7	Chapter XI, Section 8, Supervision of Accounts
Section 8	Chapter XI, Section 9, Suitability of Recommendations
Section 9	Chapter XI, Section 10, Discretionary Accounts
Section 10	Chapter XI, Section 11, Confirmation to Public Customers
Section 11	Chapter XI, Section 12, Statement of Accounts to Customers
Section 12	Chapter XI, Section 13, Statements of Financial Condition to Public Customers
Section 13	Chapter XI, Section 15, Delivery of Current Options Disclosure Documents and Prospectus
Section 14	Chapter XI, Section 16, Restrictions on Pledge and Lending of Customers' Securities

Section 15	Chapter XI, Section 17, Transactions of Certain Public Customers
Section 16	Chapter XI, Section 18, Guarantees
Section 17	Chapter XI, Section 19, Profit Sharing
Section 18	Chapter XI, Section 20, Assuming Losses
Section 19	Chapter XI, Section 21, Transfer of Accounts
Section 20	Chapter XI, Section 22, Communications with Public Customers; and Chapter XI, Section 14 Addressing of Communications to Public Customers (re-title as “Communications with Public Customers”)
Section 21	Chapter XI, Section 23, Fidelity Bond
Section 22	Chapter XI, Section 24, Public Customer Complaints
Section 23	Chapter XI, Section 25, Telephone Solicitation
Section 24	Chapter XI, Section 4, Other Affiliations of Registered Persons
Section 25	Reserved

The Exchange proposes to reserve Options 10, Section 25.

### Options 11

Finally, the Exchange proposes to relocate Chapter X, Section 7 titled “Penalty for Minor Rule Violations” to Options 11 titled “Minor Rule Plan Violations” at Section 1. The Exchange proposes to relocate Chapter X, Section 1, “Imposition of Suspension,” Section 2, “Investigation Following Suspension Violations,” Section 3, “Reinstatement Following Suspension,” Section 4, “Failure to Obtain Reinstatement,” and Section 5, “Termination of Rights by Suspension,” into Options 11, Section 2, titled “Suspension.”

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>17</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules by relocating its Rules into the new Rulebook shell together with other rules which have already been relocated. The Exchange's proposal is consistent with the Act and will protect investors and the public interest by harmonizing its rule structure, where applicable, across Nasdaq markets so that Members can readily locate rules which cover similar topics. The relocation and harmonization of the BX Rule structure is part of the Exchange's continued effort to promote efficiency and conformity of its processes with those of its Affiliated Exchanges. The Exchange believes that the placement of the BX Rules into their new location in the shell will facilitate the use of the Rulebook by Members. Specifically, the Exchange believes that market participants that are members of more than one Nasdaq market will benefit from the ability to compare Rulebooks.

The Exchange is not substantively amending rule text unless noted otherwise within this rule change. The renumbering, re-lettering, deleting reserved rules, amending cross-references and other minor technical changes will bring greater transparency to BX's Rule structure. ISE, GEMX and MRX have already relocated their Rulebooks. The other Nasdaq affiliated markets will also relocate their Rulebooks in order to harmonize its rule structure, where applicable, across Nasdaq markets. The Exchange

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

believes its proposal will benefit investors and the general public by increasing the transparency of its Rulebook and promoting easy comparisons among the various Nasdaq Rulebooks.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the amendments to relocate the Rules are non-substantive. This rule change is intended to bring greater clarity to the Exchange's Rules. Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to BX's Rule structure.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>18</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>19</sup> in that it effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>19</sup> 17 CFR 240.19b-4(f)(6).

become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest.

The Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the rule changes are intended to reorganize BX Rules to make it easier for Members to locate the various rules. The proposed rule change does not impose any significant burden on competition because the rule changes are non-substantive in nature and intended to bring clarity to the rule structure. Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to BX's Rule structure.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection

of investors and the public interest. The Exchange requests that the Commission waive the operative delay to permit the Exchange to immediately relocate its rules. The Exchange desires to bring greater clarity to its rule structure for the benefit of investors and the general public. The Exchange's relocation is part of a larger effort to reorganize its rules and those of Affiliated Exchanges. The Exchange notes that it is important that it be permitted to reorganize its rule structure without delay to ensure that it would be able to continue to file other rules which are affected by this relocation in a timely manner to maintain the Exchange's obligations as a self-regulatory organization and also to permit the Exchange to modify its rule structure without delay.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

Not applicable.

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of Proposed Rule Change for publication in the Federal Register.
5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-BX-2019-039)

October \_\_, 2019

Self-Regulatory Organizations; Nasdaq BX, Inc.; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Relocate Rules from its Current Rulebook into its New Rulebook Shell

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 23, 2019, Nasdaq BX, Inc. (“BX” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to relocate rules from its current Rulebook into its new Rulebook shell.

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqbx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of this rule change is to relocate BX rules into the new Rulebook shell with some amendments to the shell.<sup>3</sup> Nasdaq ISE, LLC ("ISE"), Nasdaq GEMX, LLC ("GEMX") and Nasdaq MRX, LLC ("MRX") recently relocated their rules.<sup>4</sup> BX proposes to relocate its rules so the Rulebook is similar to ISE, GEMX and MRX. The other Nasdaq affiliated markets will also relocate their Rulebooks in order to harmonize its rule structure, where applicable, across Nasdaq markets. The relocation and harmonization of the BX Rule structure is part of the Exchange's continued effort to promote efficiency and structural conformity of its rules with those of its Affiliated Exchanges. The Exchange believes that the placement of the BX Rules into their new location in the shell will facilitate the use of the Rulebook by Members and Members of Affiliated Exchanges.

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<sup>3</sup> Previously, the Exchange added a shell structure to its Rulebook with the purpose of improving efficiency and readability and to align its rules closer to those of its five sister exchanges, The Nasdaq Stock Market LLC; Nasdaq PHLX LLC; ISE, GEMX and MRX ("Affiliated Exchanges"). See Securities Exchange Act Release No. 82174 (November 29, 2017), 82 FR 57492 (December 5, 2017) (SR-BX-2017-054).

<sup>4</sup> See Securities Exchange Act Release Nos. 86138 (June 18, 2019), 84 FR 29567 (June 24, 2019) (SR-ISE-2019-17); 86346 (July 10, 2019) 84 FR 33999 (July 16, 2019) (SR-GEMX-2019-08); and 86424 (July 22, 2019), 84 FR 36134 (July 26, 2019) (SR-MRX-2019-15).

The Exchange notes that the entire Rulebook is not being relocated at this time. Specifically, certain Equity Rules and the Disciplinary Rules are not being relocated. These rules will be relocated in other rule filings.

The Exchange proposes to update all cross-references within the Rule to the new relocated rule cites and also proposes to correct certain citations. The Exchange proposes to replace internal rule references to simply state “this Rule” where the rule is citing itself without a more specific cite included in the Rule. For example, if BX Chapter VI, Section 3 refers currently to “Chapter VI, Section 3” the Exchange will amend the phrase to simply “this Rule.” The Exchange proposes to conform numbering and lettering in certain rules to the remainder of the Rulebook. The Exchange proposes to reflect the use of the General Equity and Options Rules in place of Equity Rules, where applicable (i.e. an Equity Rule that currently applies to both equities and options). Finally, the Exchange proposes to delete any current Rules that are reserved in the Rulebook.

#### General 1

The Exchange proposes to relocate rule text from Rule 0111, “Adoption of Rules”, Rule 0112, “Effective Date”, Rule 0113, “Interpretation,” certain definitions from Rule 0120, “Definitions” and Rule 0121 “Definitions in the By-Laws of the Exchange” into General 1. The Exchange proposes to relocate certain definitions from Chapter VI, Section 1 into General 1.<sup>5</sup> The Exchange proposes to delete certain definitions which are repetitive.<sup>6</sup> The Exchange will also alphabetize the definitions within General 1 and

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<sup>5</sup> See note 13 below.

<sup>6</sup> The Exchange proposes to delete the term “Exchange Act” and “SEC” or “Commission.”

conform the text where applicable. Definitions related to the equities rules<sup>7</sup> currently within Rule 1020 will be relocated into Equity 1 as explained below. The Exchange is conforming the format of all definitions. Finally, the Exchange notes that the description of “MarketWatch” was amended to remove the phrase “a unit of BX Regulation” because that phrase is repetitive.

### General 2

General 2 would be comprised of the following rules:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Chapter VI, Section 16 Fees, Dues and Other Charges
Section 3	Reserved
Section 4	2130. Nasdaq Ownership Restriction (re-title “Limitation on Affiliation between the Exchange and Members”)
Section 5	0130. Regulation of the Exchange and Its Members
Section 6	0115. Applicability
Section 7	0150. Regulatory Independence
Section 8	0160. Delegation, Authority and Access
Section 9	1130. Reliance on Current Membership List

<sup>7</sup> The terms “Customer,” “Delegation Agreement,” “Equity Rules,” “Grandfathered Rules,” “Nasdaq BX Equities LLC” or BX Equities LLC,” “Nasdaq BX Equities Market” or “System,” and “Security” are being relocated into Equity 1 of the Rulebook as these terms are specific to the equity market.

Section 10	1150. Executive Representative
Section 11	1160. Contact Information Requirements
Section 12	1170. The Exchange's Business Continuity and Disaster Recovery Plan Testing (re-title "Business Continuity and Disaster Recovery Plan Testing")
Section 13	0140. Fingerprint-Based Background Checks of Employees and Independent Contractors
Section 14	2140. Restrictions on Affiliation
Section 15	3510. Business Continuity Plans
Section 16	3520. Emergency Contact Information

The Exchange is reserving Sections 1 and 3 at this time. The Exchange proposes to relocate Chapter VI, Section 16 Fees, Dues and Other Charges into the General section because this rule applies to both the equity and options products. This rule describes the power of BX's Board of Directors. The Exchange notes that the Board of Directors of BX has the power to set fees for the BX market, which includes fees for both options and equities.<sup>8</sup> The Exchange notes that Section 7, "Regulatory Independence" was amended to remove the placeholder for a date.

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<sup>8</sup> See By-Laws of BX, Article XII, Section 12.4 which provides the Board authority to set fees. In addition, the Exchange proposes to amend the word "Participant" in this rule to "member" to clearly indicate all members are subject to the Rule.

General 3

The Exchange proposes to relocate the rule text of Rule 1000, “Membership, Registration and Qualification Requirements” along with the title of Rule 1000 into General 3, Section 1.

General 4

The Exchange proposes to rename General 4 from “Regulation” to “Registration Requirements.”

General 9

The Exchange proposes to adopt a new General 9, titled “Regulation.” The Exchange proposes to relocate the following rules into General 9:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	2110, Standards of Commercial Honor and Principles of Trade; IM-2110-2, Trading Ahead of Customer Limit Order; IM-2110-3, Front Running Policy; IM-2110-4, Trading Ahead of Research Reports; IM-2110-5, Anti-Intimidation / Coordination; IM-2110-6, Confirmation of Callable Common Stock; IM-2110-7, Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes; 2111, Trading Ahead of Customer Market Orders; and 2120, Use of Manipulative, Deceptive or Other Fraudulent Devices (re-title “General Standards”)
Section 2	2150, Customers' Securities or Funds; IM-2150, Segregation of Customers' Securities
Section 3	2210, Communications with the Public; IM-2210-1, Guidelines to Ensure That Communications With the Public Are Not Misleading; and IM-2210-4, Limitations on Use of the Exchange's Name
Section 4	2211, Institutional Sales Material and Correspondence
Section 5	2212, Telemarketing

Section 6	2251, Forwarding of Proxy and Other Issuer-Related Materials
Section 7	2261, Disclosure of Financial Condition; 2262, Disclosure of Control Relationship with Issuer; and 2269, Disclosure of Participation or Interest in Primary or Secondary Distribution (re-title “Disclosure of Financial Condition, Control Relationship with Issuer and Participation or Interest in Primary or Secondary Distribution”)
Section 8	2266, SIPC Information
Section 9	2290, Fairness Opinions
Section 10	2310, Recommendations to Customers (Suitability); IM-2310-2, Fair Dealing with Customers; and IM-2310-3, Suitability Obligations to Institutional Customers
Section 11	2320, Best Execution and Interpositioning; and IM-2320, Interpretive Guidance with Respect to Best Execution Requirements
Section 12	2340, Customer Account Statements
Section 13	2341, Margin Disclosure Statement
Section 14	2360, Approval Procedures for Day-Trading Accounts; and 2361, Day-Trading Risk Disclosure Statement
Section 15	2370, Borrowing From or Lending to Customers
Section 16	2430, Charges for Services Performed
Section 17	2441, Net Transactions with Customers
Section 18	2460, Payments for Market Making
Section 19	2510, Discretionary Accounts
Section 20	3010, Supervision; IM-3010-1, Standards for Reasonable Review; and IM-3010-2, Guidance on Heightened Supervision Requirements
Section 21	3012, Supervisory Control System
Section 22	3013, Annual Certification of Compliance and Supervisory Processes; and IM-3013, Annual Compliance and Supervision Certification
Section 23	3030, Outside Business Activities of an Associated Person

Section 24	3040, Private Securities Transactions of an Associated Person
Section 25	3050, Transactions for or by Associated Persons
Section 26	3060, Influencing or Rewarding Employees of Others
Section 27	3070, Reporting Requirements
Section 28	3080, Disclosure to Associated Persons When Signing Form U4
Section 29	3090, Transactions Involving Exchange Employees
Section 30	3110, Books and Records and IM-3110. Customer Account Information
Section 31	3120, Use of Information Obtained in Fiduciary Capacity
Section 32	3140, Approval of Change in Exempt Status Under SEC Rule 15c3-3
Section 33	3150, Reporting Requirements for Clearing Firms; and IM-3150, Exemptive Relief
Section 34	3160, Extensions of Time Under Regulation T and SEC Rule 15c3-3
Section 35	2040, Nonregistered Foreign Finder
Section 36	Reserved
Section 37	3011, Anti-Money Laundering Compliance Program
Section 38	2520, Margin Requirements
Section 39	3020, Fidelity Bonds
Section 40	4110A, Capital Compliance
Section 41	4120A, Regulatory Notification and Business Curtailment
Section 42	4140A, Audit
Section 43	Reserved

Section 44	Reserved
Section 45	Reserved
Section 46	Reserved
Section 47	Reserved
Section 48	4521A, Notifications, Questionnaires and Reports
Section 49	5230A, Payments Involving Publications that Influence the Market Price of a Security
Section 50	1090, Foreign Members
Section 51	1050, Research Analyst

The word “FINRA” is being added in certain places for greater clarity. The Exchange is amending Rule 2212, Telemarketing, to update the Rule reference to NASD Rule 2212 to FINRA Rule 3230 in light of a FINRA rule change.<sup>9</sup> The Exchange is amending Rule 3010, Supervision, as well as IM-3010-1, Standards for Reasonable Review, to update the Rule reference to NASD Rule 3010 to FINRA Rule 3110 and 3170, respectively, in light of a FINRA rule change.<sup>10</sup> The Exchange also proposes to remove rule text from IM-3010-1 which states, “FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3010-1 are transferred into the FINRA rulebook, then Equity Interpretive Material 3010-1 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 3010-1 (regardless of whether such rule is renumbered or amended) as if such

<sup>9</sup> See Securities Exchange Act Release No. 66279 (January 30, 2012), 77 FR 5611 (February 3, 2012) (SR-FINRA-2011-059).

<sup>10</sup> See Securities Exchange Act Release No. 71179 (December 23, 2013), 79 FR 79542 (December 30, 2013) (SR-FINRA-2013-025).

rule were part of the Rules of the Exchange.” The consolidation has already occurred with respect to this rule. The Exchange proposes to amend NASD Rule 3070 references within Rule 3070, Reporting Requirements, to FINRA Rule 4530 pursuant to a FINRA rule change.<sup>11</sup> The Exchange will also separately file another rule change to amend other NASD Rule references to the FINRA Rulebook. Finally, the Exchange is updating incorrect references to NASD Rules within General 9, Sections 3, 23 and 24.

### Equity Rules

The Exchange proposes to amend the Equity Rules to re-title certain chapters in the new Rulebook. The Exchange proposes to relocate certain definitions currently within Rule 0120, Definitions, into Equity 1.<sup>12</sup> The Exchange proposes to re-title Equity 2 from “Equity Trading Rules” to “Equity Market Participants.” The Exchange proposes to re-title Equity 3 from “Equity Market Participants” to “Equity Trading Rules.” The Exchange proposes to title Equity 4, which is currently reserved, as “Limit Up-Limit Down.” The Exchange proposes to reserve Equity 6, which is currently titled “Limit Up-Limit Down.” The Exchange proposes to title Equity 10, which is currently reserved, as “BX Venture Market Listing Rules.” Finally, the Exchange proposes to remove Equity 11, which is titled “BX Venture Market Listing Rules.”

### Options 1

The Exchange proposes to rename current Options 1 from “Options Definitions” to “General Provisions.” The Exchange proposes to relocate and alphabetize certain definitions from Chapter I, Section 1 into proposed General 1, Section 1. The Exchange

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<sup>11</sup> See Securities Exchange Act Release No. 63260 (November 5, 2010), 75 FR 69508 (November 12, 2010) (SR-FINRA-2010-034).

<sup>12</sup> See note 13 below. The term “Exchange Manual” is being eliminated.

also proposes to relocate definitions from Chapter VI, Section 1(a)-(c) and (h) into Options 1, Section 1. Certain definitions within Chapter 1, Section 1 and Chapter VI, Section 1 apply to both equities and options. These definitions<sup>13</sup> will be relocated to General 1, Section 1 from Chapter I, Section 1 and Chapter VI, Section 1. The Exchange proposes to conform the definitions by adding “the term” where necessary. The Exchange proposes to amend the term “System” from Chapter VI, Section 1 and apply that term to both “System” and “Trading System” and remove the separate definition for “Trading System” in Chapter I, Section 1(a)(62) which creates a circular reference to the term “System.” The Exchange also proposes to eliminate the defined term “Participant” from Chapter VI, Section 1. The Exchange defines an “Options Participant” or “Participant” within its rules today. The separate defined term “Participant” is confusing and unnecessary. The term “Exchange” is redundant of the same terms that was already being relocated to General 1 from the Equity Rules. The Exchange proposes to delete the terms “Exchange” and “Order Entry Firms” in this rule because they are duplicative.

In addition the Exchange proposes to relocate the following rules into Options 1:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter I, Section 1, Definitions and Chapter VI, Section 1(a)-(c) and (h)
Section 2	Chapter I, Section 2, Applicability
Section 3	Chapter I, Section 3, Regulation of BX and its Members

The Exchange proposes to relocate Chapter V, Section 2, MarketWatch, to the

<sup>13</sup> The following definitions are being relocated from Chapter I, Section 1 and Chapter VI, Section 1 into General 1, Section 1: “Board,” “BX,” “BX Regulation,” “BX Rules,” “he,” “him,” or “his,” “MarketWatch,” “primary market,” “SEC” or Commission,” and “SRO.”

end of the defined term “MarketWatch” which is currently within Chapter I, Section 1 and is being relocated to General 1 as that term applies to both options and equities. The sentence is merely descriptive and adds to the already defined term. The Exchange proposes to relocate Chapter VII, Section 1, Customer Orders and Order Entry Firms, into a definition for Order Entry Firms within Options 1, Section 1.

### Options 2

The Exchange proposes to rename Options 2 from “Options Trading Rules” to “Options Market Participants” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter VII, Section 2, Market Maker Registration; and Section 3 Continuing Market Maker Registration (re-title as “Registration of Market Makers”)
Section 2	Reserved
Section 3	Chapter VII, Section 13, Lead Market Makers Allocations (re-title as “Lead Market Maker Allocations”)
Section 4	Chapter VII, Section 5, Obligations of Market Makers; and Section 14, LMM Obligations and Quotations (re-title as “Obligations of Market Makers and Lead Market Makers”)
Section 5	Chapter VII, Section 6, Market Maker Quotations
Section 6	Reserved
Section 7	Chapter VII, Section 7, Securities Accounts and Orders of Market Makers
Section 8	Chapter VII, Section 9, Financial Requirements for Market Makers
Section 9	Chapter VII, Section 4, Good Standing for Market Makers
Section 10	Chapter VII, Section 15, Directed Market Makers

The Exchange proposes to reserve Sections 2 and 6. The Exchange proposes to relocate Chapter VII, Section 8, Letters of Guarantee, to Options 6, Section 4. The

Exchange proposes to relocate Chapter VII, Sections 11, Mass Cancellation of Trading Interest, and Section 12, Order Exposure Requirements, to Options 3, Sections 19 and 22. Chapter VII, Section 1, Customer Orders and Order Entry Firms, was relocated to the definitions as described herein.

### Options 2A

The Exchange proposes a new Options Section 2A titled “Options Participation” and proposes to relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter II, Section 1, Options Participation
Section 2	Chapter II, Section 2, Requirements for Options Participation
Section 3	Chapter II, Section 3, Persons Associated with Options Participants
Section 4	Chapter II, Section 4, Good Standing for Options Participants

The Exchange proposes to reserve Sections 5-7.

### Options 3

The Exchange proposes to rename Options 3 from “Options Market Participants” to “Options Trading Rules” and relocate the following rules into this chapter:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter VI, Section 2, Days and Hours of Business
Section 2	Chapter VI, Section 3. Units of Trading; and Section 4, Meaning of Premium Quotes and Orders (combined into one rule and retitled as “Units of Trading and Meaning of Premium Quotes and Orders”)
Section 3	Chapter VI, Section 5, Minimum Increments
Section 4	Chapter VI, Section 6, Entry and Display of Quotes
Section 5	Chapter VI, Section 7, Entry and Display of Orders

Section 6	Chapter V, Section 5, Unusual Market Conditions
Section 7	Chapter VI, Section 1(d)-(g) Definitions; and Chapter VI, Section 21 Order and Quote Protocols (re-title as “Types of Orders and Quote Protocols”)
Section 8	Chapter VI, Section 8, BX Opening and Halt Cross (re-title as “Opening and Halt Cross”)
Section 9	Chapter V, Section 3, Trading Halts; and Section 4, Resumption of Trading After a Halt (re-title as to “Trading Halts”)
Section 10	Chapter VI, Section 10, Book Processing (re-title as “Order Book Allocation”)
Section 11	Reserved
Section 12	Reserved
Section 13	Chapter VI, Section 9, Price Improvement Auction (“PRISM”)
Section 14	Reserved
Section 15	Chapter VI, Section 18, Risk Protections
Section 16	Reserved
Section 17	Chapter VI, Section 22, Kill Switch
Section 18	Chapter VI, Section 23, Detection of Loss of Communication
Section 19	Chapter VII, Section 11, Mass Cancellation of Trading Interest
Section 20	Chapter V, Section 6, Nullification and Adjustment of Options Transactions including Obvious Errors
Section 21	Chapter V, Section 1, Access to and Conduct on BX Options; and Chapter VI, Section 20 Exchange Sharing of Participant-Designated Risk Settings (re-title as “Access to and Conduct on BX Options”)
Section 22	Chapter VI, Section 12, Limitations on Order Entry
Section 23	Chapter VI, Section 19, Data Feeds and Trade Information
Section 24	Chapter VI, Section 13, Transaction Price Binding
Section 25	Chapter VI, Section 12, Anonymity
Section 26	Chapter VI, Section 17, Message Traffic Mitigation

Section 27	Chapter V, Section 9, Limitation of Liability
Section 28	Reserved

The Exchange proposes to combine the BX Rules and retitle them as indicated herein. The Exchange proposes to reserve certain rules. Chapter VI, Section 16, Fees, Dues and Other Charges was relocated to General 2 and Chapter VI, Sections 14, Authorization to Give Up, and Section 15, Submission for Clearance, were relocated to Options 6. The Exchange amended Options 3, Section 21(b)(8) to refer to Section 22 with describes the limitation on orders on BX.

#### Options 4

The Exchange proposes to amend Options 4, Options Listing Rules, to remove Section 5, which is reserved, and renumber Section 6, Series of Options Contracts Open for Trading, as Section 5.<sup>14</sup> The Exchange also proposes to reserve Section 6 and reserve a new Section 10.

#### Options 4A

The Exchange proposes to relocate rules within new proposed Options 4A, which is proposed to be titled “Options Index Rules” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XIV, Section 1, Application of Index Rules
Section 2	Chapter XIV, Section 2, Definitions
Section 3	Chapter XIV, Section 3, Designation of a Broad-Based Index
Section 4	Chapter XIV, Section 6, Designation of Narrow-Based and Micro-Narrow-Based Index Options

<sup>14</sup> The corresponding rule numbers are changing for removals of certain sections.

Section 5	Chapter XIV, Section 4, Dissemination of Information
Section 6	Chapter XIV, Section 5, Position Limits for Broad-Based Index Options
Section 7	Chapter XIV, Section 7, Position Limits for Industry and Micro-Narrow Based Index Options
Section 8	Reserved
Section 9	Chapter XIV, Section 8, Exemptions from Position Limits
Section 10	Chapter XIV, Section 9, Exercise Limits
Section 11	Chapter XIV, Section 10, Trading Sessions
Section 12	Chapter XIV, Section 11, Terms of Index Options Contracts
Section 13	Chapter XIV, Section 12, Debit Put Spread Cash Account Transactions
Section 14	Chapter XIV, Section 13, Disclaimers
Section 15	Chapter XIV, Section 14, Exercise of American-Style Index Options
Section 16	Reserved

The Exchange proposes to add a clarifying note to Options 4A, Supplementary Material .01 to Section 2 to explain that no reporting authorities are listed because BX does not currently list index options.

#### Options 5

The Exchange proposes to rename Options 5 from “Options Trade Administration” to “Order Protection and Locked and Crossed Markets.” The current rules<sup>15</sup> within Options 5 are being relocated into Options 6B.

The Exchange proposes to relocate the following rules within Options 5 as

<sup>15</sup> Options 5 currently includes the following rules: Section 101 Exercise of Options Contracts, Section 102 Allocation of Exercise Notices, and Section 103, Delivery and Payment.

follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XII, Section 1, Definitions
Section 2	Chapter XII, Section 2, Order Protection
Section 3	Chapter XII, Section 3, Locked and Crossed Markets
Section 4	Chapter VI, Section 11(a), Order Routing
Section 5	Chapter VI, Section 11(b) to be titled “Cancellation of Orders and Error Account”

The definitions of “Exchange Act” and “SEC” are being removed from Chapter XII, Section 1, Definitions, as these terms are repetitive of definitions within General 1.

#### Options 6

The Exchange proposes rename Options 6 from “Order Protection and Locked and Cross Markets” to “Options Trade Administration” and relocate rules within Options 6 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter VI, Section 14, Authorization to Give Up
Section 2	Chapter VI, Section 15, Submission for Clearance
Section 3	Reserved
Section 4	Chapter VII, Section 8, Letters of Guarantee

#### Options 6A

The Exchange proposes to relocate rules within new proposed Options 6A titled “Closing Transactions” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
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Section 1	Chapter X, Section 6, Contracts of Suspended Participants
Section 2	Chapter V, Section 8, Failure to Pay Premium

Options 6B

The Exchange proposes to relocate rules within new proposed Options 6B titled “Exercises and Deliveries” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Options 5, Section 101, Exercise of Options Contracts
Section 2	Options 5, Section 102, Allocation of Exercise Notices
Section 3	Options 5, Section 103, Delivery and Payment

Options 6C

The Exchange proposes to relocate rules within new proposed Options 6C titled “Margins” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XIII, Section 1, General Rule
Section 2	Chapter XIII, Section 2, Time Margin Must Be Obtained
Section 3	Chapter XIII, Section 3, Margin Requirements
Section 4	Reserved
Section 5	Chapter XIII, Section 4, Margin Required Is Minimum
Section 6	Reserved

Chapter XIII, Section 5, Joint Back Office Participants, is being relocated to Options 6D.

Options 6D

The Exchange proposes to relocate rules within new proposed Options 6D titled

“Net Capital Requirements” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Reserved
Section 3	Reserved
Section 4	Chapter XIII, Section 5, Joint Back Office Participants

With respect to the relocation of Joint Back Office Participants, Supplementary Material .01 was removed and the text was retained as part of the main rule in paragraph (c) of Section 4.

Options 6E

The Exchange proposes to relocate rules within new proposed Options 6E titled “Records, Reports and Audits” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter IX, Section 1, Maintenance, Retention and Furnishing of Books, Records and Other Information
Section 2	Chapter IX, Section 2, Reports of Uncovered Short Positions
Section 3	Chapter IX, Section 3, Financial Reports and Audits
Section 4	Reserved
Section 5	Chapter IX, Section 4, Automated Submission of Trade Data
Section 6	Chapter IX, Section 6, Risk Analysis of Market Maker Accounts
Section 7	Chapter IX, Section 5, Regulatory Cooperation
Section 8	Reserved
Section 9	Chapter V, Section 7, Audit Trail

The Exchange proposes to relocate Chapter IX, Section 7, Anti-Money Laundering Compliance Program, to Options 9, Section 21.

#### Options 7

The Exchange is updating cross-references within Options 7 to the introductory section of the Rule and Sections 2 and 4.

#### Options 9

The Exchange proposes to relocate rules within new proposed Options 9, which is currently reserved, and title the chapter as “Business Conduct.” The following rules will be relocated within Options 9 with certain rules reserved:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Reserved
Section 2	Chapter III, Section 1, Adherence to Law and Chapter III; and Section 2 Conduct and Compliance with Rules (re-title as “Adherence to Law and Compliance with BX Options Rules”)
Section 3	Reserved
Section 4	Chapter III, Section 16, Disruptive Quoting and Trading Activity Prohibited
Section 5	Reserved
Section 6	Reserved
Section 7	Reserved
Section 8	Chapter III, Section 3, Rumors
Section 9	Chapter III, Section 4, Prevention of the Misuse of Material Nonpublic Information
Section 10	Chapter III, Section 5, Disciplinary Action by Other Organizations
Section 11	Chapter III, Section 6, Other Restrictions on Participants
Section 12	Chapter III, Section 15, Significant Business Transactions of Options Clearing Participants

Section 13	Chapter III, Section 7, Position Limits
Section 14	Chapter III, Section 8, Exemptions from Position Limits
Section 15	Chapter III, Section 9, Exercise Limits
Section 16	Chapter III, Section 10, Reports Related to Position Limits
Section 17	Chapter III, Section 11, Liquidation Positions
Section 18	Chapter III, Section 14, Limit on Outstanding Uncovered Short Positions
Section 19	Chapter III, Section 12, Other Restrictions on Options Transactions and Exercises
Section 20	Chapter III, Section 13, Mandatory Systems Testing
Section 21	Chapter IX, Section 7, Anti-Money Laundering Compliance Program
Section 22	Reserved
Section 23	Reserved

### Options 10

The Exchange proposes to relocate rules within new proposed Options 10 titled “Doing Business with the Public” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Chapter XI, Section 1, Eligibility
Section 2	Chapter XI, Section 2, Registration of Options Principals
Section 3	Chapter XI, Section 3, Registration of Representatives
Section 4	Chapter XI, Section 5, Discipline, Suspension, Expulsion of Registered Persons
Section 5	Chapter XI, Section 6, Branch Offices
Section 6	Chapter XI, Section 7, Opening of Accounts
Section 7	Chapter XI, Section 8, Supervision of Accounts

Section 8	Chapter XI, Section 9, Suitability of Recommendations
Section 9	Chapter XI, Section 10, Discretionary Accounts
Section 10	Chapter XI, Section 11, Confirmation to Public Customers
Section 11	Chapter XI, Section 12, Statement of Accounts to Customers
Section 12	Chapter XI, Section 13, Statements of Financial Condition to Public Customers
Section 13	Chapter XI, Section 15, Delivery of Current Options Disclosure Documents and Prospectus
Section 14	Chapter XI, Section 16, Restrictions on Pledge and Lending of Customers' Securities
Section 15	Chapter XI, Section 17, Transactions of Certain Public Customers
Section 16	Chapter XI, Section 18, Guarantees
Section 17	Chapter XI, Section 19, Profit Sharing
Section 18	Chapter XI, Section 20, Assuming Losses
Section 19	Chapter XI, Section 21, Transfer of Accounts
Section 20	Chapter XI, Section 22, Communications with Public Customers; and Chapter XI, Section 14 Addressing of Communications to Public Customers (re-title as "Communications with Public Customers")
Section 21	Chapter XI, Section 23, Fidelity Bond
Section 22	Chapter XI, Section 24, Public Customer Complaints
Section 23	Chapter XI, Section 25, Telephone Solicitation
Section 24	Chapter XI, Section 4, Other Affiliations of Registered Persons
Section 25	Reserved

The Exchange proposes to reserve Options 10, Section 25.

#### Options 11

Finally, the Exchange proposes to relocate Chapter X, Section 7 titled "Penalty for Minor Rule Violations" to Options 11 titled "Minor Rule Plan Violations" at Section

1. The Exchange proposes to relocate Chapter X, Section 1, “Imposition of Suspension,” Section 2, “Investigation Following Suspension Violations,” Section 3, “Reinstatement Following Suspension,” Section 4, “Failure to Obtain Reinstatement,” and Section 5, “Termination of Rights by Suspension,” into Options 11, Section 2, titled “Suspension.”

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>16</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>17</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules by relocating its Rules into the new Rulebook shell together with other rules which have already been relocated. The Exchange’s proposal is consistent with the Act and will protect investors and the public interest by harmonizing its rule structure, where applicable, across Nasdaq markets so that Members can readily locate rules which cover similar topics. The relocation and harmonization of the BX Rule structure is part of the Exchange’s continued effort to promote efficiency and conformity of its processes with those of its Affiliated Exchanges. The Exchange believes that the placement of the BX Rules into their new location in the shell will facilitate the use of the Rulebook by Members. Specifically, the Exchange believes that market participants that are members of more than one Nasdaq market will benefit from the ability to compare Rulebooks.

The Exchange is not substantively amending rule text unless noted otherwise within this rule change. The renumbering, re-lettering, deleting reserved rules, amending

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<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

cross-references and other minor technical changes will bring greater transparency to BX's Rule structure. ISE, GEMX and MRX have already relocated their Rulebooks. The other Nasdaq affiliated markets will also relocate their Rulebooks in order to harmonize its rule structure, where applicable, across Nasdaq markets. The Exchange believes its proposal will benefit investors and the general public by increasing the transparency of its Rulebook and promoting easy comparisons among the various Nasdaq Rulebooks.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the amendments to relocate the Rules are non-substantive. This rule change is intended to bring greater clarity to the Exchange's Rules. Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to BX's Rule structure.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant

to Section 19(b)(3)(A)(iii) of the Act<sup>18</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>19</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR- BX-2019-039 on the subject line.

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<sup>18</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>19</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

Paper comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR- BX-2019-039. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR- BX-2019-039 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>20</sup>

Jill M. Peterson  
Assistant Secretary

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<sup>20</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

Deleted text is [bracketed]. New text is underlined.

**Rules of Nasdaq BX**

\* \* \* \* \*

**Equity Rules****[0100. General Provisions****0110. Adoption and Application of Rules****0111. Adoption of Rules**

The Rules of the Exchange are adopted pursuant to the By-Laws of the Exchange.

**0112. Effective Date**

The Rules of the Exchange shall become effective as provided in the By-Laws.

**0113. Interpretation**

The Rules of the Exchange shall be interpreted in such manner as will aid in effectuating the purposes and business of the Exchange, and so as to require that all practices in connection with the investment banking and securities business shall be just, reasonable and not unfairly discriminatory.

**0114. Reserved****0115. Applicability**

(a) The Equity Rules shall apply to all members and persons associated with a member. Persons associated with a member shall have the same duties and obligations as a member under the Equity Rules.

(b) The 9000 Series and General 6 of these Rules and the Grandfathered Rules shall apply to all former BOX Options Participants and associated persons for activities that occurred during the time that BOX was a facility of the Exchange. The Grandfathered Rules shall also apply to activities of members, members organizations, persons associated with members, and other persons subject to the jurisdiction of the Exchange that occurred prior to the adoption of the Equity Rules.

(c) A member or person associated with a member, who has been expelled, canceled or revoked from membership or from registration or who has been barred from being associated with all members, shall cease to have any privileges of membership or registration. A member or person associated with a member who has been suspended from membership or registration shall also cease to have any privileges of membership or registration other than those under the Code of Procedure as set forth in the Rule 9000 Series. In neither case shall such a member or person associated with a member be

entitled to recover any admission fees, dues, assessments or other charges paid to the Exchange.

**(d)** A member or person associated with a member who has been suspended from membership or from registration shall be considered as a non-member during the period of suspension for purposes of applying the provisions of the Equity Rules which govern dealings between members and non-members. However, such member or person associated with a member shall have all of the obligations imposed by the Equity Rules.

#### **0120. Definitions**

When used in the Equity Rules, unless the context otherwise requires:

##### **(a) "Act"**

The term "Act" or "Exchange Act" means the Securities Exchange Act of 1934, as amended.

##### **(b) "By-Laws"**

The term "By-Laws" means the By-Laws of the Exchange.

##### **(c) "Code of Procedure"**

The term "Code of Procedure" means the procedural rules contained in the Rule 9000 Series.

##### **(d) "Commission" or "SEC"**

The terms "Commission" or "SEC" mean the Securities and Exchange Commission (SEC), established pursuant to the Act.

##### **(e) "FINRA" or "NASD"**

The terms "FINRA" or "NASD", mean, collectively, the Financial Industry Regulatory Authority, Inc. and its subsidiaries.

##### **(f) "FINRA Regulatory Contract"**

The term "FINRA Regulatory Contract" means the regulatory services agreement between the Exchange and FINRA, pursuant to which FINRA has agreed to perform certain regulatory functions on behalf of the Exchange.

##### **(g) "Customer"**

The term "customer" shall not include a broker or dealer.

**(h) "Security"**

Unless the context requires otherwise, the term "security" shall mean a security listed on the Exchange or traded on the Exchange pursuant to unlisted trading privileges.

**(i) "Member" or "Exchange Member"**

The terms "member" or "Exchange Member" mean any registered broker or dealer that has been admitted to membership in the Exchange.

**(j) "Regulation Department"**

The term "Regulation Department" means the Department of the Exchange that supervises and administers the regulatory functions of the Exchange, including the administration of any regulatory services agreements with other self-regulatory organizations to which the Exchange is a party.

**(k) "Exchange"**

The term "Exchange" means Nasdaq BX, Inc.

**(l) "Nasdaq"**

The term "Nasdaq" means The Nasdaq Stock Market LLC.

**(m) "Exchange Review Council"**

The term "Exchange Review Council" means the committee authorized and directed to act for the Board of Directors of the Exchange in a manner consistent with the Equity Rules with respect to (1) an appeal or review of a disciplinary proceeding; (2) a statutory disqualification decision; (3) a review of a membership proceeding; (4) a review of an offer of settlement, a letter of acceptance, waiver, and consent, and a minor rule violation plan letter; (5) the exercise of exemptive authority; (6) an appeal of proceedings involving Exchange Rules 4612, 4619, 4620, and 11890, and Exchange Options Rules Chapter V Section 6; and (7) such other proceedings or actions authorized by the Equity Rules.

**(n) "Person"**

The term "person" shall include any natural person, partnership, corporation, association, or other legal entity.

**(o) "Rules" or "Rules of the Exchange"**

The term "Rules" or "Rules of the Exchange" means the Equity Rules hereafter amended or supplemented, and also includes the Grandfathered Rules.

**(p) "Equity Rules"**

The term "Equity Rules" means the numbered rules set forth in the Exchange Manual denominated as the 0100, 1000, 2000, 3000, 4000, 5000, 6000, Equity 7, 8000, 9000, General 6, and 11000 Series Rules, as adopted by the Exchange Board of Directors pursuant to the By-Laws of the Exchange, as hereafter amended or supplemented, and also includes the Certificate of Incorporation and the By-Laws of the Exchange, the Operating Agreement of NASDAQ OMX BX Equities LLC, and the Delegation Agreement between the Exchange and NASDAQ OMX BX Equities LLC.

**(q) Reserved.**

Reserved.

**(r) "Grandfathered Rules"**

The "Grandfathered Rules" means the Rules of Board of Governors of the Boston Stock Exchange as in effect on the date of the closing of the acquisition of the Exchange by Nasdaq, Inc. and as such rules may be subsequently amended, including the Grandfathered BOX Trading Rules, to the extent that such rules are applicable to BOX and to former BOX Options Participants and associated persons for activities that occurred during the time that BOX was a facility of the Exchange. The Grandfathered Rules shall also apply to activities of members, members organizations, persons associated with members, and other persons subject to the jurisdiction of the Exchange that occurred prior to the adoption of the Equity Rules.

**(s) Reserved.**

Reserved.

**(t) Reserved.**

Reserved.

**(u) Reserved.**

Reserved.

**(v) Reserved.**

Reserved.

**(w) Reserved.**

Reserved.

**(x) "Nasdaq BX Equities Market" or "System"**

"Nasdaq BX Equities Market" or "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange through BX Equities LLC as a facility of the Exchange, and which is described fully in the Equity Rule 4750 Series.

**(y) "Nasdaq BX Equities LLC" or "BX Equities LLC"**

"Nasdaq BX Equities LLC" or "BX Equities LLC" means Nasdaq BX Equities LLC, a subsidiary of the Exchange which operates the Nasdaq BX Equities Market pursuant to the Operating Agreement of Nasdaq BX Equities LLC and the Delegation Agreement.

**(z) "Delegation Agreement"**

"Delegation Agreement" shall mean the Delegation Agreement dated \_\_, 2008, between the Exchange and BX Equities LLC, as such Delegation Agreement may from time to time be amended with the approval of the Commission pursuant to Section 19 of the Act and the rules promulgated thereunder.

**0121. Definitions in the By-Laws of the Exchange**

Unless the context otherwise requires, or unless otherwise defined in the Equity Rules, terms used in the Equity Rules and interpretive material, if defined in the By-Laws of the Exchange, shall have the meaning as defined in the By-Laws of the Exchange.

**0130. Regulation of the Exchange and Its Members**

The Exchange and FINRA are parties to the FINRA Regulatory Contract, pursuant to which FINRA has agreed to perform certain functions described in the Equity Rules on behalf of the Exchange. Equity Rules that refer to the Exchange's Regulation Department, Regulation Department staff, Exchange staff, and Exchange departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of the Exchange pursuant to the FINRA Regulatory Contract.

Notwithstanding the fact that the Exchange has entered into the FINRA Regulatory Contract with FINRA to perform some of the Exchange's functions, the Exchange shall retain ultimate legal responsibility for, and control of, such functions. In addition, the Exchange has incorporated by reference certain NASD rules. Exchange members shall comply with these rules and interpretations as if such rules and interpretations were part of the Equity Rules.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If an NASD rule that is incorporated by reference in a rule of the Exchange is transferred into the FINRA rulebook, then the Exchange rule shall be construed to require Exchange members to comply with the FINRA rule corresponding to the NASD rule (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**0140. Fingerprint-Based Background Checks of Employees and Independent Contractors**

(a) In order to enhance the physical security of the facilities, systems, data, and information of the Exchange and its affiliates (collectively, the "Exchange Entities"), it shall be the policy of the Exchange Entities to conduct a fingerprint-based criminal records check of (i) all prospective and current employees of the Exchange Entities, (ii) all prospective and current independent contractors who have or are anticipated to have access to facilities of the Exchange Entities for ten business days or longer, and (iii) all prospective and current temporary employees who have or are anticipated to have access to facilities of the Exchange Entities for ten business days or longer. The Exchange Entities shall apply this policy in all circumstances where permitted by applicable law.

(b) The Exchange Entities shall submit fingerprint cards obtained pursuant to the foregoing policy to the Attorney General of the United States or his or her designee for identification and processing. The Exchange Entities shall at all times maintain the security of fingerprint cards and information received from the Attorney General or his or her designee.

(c) The Exchange Entities shall evaluate information received from the Attorney General or his or her designee in accordance with the terms of a written fingerprint policy and provisions of applicable law. A felony or serious misdemeanor conviction will be a factor in considering whether to hire a prospective employee, take adverse employment action with respect to a current employee, or deny prospective or current independent contractors or temporary employees access to facilities of the Exchange Entities.

(d) All current and prospective employees, independent contractors, and temporary employees of the Exchange Entities shall be fingerprinted prior to being given access to facilities of the Exchange Entities that are subject to regulation by the Commission. All other current or prospective employees, independent contractors, and temporary employees of the Exchange Entities shall be fingerprinted as soon as practicable, either before or after the commencement of an employment or contracting relationship. A prospective employee, independent contractor, or temporary employee who refuses to submit to fingerprinting will be denied employment or access. A current employee, independent contractor, or temporary employee who refuses to submit to fingerprinting will be denied employment or access following notice and being given three opportunities to submit.

**0150. Regulatory Independence**

In furtherance of the independence of the Exchange's regulatory functions from its commercial operations, the Exchange shall ensure that, unless it obtains prior Commission approval, the regulatory functions subject to the FINRA Regulatory Contract as in effect on \_\_\_, 2008 shall at all times continue to be performed by FINRA or an affiliate thereof or by another independent self-regulatory organization.

**0160. Delegation, Authority and Access**

(a) The Exchange delegates to its subsidiary BX Equities LLC the authority to act on behalf of the Exchange as set forth in a Delegation Agreement approved by the Commission pursuant to its authority under the Act.

(b) Notwithstanding any delegation of authority to BX Equities LLC pursuant to this Rule, the staff, books, records and premises of BX Equities LLC are the staff, books, records and premises of the Exchange subject to oversight pursuant to the Act, and all officers, employees and agents of BX Equities LLC are the officers, employees and agents of the Exchange for purposes of the Act.

## **1000. Membership, Registration and Qualification Requirements**

### **Membership, Registration and Qualification Requirements**

Series 1000 of the Rules of the Nasdaq Stock Market, LLC ("Nasdaq"), as such rules may be in effect from time to time (the "Nasdaq Rule 1000 Series"), are hereby incorporated by reference into this Nasdaq BX Rule 1000 Series (other than Nasdaq Rules 1031, 1050, 1090, 1130, 1150, 1160, and 1170), and are thus Nasdaq BX Rules and thereby applicable to Nasdaq BX Members, Associated Persons, and other persons subject to the Exchange's jurisdiction. Nasdaq BX Members, Associated Persons, and other persons subject to the Exchange's jurisdiction shall comply with the Nasdaq Rule 1000 Series as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the Nasdaq Rule 1000 Series shall be read to refer to the Nasdaq BX-related meaning of such term. The defined terms "Exchange" or "Nasdaq" shall be read to refer to the Nasdaq BX Exchange; "Rule" or "Exchange Rule" shall be read to refer to the Exchange Rules; the defined term "Applicant" in the Nasdaq Rule 1000 Series shall be read to refer to an Applicant to the Nasdaq BX Exchange; the defined terms "Board" or "Exchange Board" in the Nasdaq Rule 1000 Series shall be read to refer to the Nasdaq BX Board of Directors; the defined term "Director" in the Nasdaq Rule 1000 Series shall be read to refer to a Director of the Board of the Nasdaq BX Exchange; the defined term "Exchange Review Council" in the Nasdaq Rule 1000 Series shall be read to refer to the Nasdaq BX Exchange Review Council; the defined term "Subcommittee" in the Nasdaq Rule 1000 Series shall be read to refer to a Subcommittee of the Nasdaq BX Exchange Review Council; the defined term "Interested Staff" in the Nasdaq Rule 1000 Series shall be read to refer to Interested Staff of Nasdaq BX; the defined term "Member" in the Nasdaq Rule 1000 Series shall be read to refer to a Nasdaq BX Member; the defined term "Associated Person" shall be read to refer to a Nasdaq BX Associated Person; the defined terms "Exchange Membership Department" or "Membership Department" shall be read to refer to the Nasdaq BX Membership Department; and the defined term "Exchange Regulation Department" shall be read to refer to the Nasdaq BX Regulation Department.

Additionally, cross references in the Nasdaq Rule 1000 Series to "Rule 0120" shall refer to Nasdaq BX Rule 0120, cross references in the Nasdaq Rule 1000 Series to Rule 3010 shall refer to Nasdaq BX Rule 3010; cross references in the Nasdaq Rule

**1000 Series to Rule 3011 shall refer to Nasdaq BX Rule 3011; and cross references to "General 4, Section 1.1200 Series" shall be read to refer to the Nasdaq BX Rule 1200 Series.**

### **1031. Registration Requirements**

#### **(f) Reserved**

### **1050. Research Analysts**

An Exchange member that employs a research analyst or publishes or otherwise distributes a research report shall also be a member of FINRA or the New York Stock Exchange and shall comply with FINRA Rules 1120, 1250 and 2241 (and any other FINRA rules that apply to research analysts or research reports), as amended. For purposes of this Rule 1050, (i) "research analyst" shall mean an associated person who is primarily responsible for, and any associated person who reports directly or indirectly to such research analyst in connection with, the preparation of the substance of a research report, whether or not any such person has the job title of "research analyst," and (ii) "research report" shall mean a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.

### **1090. Foreign Members**

A member which does not maintain an office in the United States responsible for preparing and maintaining financial and other reports required to be filed with the Commission and the Exchange must:

- (a)** prepare all such reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars;
- (b)** reimburse the Exchange for any expenses incurred in connection with examinations of the member to the extent that such expenses exceed the cost of examining a member located within the continental United States in the geographic location most distant from the Exchange;
- (c)** ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations; and
- (d)** utilize, either directly or indirectly, the services of a broker/dealer registered with the Commission, a bank or a clearing agency registered with the Commission located in the United States in clearing all transactions involving members of the Exchange, except where both parties to a transaction agree otherwise.

### **1130. Reliance on Current Membership List**

The Secretary of the Exchange shall keep a currently accurate and complete membership roll, containing the name and address of each Exchange member, and the name and address of the executive representative of each Exchange member. In any case where a membership has been terminated, such fact shall be recorded together with the date on

which the membership ceased. The membership roll of the Exchange shall at all times be available to all members of the Exchange, to all governmental authorities, and to the general public; provided, however, that the names and address of executive representatives shall not be available to the general public. For the purpose of complying with pertinent Rules, a member shall be entitled to rely on such membership roll.

#### **1150. Executive Representative**

Each Exchange member shall appoint and certify to the Secretary of the Exchange one "executive representative" who shall represent, vote, and act for the Exchange member in all the affairs of the Exchange; provided, however, that other representatives of an Exchange member may also serve on the Exchange Board or committees of the Exchange or otherwise take part in the affairs of the Exchange. If an Exchange member is also a member of FINRA or Nasdaq, the Exchange executive representative shall be the same person appointed to serve as the FINRA or Nasdaq executive representative. An Exchange member may change its executive representative or appoint a substitute for its executive representative upon giving notice thereof to the Exchange Secretary via electronic process or such other process as the Exchange may prescribe. An executive representative of an Exchange member or a substitute shall be a member of senior management. Each executive representative shall maintain an Internet electronic mail account for communication with the Exchange and shall update firm contact information as prescribed by the Exchange. Each member shall review and, if necessary, update its executive representative designation and contact information in the manner prescribed by Equity Rule 1160.

#### **1160. Contact Information Requirements**

(a) Each member shall report to the Exchange all contact information required by the Exchange via the FINRA Contact System.

(b) Each member shall update its required contact information promptly, but in any event not later than 30 days following any change in such information. In addition, each member shall review and, if necessary, update its required contact information, via such means as the Exchange may specify, within 17 business days after the end of each calendar year.

(c) Each member shall comply with any Exchange request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by Exchange staff.

#### **1170. The Exchange's Business Continuity and Disaster Recovery Plan Testing Requirements for Members and Options Participants Pursuant to Regulation SCI**

With respect to the Exchange's business continuity and disaster recovery plans, including its backup systems, the Exchange shall:

- (a) Establish standards for the designation of those Members and Options Participants that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of

the activation of such plans. Such standards may include volume-based and/or market share-based criteria, and may be adjusted from time to time by the Exchange. The Exchange will provide public notice of the standards;

(b) Designate Members and Options Participants pursuant to the standards established in paragraph (a) of this rule and require participation by such designated Members and Options Participants in scheduled functional and performance testing of the operation of such plans, in the manner and frequency specified by the Exchange, provided that such frequency shall not be less than once every 12 months. The Exchange will provide at least six months prior notice to Members and Options Participants that are designated for mandatory testing, and participation of such Members and Options Participants is a condition of membership.

## **2000. Business Conduct**

### **2040. Nonregistered Foreign Finders**

(a) Member firms, and persons associated with a member, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member firms if the following conditions are met:

- (1) the member firm has assured itself that the nonregistered foreign person who will receive the compensation (the "finder") is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in the Exchange Rules, and has further assured itself that the compensation arrangement does not violate applicable foreign law;
- (2) the finders are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad;
- (3) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;
- (4) customers receive a descriptive document, similar to that required by Rule 206(4)-3(b) of the Investment Advisers Act of 1940, that discloses what compensation is being paid to finders;
- (5) customers provide written acknowledgment to the member firm of the existence of the compensation arrangement and that such acknowledgment is retained and made available for inspection by the Exchange;
- (6) records reflecting payments to finders are maintained on the member firm's books and actual agreements between the member firm and persons compensated are available for inspection by the Exchange; and
- (7) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

**2100. General Standards****2110. Standards of Commercial Honor and Principles of Trade**

A member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

**IM-2110-1. Reserved****IM-2110-2. Trading Ahead of Customer Limit Order**

(a) Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-2 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-2 are transferred into the FINRA rulebook, then Equity Interpretive Material 2110-2 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-2 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) the reference to "NASD Rules" in NASD Interpretive Material 2110-2(a) shall be construed as a reference to "the Rules of the Exchange",

(2) references to "NASD's Board of Governors" shall be construed as references to "the Exchange Board",

(3) references to Rule 2110, Rule 2320, and Rule 3110, shall be construed as references to Equity Rule 2210, Equity Rule 2320, and Equity Rule 3110,

(4) references to "NASD" shall be construed as references to "the Exchange", and

(5) references to Rule 6610 shall be construed as references to NASD Rule 6610.

(6) Exchange members and persons associated with a member relying upon the exemption set forth in NASD Interpretive Material 2110-2(c) shall comply with the provisions of the NASD Rule 4600 Series cited therein as if such Rules were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Interpretive Material 2110-2 by complying with NASD Interpretive Material 2110-2 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Interpretive Material 2110-2 are being performed by FINRA on behalf of the Exchange.

**IM-2110-3. Front Running Policy**

Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-3 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-3 are transferred into the FINRA rulebook, then Equity Interpretive Material 2110-3 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-3 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**IM-2110-4. Trading Ahead of Research Reports**

(a) No member shall use any facility of the Exchange to establish, increase, decrease or liquidate an inventory position in a security or a derivative of such security based on non-public advance knowledge of the content or timing of a research report in that security.

(b) A member must establish, maintain and enforce policies and procedures reasonably designed to restrict or limit the information flow between research department personnel, or other persons with knowledge of the content or timing of a research report, and trading department personnel, so as to prevent trading department personnel from utilizing non-public advance knowledge of the issuance or content of a research report for the benefit of the member or any other person.

**IM-2110-5. Anti-Intimidation / Coordination**

The Exchange is issuing this interpretation to codify a longstanding policy. It is conduct inconsistent with just and equitable principles of trade for any member or person associated with a member to coordinate the prices (including quotations), trades, or trade reports of such member with any other member or person associated with a member; to direct or request another member to alter a price (including a quotation); or to engage, directly or indirectly, in any conduct that threatens, harasses, coerces, intimidates, or otherwise attempts improperly to influence another member or person associated with a member. This includes, but is not limited to, any attempt to influence another member or person associated with a member to adjust or maintain a price or quotation, whether displayed on any facility operated by the Exchange or otherwise, or refusals to trade or other conduct that retaliates against or discourages the competitive activities of another market maker or market participant. Nothing in this interpretation respecting coordination of quotes, trades, or trade reports shall be deemed to limit, constrain, or otherwise inhibit the freedom of a member or person associated with a member to:

(1) set unilaterally its own bid or ask in any security listed on the Exchange or other exchange-listed security traded on the Exchange pursuant to unlisted trading privileges, the prices at which it is willing to buy or sell any security listed on the Exchange or other exchange-listed security, and the quantity of shares of any security listed on the Exchange or other exchange-listed security that it is willing to buy or sell;

- (2) set unilaterally its own dealer spread, quote increment, or quantity of shares for its quotations (or set any relationship between or among its dealer spread, inside spread, or the size of any quote increment) in any security listed on the Exchange or other exchange-listed security;
- (3) communicate its own bid or ask, or the prices at or the quantity of shares in which it is willing to buy or sell any security listed on the Exchange or other exchange-listed security to any person, for the purpose of exploring the possibility of a purchase or sale of the security listed on the Exchange or other exchange-listed security, and to negotiate for or agree to such purchase or sale;
- (4) communicate its own bid or ask, or the price at or the quantity of shares in which it is willing to buy or sell any security listed on the Exchange or other exchange-listed security, to any person for the purpose of retaining such person as an agent or subagent for the member or for a customer of the member (or for the purpose of seeking to be retained as an agent or subagent), and to negotiate for or agree to such purchase or sale;
- (5) engage in any underwriting (or any syndicate for the underwriting) of securities to the extent permitted by the federal securities laws;
- (6) take any unilateral action or make any unilateral decision regarding the market makers with which it will trade and the terms on which it will trade unless such action is prohibited by the second and third sentences of this Interpretation; and
- (7) deliver an order to another member for handling,

provided, however, that the conduct described in (1) through (7) is otherwise in compliance with all applicable law.

#### **IM-2110-6. Confirmation of Callable Common Stock**

Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-6 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-6 are transferred into the FINRA rulebook, then Equity Interpretive Material 2110-6 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-6 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

#### **IM-2110-7. Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes**

(a) Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-7 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-7 are transferred into the FINRA rulebook, then Equity Interpretive Material 2110-7 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-7 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 11870 shall be construed as references to Equity Rule 11870.

### **2111. Trading Ahead of Customer Market Orders**

(a) Exchange members and persons associated with a member shall comply with NASD Rule 2111 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to IM-2110-2, Rule 2320, and Rule 3110 shall be construed as references to Exchange IM-2110-2, Equity Rule 2320, and Equity Rule 3110.

(c) Exchange members and persons associated with a member relying upon the exemption set forth in NASD Rule 2111(f) shall comply with the provisions of the NASD Rule 4600 Series and 6400 Series cited therein as if such Rules were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 2111(f) by complying with NASD Rule 2111(f) as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 2111(f) are being performed by FINRA on behalf of the Exchange.

(d) FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2111 or the provisions of the NASD Rule 4600 Series or 6400 Series cited therein are transferred into the FINRA rulebook, then Equity Rule 2111 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2111, the NASD Rule 4600 Series or the NASD Rule 6400 Series (regardless of whether such rules are renumbered or amended) as if such rules were part of the Rules of the Exchange.

### **2120. Use of Manipulative, Deceptive or Other Fraudulent Devices**

No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

### **2130. Nasdaq Ownership Restriction**

(a) No member or person associated with a member shall be the beneficial owner of greater than twenty percent (20%) of the then-outstanding voting securities of Nasdaq, Inc.

(b) For purposes of this rule, any calculation of the number of shares of common stock outstanding at any particular time shall be made in accordance with the last sentence of SEC Rule 13d-3(d)(1)(i)(D). The term "beneficial owner" shall have the meaning set forth in the Restated Certificate of Incorporation of Nasdaq, Inc.

#### **2140. Restrictions on Affiliation**

(a) Except as provided in paragraph (b):

(1) the Exchange or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in, or engage in a business venture with, an Exchange member or an affiliate of an Exchange member in the absence of an effective filing under Section 19(b) of the Act; and

(2) an Exchange member shall not be or become an affiliate of the Exchange, or an affiliate of an entity affiliated with the Exchange, in the absence of an effective filing under Section 19(b) of the Act.

The term "affiliate" shall have the meaning specified in Rule 12b-2 under the Act; provided, however, that for purposes of this Rule, one entity shall not be deemed to be an affiliate of another entity solely by reason of having a common director. The term "business venture" means an arrangement under which (A) the Exchange or an entity with which it is affiliated, and (B) an Exchange member or an affiliate of an Exchange member, engage in joint activities with an expectation of shared profit and a risk of shared loss from common entrepreneurial efforts.

(b) Nothing in this rule shall prohibit, or require a filing under Section 19(b) of the Act, for:

(1) an Exchange member or an affiliate of an Exchange member acquiring or holding an equity interest in Nasdaq, Inc. that is permitted by the ownership limitations contained in Equity Rule 2130, or

(2) the Exchange or an entity affiliated with the Exchange acquiring or maintaining an ownership interest in, or engaging in a business venture with, an affiliate of an Exchange member if:

(A) there are information barriers between the member and the Exchange and its facilities, such that the member

(i) will not be provided an informational advantage concerning the operation of the Exchange and its facilities, and will not be provided changes or improvements to the trading system that are not available to the industry generally or other Exchange members;

(ii) will not have any knowledge in advance of other Exchange members of proposed changes, modifications, or improvements to the operations or trading systems of the

Exchange and its facilities, including advance knowledge of Exchange filings pursuant to Section 19(b) of the Act;

(iii) will be notified of any proposed changes, modifications, or improvements to the operations or trading systems of the Exchange and its facilities in the same manner as other Exchange members are notified; and

(iv) will not share employees, office space, or databases with the Exchange or its facilities, Nasdaq, Inc., or any entity that is controlled by Nasdaq, Inc.; and

(B) the Exchange's Regulatory Oversight Committee certifies, on an annual basis, to the Director of the Division of Trading & Markets that the Exchange has taken all reasonable steps to implement the requirements of this rule and is in compliance therewith.

(c) Nasdaq, Inc., which is the holding company owning the Exchange and Nasdaq Execution Services, LLC, shall establish and maintain procedures and internal controls reasonably designed to ensure that Nasdaq Execution Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to Exchange systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated members of the Exchange in connection with the provision of inbound routing to the Exchange.

#### **2150. Customers' Securities or Funds**

(a) Exchange Members and persons associated with a member shall comply with FINRA Rule 2150 as if such Rule were part of the Rules of the Exchange.

(b) Nothing in FINRA Rule 2150, as applied to Exchange members and their associated persons, shall be construed to authorize any Exchange member or associated person to act in a manner inconsistent with Section 11(a) of the Act.

#### **IM-2150. Segregation of Customers' Securities**

(a) Exchange Members and persons associated with a member shall comply with FINRA Interpretive Material 2150 as if such Rule were part of the Rules of the Exchange.

For purposes of this Rule, references to Rule 2150 shall be construed as references to Equity Rule 2150.

(b) For purposes of this Rule, references to Rule 2150 shall be construed as references to Equity Rule 2150.]

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#### **[2200. Communications with Customers and the Public**

**2210. Communications with the Public**

(a) Exchange members and persons associated with a member shall comply with NASD Rule 2210 (except NASD Rule 2210(c)) as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 2210 by complying with NASD Rule 2210 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 2210 are being performed by FINRA on the Exchange's behalf.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2210 are transferred into the FINRA rulebook, then Equity Rule 2210 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2210 (except NASD Rule 2210(c), but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 2211 shall be construed as references to Equity Rule 2211.

**IM-2210-1. Guidelines to Ensure That Communications With the Public Are Not Misleading**

Members and persons associated with a member shall comply with NASD Interpretive Material 2210-1 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2210-1 are transferred into the FINRA rulebook, then Equity Interpretive Material 2210-1 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2210-1 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**IM-2210-2. Reserved****IM-2210-3. Reserved****IM-2210-4. Limitations on Use of the Exchange's Name**

Members may indicate membership in the Exchange in any communication with the public, provided that the communication complies with the applicable standards of Equity Rule 2210 and neither states nor implies that the Exchange, or any other corporate name or facility affiliated with Exchange, or any other regulatory organization, endorses, indemnifies, or guarantees the member's business practices, selling methods, the class or type of securities offered, or any specific security.

**2211. Institutional Sales Material and Correspondence**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 2211 (except NASD Rule 2211(c) and (d)(3)) as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2211 are transferred into the FINRA rulebook, then Equity Rule 2211 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2211 (except NASD Rule 2211(c) and (d)(3), but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to an "NASD member" shall be construed as references to an "Exchange member", and

(2) references to Rule 2210 and Rule 3110 shall be construed as references to Equity Rule 2210 and Equity Rule 3110, and references to Rule 3010(d) shall be construed as references to NASD Rule 3010(d), as incorporated into the Rules of the Exchange by Equity Rule 3010.

**2212. Telemarketing**

Exchange members and persons associated with a member shall comply with NASD Rule 2212 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2212 are transferred into the FINRA rulebook, then Equity Rule 2212 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2212 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**2220. Reserved****2230. Reserved****2240. Deleted****2250. Proxy Materials****2251. Forwarding of Proxy and Other Issuer-Related Materials**

(a) Exchange Members shall comply with FINRA Rule 2251 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, the guidance adopted by FINRA with respect to reasonable rates of reimbursement as provided in FINRA Rule 2251 and the accompanying supplementary material is hereby adopted as the guidance of the Exchange Board.

(c) For purposes of this Rule:

(1) references to FINRA shall be construed as references to the Exchange, and

(2) references to Rule 2251 shall be construed as references to Equity Rule 2251.

(d) Notwithstanding the foregoing, an Exchange Member that is not the beneficial owner of a security registered under Section 12 of the Act is prohibited from granting a proxy to vote the security in connection with a shareholder vote on the election of a member of the board of directors of an issuer (except for a vote with respect to the uncontested election of a member of the board of directors of any investment company registered under the Investment Company Act of 1940), executive compensation, or any other significant matter, as determined by the Commission, by rule, unless the beneficial owner of the security has instructed the member to vote the proxy in accordance with the voting instructions of the beneficial owner.

**2260. Deleted**

**IM-2260. Deleted**

**2261. Disclosure of Financial Condition**

Exchange Members shall comply with FINRA Rule 2261 as if such Rule were part of the Rules of the Exchange.

**2262. Disclosure of Control Relationship with Issuer**

Exchange Members shall comply with FINRA Rule 2262 as if such Rule were part of the Rules of the Exchange.

**2266. SIPC Information**

Exchange Members shall comply with FINRA Rule 2266 as if such Rule were part of the Rules of the Exchange.

**2269. Disclosure of Participation or Interest in Primary or Secondary Distribution**

Exchange Members shall comply with FINRA Rule 2269 as if such Rule were part of the Rules of the Exchange.

**2270. Deleted**

**2280. Reserved**

**2290. Fairness Opinions**

Exchange Members and persons associated with a member shall comply with NASD Rule 2290 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2290 are transferred into the FINRA rulebook, then Equity Rule 2290 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2290 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **2300. Transactions with Customers**

#### **2310. Recommendations to Customers (Suitability)**

(a) Exchange members and associated persons of a member shall comply with NASD Rule 2310 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2310 are transferred into the FINRA rulebook, then Equity Rule 2310 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2310 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3110 shall be construed as references to Equity Rule 3110.

#### **IM-2310-1. Reserved**

#### **IM-2310-2. Fair Dealing with Customers**

(a) Exchange members and associated persons of a member shall comply with NASD Interpretive Material 2310-2 (except NASD IM-2310-2(e)(1)) as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2310-2 are transferred into the FINRA rulebook, then Equity Interpretive Material 2310-2 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2310-2 (except NASD IM-2310-2(e)(1), but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to "the Association's Rules" or "Association Rules" shall be construed as references to "the Rules of the Exchange",

(2) references to interpretations and actions of NASD District Business Conduct Committees and the NASD Board of Governors shall be construed to reflect the policy of the Exchange with respect to the application of Rule 2310,

(3) references to the "Association" shall be construed as references to the "Exchange", and

(4) references to the Rule 2840 Series shall be construed as references to the Equity Rule 2840 Series.

### **IM-2310-3. Suitability Obligations to Institutional Customers**

(a) Exchange members and associated persons of a member shall comply with NASD Interpretive Material 2310-3 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2310-3 are transferred into the FINRA rulebook, then Equity Interpretive Material 2310-3 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2310-3 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to the "Association" shall be construed as references to the "Exchange".

### **2320. Best Execution and Interpositioning**

(a) In any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a member has used "reasonable diligence" are:

(1) The character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;

(2) the size and type of transaction;

(3) the number of primary markets checked;

(4) accessibility of the quotation; and

(5) the terms and conditions of the order which result in the transaction, as communicated to the member and persons associated with the member.

(b) In any transaction for or with a customer, no member or person associated with a member shall interject a third party between the member and the best available market except in cases where the member can demonstrate that to his or her knowledge at the time of the transaction the total cost or proceeds of the transaction, as confirmed to the member acting for or with the customer, was better than the prevailing market for the security. A member's obligations to his or her customer are generally not fulfilled when

he or she channels transactions through another broker/dealer or some person in a similar position, unless he or she can show that by so doing he or she reduced the costs of the transactions to the customer.

(c) When a member cannot execute directly with a market maker but must employ a broker's broker or some other means in order to insure an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

(d) Failure to maintain or adequately staff an order room or other department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a member of his or her obligations. However, the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the member acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.

(e) A member through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating member has not fulfilled his or her obligations under this Rule, will also be deemed to have violated this Rule.

(f) The obligations described in paragraphs (a) through (e) above exist not only where the member acts as agent for the account of his or her customer but also where retail transactions are executed as principal and contemporaneously offset.

#### IM-2320. Interpretive Guidance with Respect to Best Execution Requirements

Rule 2320(a) requires, among other things, that a member or person associated with a member comply with Rule 2320(a) when customer orders are routed to it from another broker/dealer for execution. This Interpretive Material addresses certain interpretive questions concerning the applicability of the best execution rule.

For the purposes of Rule 2320, the term "market" or "markets" is to be construed broadly and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

A member's duty to provide best execution in any transaction "for or with a customer of another broker/dealer" does not apply in instances when another broker/dealer is simply executing a customer order against the member's quote. Stated in another manner, the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the member for the purpose of order handling and execution. This clarification is intended to draw a distinction between those situations in which the member is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the member's quote, as opposed to those circumstances in which the member is accepting order flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

### **2330. Deleted**

#### **IM-2330. Deleted**

### **2340. Customer Account Statements**

(a) Exchange Members shall comply with NASD Rule 2340 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2340 are transferred into the FINRA rulebook, then Equity Rule 2340 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2340 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 2810, Rule 3110, and Rule 11860 shall be construed as references to Equity Rule 2810, Equity Rule 3110, and Equity Rule 11860.

(c) Pursuant to the Rule 9600 Series, the Exchange may exempt any member from the provisions of this Rule for good cause shown.

### **2341. Margin Disclosure Statement**

(a) Exchange Members shall comply with NASD Rule 2341 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2341 are transferred into the FINRA rulebook, then Equity Rule 2341 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2341 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3110 shall be construed as references to Equity Rule 3110.

**2342. Deleted****2350. Reserved****2360. Approval Procedures for Day-Trading Accounts**

(a) Exchange Members shall comply with FINRA Rule 2130 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 2361 and Rule 3110 shall be construed as references to Equity Rule 2361 and Equity Rule 3110.

**2361. Day-Trading Risk Disclosure Statement**

(a) Exchange Members shall comply with FINRA Rule 2270 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 2361 by complying with FINRA Rule 2270 as written. Accordingly, Exchange members may submit an alternative disclosure statement to FINRA's Advertising Department as provided in the FINRA Rule. Functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 2361 are being performed by FINRA on the Exchange's behalf.

(b) For purposes of this Rule, references to Rule 2360 and Rule 3110 shall be construed as references to Equity Rule 2360 and Equity Rule 3110.

**2370. Borrowing From or Lending to Customers**

Exchange Members and persons associated with a member shall comply with FINRA Rule 3240 as if such Rule were part of the Rules of the Exchange.

**2400. Commissions, Mark-Ups and Charges****2410. Reserved****2420. Reserved****2430. Charges for Services Performed**

Exchange Members shall comply with NASD Rule 2430 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2430 are transferred into the FINRA rulebook, then Equity Rule 2430 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2430 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**2440. Reserved****2441. Net Transactions with Customers**

(a) Exchange Members shall comply with NASD Rule 2441 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2441 are transferred into the FINRA rulebook, then Equity Rule 2441 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2441 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3110 shall be construed as references to Equity Rule 3110.

**2450. Reserved****2460. Payments for Market Making**

(a) No member or person associated with a member shall accept any payment or other consideration, directly or indirectly, from an issuer of a security, or any affiliate or promoter thereof, for publishing a quotation, acting as market maker in a security, or submitting an application in connection therewith.

(b) The provisions of paragraph (a) shall not preclude a member from accepting:

(1) payment for bona fide services, including, but not limited to, investment banking services (including underwriting compensation and fees); and

(2) reimbursement of any payment for registration imposed by the Securities and Exchange Commission or state regulatory authorities and for listing of an issue of securities imposed by a self-regulatory organization.

(c) For purposes of this rule, the following terms shall have the stated meanings:

(1) "affiliate"

(A) The term "affiliate" shall mean a company which controls, is controlled by, or is under common control with a member;

(B) The term affiliate is presumed to include, but is not limited to, the following for purposes of subparagraph (A), above:

(i) a company will be presumed to control a member if the company beneficially owns 10 percent or more of the outstanding voting securities of a member which is a corporation, or beneficially owns a partnership interest in 10 percent or more of the distributable profits or losses of a member which is a partnership;

**(ii)** a member will be presumed to control a company if the member and persons associated with the member beneficially own 10 percent or more of the outstanding voting securities of a company which is a corporation, or beneficially own a partnership interest in 10 percent or more of the distributable profits or losses of a company which is a partnership;

**(iii)** a company will be presumed to be under common control with a member if:

**a.** The same natural person or company controls both the member and company by beneficially owning 10 percent or more of the outstanding voting securities of a member or company which is a corporation, or by beneficially owning a partnership interest in 10 percent or more of the distributable profits or losses of a member or company which is a partnership; or

**b.** A person having the power to direct or cause the direction of the management or policies of the member or the company also has the power to direct or cause the direction of the management or policies of the other entity in question.

**(C)** The provisions of subparagraphs (A) and (B) hereof notwithstanding, none of the following shall be presumed to be an affiliate of a member for purposes of this Rule:

**(i)** an investment company registered with the Commission pursuant to the Investment Company Act of 1940, as amended;

**(ii)** a "separate account" as defined in Section 2(a)(37) of the Investment Company Act of 1940, as amended;

**(iii)** a "real estate investment trust" as defined in Section 856 of the Internal Revenue Code;

**(iv)** a "direct participation program" as defined in Rule 2810; and

**(v)** a corporation, trust, partnership or other entity issuing financing instrument-backed securities which are rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

**(2)** "promoter" means any person who founded or organized the business or enterprise of an issuer, is a director or employee of an issuer, acts or has acted as a consultant, advisor, accountant or attorney to an issuer, is the beneficial owner of any of an issuer's securities that are considered "restricted securities" under Rule 144, or is the beneficial owner of five percent (5%) or more of the public float of any class of an issuer's securities, and any other person with a similar interest in promoting the entry of quotations or market making in an issuer's securities; and

**(3)** "quotation" shall mean any bid or offer at a specified price with respect to a security, or any indication of interest by a member in receiving bids or offers from others for a

security, or an indication by a member that he wishes to advertise his general interest in buying or selling a particular security.

## **2500. Special Accounts**

### **2510. Discretionary Accounts**

(a) Exchange Members shall comply with NASD Rule 2510 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2510 are transferred into the FINRA rulebook, then Equity Rule 2510 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2510 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of applying this Rule, references to Rule 3010 and Rule 3110 shall be construed as references to Equity Rule 3010 and Equity Rule 3110.

### **2520. Margin Requirements**

(a) A member that is not designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with the initial and maintenance margin requirements of Regulation T and the self-regulatory organization to which the member is designated for oversight pursuant to SEC Rule 17d-1. Members shall comply with Regulation T and such self-regulatory organization rules, and shall submit to such self-regulatory organization any filings required thereunder, in each case as if such rules were part of the Rules of the Exchange.

(b) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with the initial and maintenance margin requirements of Regulation T and the NASD Rule 2520 as if such Rules were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2520 are transferred into the FINRA rulebook, then Equity Rule 2520 shall be construed to require Exchange members designated to the Exchange for oversight pursuant to SEC Rule 17d-1 to comply with the FINRA rule corresponding to NASD Rule 2520 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(c) The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 2520 by complying with NASD Rule 2520 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 2520 are being performed by FINRA on behalf of the Exchange.

(d) Pursuant to the Rule 9600 Series, the Exchange may exempt any member from the requirements contained in paragraph (e)(3) of NASD Rule 2520, as applied to Exchange members through Equity Rule 2520, if the account referenced in paragraph (e)(3) of NASD Rule 2520 is confined exclusively to transactions and positions in exempted securities.]

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**[2600. Reserved**

**2700. Reserved**

**2800. Special Products**

**2810. Deleted**

**2820. Reserved]**

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**[3000. Responsibilities Relating to Associated Persons, Employees, and Others' Employees**

**3010. Supervision**

(a) Each member shall establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Exchange rules. Exchange members shall comply with NASD Rule 3010 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3010 by complying with NASD Rule 3010 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 3010 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3010 are transferred into the FINRA rulebook, then Equity Rule 3010 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3010 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to "NASD Rules", "rules of NASD", or "Rules of this Association" shall be construed as references to "Rules of the Exchange",

(2) the term "registered person" in NASD Rule 3010(b)(2)(I) shall be defined as "any person registered with the Exchange as a representative or principal pursuant to the 1200 Series of the Equity Rules",

(3) references to Article V, Section 3 of the Association's By-Laws shall be construed as references to Equity Rule 1210,

(4) references to Rule 2210 and Rule 3110 shall be construed as references to Equity Rule 2210 and Equity Rule 3110, and

(5) references to registration with NASD or the Association shall be construed as references to registration with the Exchange.

(c) Pursuant to the Rule 9600 Series, the Exchange may in exceptional circumstances, taking into consideration all relevant factors, exempt any member unconditionally or on specified terms and conditions from the requirements contained in paragraph (b)(2) of NASD Rule 3010, as applied to Exchange members through Equity Rule 3010. A member seeking an exemption must file a written application pursuant to the Rule 9600 Series within 30 days after receiving notice or obtaining actual knowledge that it meets one of the criteria in paragraph (b)(2)(H) of NASD Rule 3010. A member that meets one of the criteria in paragraph (b)(2)(H) for the first time may elect to reduce its staffing levels pursuant to the provisions of paragraph (b)(2)(B) of NASD Rule 3010 or, alternatively, to seek an exemption hereunder, as appropriate; such a member may not seek relief from the Rule by both reducing its staffing levels pursuant to paragraph (b)(2)(B) and requesting an exemption.

#### **IM-3010-1. Standards for Reasonable Review**

(a) Exchange members and persons associated with a member shall comply with NASD Interpretive Material IM-3010-1 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3010-1 are transferred into the FINRA rulebook, then Equity Interpretive Material 3010-1 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 3010-1 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to Rule 3010 shall be construed as references to Equity Rule 3010; and

(2) references to "NASD Rules" shall be construed as references to "the Rules of the Exchange".

**IM-3010-2. Guidance on Heightened Supervision Requirements**

Exchange members shall comply with NASD Notice to Members 97-19 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3010-2 are transferred into the FINRA rulebook, then Equity Interpretive Material 3010-2 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Interpretive Material 3010-2 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**3011. Anti-Money Laundering Compliance Program**

Exchange Members and persons associated with a member shall comply with FINRA Rule 3310 as if such Rule were part of the Rules of the Exchange.

**••• Commentary:****.01 Independent Testing Requirements**

Exchange members and persons associated with a member shall comply with FINRA Rule 3310.01 as if such Rule were part of the Rules of the Exchange. For purposes of this Rule, references to FINRA Rule 3310 shall be construed as references to Equity Rule 3011.

**.02 Review of Anti-Money Laundering Compliance Person Information**

Each Exchange member must identify, review and, if necessary, update the information regarding its anti-money laundering compliance person designated pursuant to Rule 3011 in the manner prescribed by Rule 1160.

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**3012. Supervisory Control System**

(a) Members and persons associated with a member shall comply with NASD Rule 3012 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3012 by complying with NASD Rule 3012 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 3012 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3012 are transferred into the FINRA rulebook, then Equity Rule 3012 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule

3012 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to "NASD Rules" shall be construed as references to "Rules of the Exchange".

**3013. Annual Certification of Compliance and Supervisory Processes**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3013 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3013 are transferred into the FINRA rulebook, then Equity Rule 3013 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3012 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to "NASD Rules" shall be construed as references to "Rules of the Exchange",

(2) references to IM-3013 shall be construed as references to Equity IM-3013, and

(3) references to "MSRB rules" shall be deleted.

**IM-3013. Annual Compliance and Supervision Certification**

(a) Exchange Members and persons associated with a member shall comply with NASD Interpretive Material IM-3013 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3013 are transferred into the FINRA rulebook, then Equity Interpretive Material 3013 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Interpretive Material 3013 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to "NASD Rules" shall be construed as references to "Rules of the Exchange",

(2) references to NASD Rule 3013 and Rule 2110 shall be construed as references to Equity Rule 3013 and Equity Rule 2110,

(3) references to "NASD members" shall be construed as references to "Exchange Members",

(4) references to "the NASD Board of Governors" shall be construed as references to "the Board of Directors of the Exchange", and

(5) references to "MSRB rules" shall be deleted.

### **3020. Fidelity Bonds**

(a) Each member required to join the Securities Investor Protection Corporation who has employees and who is a member in good standing of another self-regulatory organization shall follow the applicable fidelity bond rule of the self-regulatory organization to which it is designated by the Commission for financial responsibility pursuant to Section 17 of the Act and SEC Rule 17d-1 thereunder.

(b) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4360 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3020 by complying with FINRA Rule 4360 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 3020 are being performed by FINRA on behalf of the Exchange.

(c) For purposes of this Rule:

(1) references to an "Association member" shall be construed as references to an "Exchange member", and

(2) references to Article I, paragraph (q) of the By-Laws shall be construed as references to Equity Rule 1011.

(d) Pursuant to the Rule 9600 Series, any member subject to paragraph (c) of FINRA Rule 4360, through the application of Equity Rule 3020(b), may apply to the Exchange for an exemption from such requirements. The exemption may be granted upon a showing of good cause, including a substantial change in the circumstances or nature of the member's business that results in a lower net capital requirement. The Exchange may issue an exemption subject to any condition or limitation upon a member's bonding coverage that is deemed necessary to protect the public and serve the purposes of this Rule.

### **3030. Outside Business Activities of an Associated Person**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3030 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3030 are transferred into the FINRA rulebook, then Equity Rule 3030 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3030 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3040 shall be construed as references to Equity Rule 3040.

#### **3040. Private Securities Transactions of an Associated Person**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3040 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3040 are transferred into the FINRA rulebook, then Equity Rule 3040 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3040 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to Rule 3050 shall be construed as references to Equity Rule 3050, and

(2) references to "immediately family members (as defined in Rule 2790)" shall be construed to mean a person's parents, mother-in-law or father-in-law, spouse, brother or sister, brother-in-law or sister-in-law, son-in-law or daughter-in-law, and children, and any other individual to whom the person provides material support.

#### **3050. Transactions for or by Associated Persons**

Exchange Members and persons associated with a member shall comply with NASD Rule 3050 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3050 are transferred into the FINRA rulebook, then Equity Rule 3050 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3050 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

#### **3060. Influencing or Rewarding Employees of Others**

Exchange Members and persons associated with a member shall comply with NASD Rule 3060 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3060 are transferred into the FINRA rulebook, then Equity Rule 3060 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3060 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **3070. Reporting Requirements**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3070 (excluding NASD Rule 3070(g)) as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3070 by complying with NASD Rule 3070 as written (excluding Rule 3070(g)), including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 3070 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3070 are transferred into the FINRA rulebook, then Equity Rule 3070 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3070 (excluding Rule 3070(g) but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, the requirement of NASD Rule 3070(d) to respond to NASD with respect to any customer complaint, examination, or inquiry shall be construed as a requirement to respond to FINRA and the Exchange.

### **3080. Disclosure to Associated Persons When Signing Form U4**

Exchange Members shall comply with NASD Rule 3080 as if such Rule were part of the Rules of the Exchange. In lieu of incorporating in the written statement the language in paragraph (2) of NASD Rule 3080, members shall include the following provision:

A claim alleging employment discrimination, including a sexual harassment claim, in violation of a statute is not required to be arbitrated under the Rules of the Exchange. Such a claim may be arbitrated under Exchange rules only if the parties have agreed to arbitrate it, either before or after the dispute arose. The rules of other arbitration forums may be different.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3080 are transferred into the FINRA rulebook, then Equity Rule 3080 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3080 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**3090. Transactions Involving Exchange Employees**

(a) When a member has actual notice that an Exchange employee has a financial interest in, or controls trading in, an account, the member shall promptly obtain and implement an instruction from the employee directing that duplicate account statements be provided by the member to the Exchange.

(b) No member shall directly or indirectly make any loan of money or securities to any Exchange employee. Provided, however, that this prohibition does not apply to loans made in the context of disclosed, routine banking and brokerage agreements, or loans that are clearly motivated by a personal or family relationship.

(c) Notwithstanding the annual dollar limitation set forth in Equity Rule 3060, no member shall directly or indirectly give, or permit to be given, anything of more than nominal value to any Exchange employee who has responsibility for a regulatory matter that involves the member. For purposes of this subsection, the term "regulatory matter" includes, but is not limited to, examinations, disciplinary proceedings, membership applications, listing applications, delisting proceedings, and dispute-resolution proceedings that involve the member.

**3100. Books and Records, and Financial Condition****3110. Books and Records****(a) Requirements**

Each member shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations and statements of policy promulgated thereunder and with the Rules of the Exchange and as prescribed by SEC Rule 17a-3. The record keeping format, medium, and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934.

**(b) Reserved****(c) Customer Account Information**

Each member shall maintain accounts opened after January 1, 1991 as follows:

(1) for each account, each member shall maintain the following information:

(A) customer's name and residence;

(B) whether customer is of legal age;

(C) signature of the registered representative introducing the account and signature of the member or partner, officer, or manager who accepts the account; and

**(D)** if the customer is a corporation, partnership, or other legal entity, the names of any persons authorized to transact business on behalf of the entity;

**(2)** for each account other than an institutional account, and accounts in which investments are limited to transactions in open-end investment company shares that are not recommended by the member or its associated persons, each member shall also make reasonable efforts to obtain, prior to the settlement of the initial transaction in the account, the following information to the extent it is applicable to the account:

**(A)** customer's tax identification or Social Security number;

**(B)** occupation of customer and name and address of employer; and

**(C)** whether customer is an associated person of another member; and

**(3)** for discretionary accounts, in addition to compliance with subparagraphs (1) and (2) above, and Rule 2510 of these Rules, the member shall:

**(A)** obtain the signature of each person authorized to exercise discretion in the account;

**(B)** record the date such discretion is granted; and

**(C)** in connection with exempted securities other than municipals, record the age or approximate age of the customer.

**(4)** For purposes of this Rule, Rule 2310, and Rule 2510, the term "institutional account" shall mean the account of:

**(A)** a bank, savings and loan association, insurance company, or registered investment company;

**(B)** an investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or

**(C)** any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

**(d) Record of Written Complaints**

Each member shall keep and preserve in each office of supervisory jurisdiction, as defined in Rule 3010, either a separate file of all written complaints of customers and action taken by the member, if any, or a separate record of such complaints and a clear reference to the files containing the correspondence connected with such complaint as maintained in such office.

**(e) "Complaint" Defined**

A "complaint" shall be deemed to mean any written statement of a customer or any person acting on behalf of a customer alleging a grievance involving the activities of those persons under the control of the member in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer.

**(f) Requirements When Using Predispute Arbitration Agreements With Customers**

**(1)** Any predispute arbitration clause shall be highlighted and shall be immediately preceded by the following language in outline form.

This agreement contains a predispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

**(A)** All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

**(B)** Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

**(C)** The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

**(D)** The arbitrators do not have to explain the reason(s) for their award.

**(E)** The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.

**(F)** The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

**(G)** The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

**(2)**

**(A)** In any agreement containing a predispute arbitration agreement, there shall be a highlighted statement immediately preceding any signature line or other place for indicating agreement that states that the agreement contains a predispute arbitration clause. The statement shall also indicate at what page and paragraph the arbitration clause is located.

**(B)** Within thirty days of signing, a copy of the agreement containing any such clause shall be given to the customer who shall acknowledge receipt thereof on the agreement or on a separate document.

**(3)**

**(A)** A member shall provide a customer with a copy of any predispute arbitration clause or customer agreement executed between the customer and the member, or inform the customer that the member does not have a copy thereof, within ten business days of receipt of the customer's request. If a customer requests such a copy before the member has provided the customer with a copy pursuant to subparagraph (2)(B) of this paragraph, the member must provide a copy to the customer by the earlier date required by this subparagraph (3)(A) or by subparagraph (2)(B).

**(B)** Upon request by a customer, a member shall provide the customer with the names of, and information on how to contact or obtain the rules of, all arbitration forums in which a claim may be filed under the agreement.

**(4)** No predispute arbitration agreement shall include any condition that:

**(A)** limits or contradicts the rules of any self-regulatory organization;

**(B)** limits the ability of a party to file any claim in arbitration;

**(C)** limits the ability of a party to file any claim in court permitted to be filed in court under the rules of the forums in which a claim may be filed under the agreement;

**(D)** limits the ability of arbitrators to make any award.

**(5)** If a customer files a complaint in court against a member that contains claims that are subject to arbitration pursuant to a predispute arbitration agreement between the member and the customer, the member may seek to compel arbitration of the claims that are subject to arbitration. If the member seeks to compel arbitration of such claims, the member must agree to arbitrate all of the claims contained in the complaint if the customer so requests.

**(6)** All agreements shall include a statement that "No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein."

**(7) Reserved**

**(g) Negotiable Instruments Drawn From A Customer's Account**

No member or person associated with a member shall obtain from a customer or submit for payment a check, draft, or other form of negotiable paper drawn on a customer's checking, savings, share, or similar account, without that person's express written authorization, which may include the customer's signature on the negotiable instrument. Each member shall maintain the authorization required for a period of three years. This provision shall not, however, require maintenance of copies of negotiable instruments signed by customers.

**(h) Order Audit Trail System Record keeping Requirements**

(1) Exchange Members shall comply with NASD Rule 3110(h) as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3110(h) are transferred into the FINRA rulebook, then Equity Rule 3110(h) shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3110(h) (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(2) For purposes of this Rule, references to Rule 6951 shall be construed as references to NASD Rule 6951, as applied to Exchange members by Equity Rule 6950.

**(i) Holding of Customer Mail**

Upon the written instructions of a customer, a member may hold mail for a customer who will not be at his or her usual address for the period of his or her absence, but (A) not to exceed two months if the member is advised that such customer will be on vacation or traveling or (B) not to exceed three months if the customer is going abroad.

**(j) Changes in Account Name or Designation**

Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) shall be made unless the change has been authorized by a member or a person(s) designated under the provisions of the Equity Rules. Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the member. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC Rule 17a-4.

For purposes of this paragraph (j), a person(s) designated under the provisions of the Equity Rules to approve account name or designation changes must pass a qualifying principal examination appropriate to the business of the firm.

**IM-3110. Customer Account Information**

(a) Reserved

(b) Additional information is required to be obtained prior to making recommendations to customers (see Rule 2310) and in connection with discretionary accounts (see Rule 2510).

(c) Reserved

**3120. Use of Information Obtained in Fiduciary Capacity**

Exchange Members shall comply with NASD Rule 3120 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3120 are transferred into the FINRA rulebook, then Equity Rule 3120 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3120 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**3121. Deleted**

**3130. Deleted**

**IM-3130. Deleted**

**3140. Approval of Change in Exempt Status Under SEC Rule 15c3-3**

(a) Application — For the purposes of this Rule, the term "member" shall be limited to any member of the Exchange who is subject to SEC Rule 15c3-3 and is not designated to another self-regulatory organization by the Commission for financial responsibility pursuant to Section 17 of the Act and SEC Rule 17d-1 promulgated thereunder. Further, the term shall not be applicable to any member that is subject to Section 402.2(c) of the rules of the Treasury Department.

(b) A member operating pursuant to any exemptive provision as contained in subparagraph (k) of SEC Rule 15c3-3 under the Act (Rule 15c3-3), shall not change its method of doing business in a manner which will change its exemptive status from that governed by subparagraph (k)(1) or (k)(2)(ii) to that governed by subparagraph (k)(2)(i); or from subparagraph (k)(1), (k)(2)(i) or (k)(2)(ii) to a fully computing firm that is subject to all provisions of Rule 15c3-3; or commence operations that will disqualify it for continued exemption under Rule 15c3-3 without first having obtained the prior written approval of the Exchange.

(c) In making the determination as to whether to approve, deny in whole or in part an application made pursuant to paragraph (b), Exchange staff shall consider among other things the type of business in which the member is engaged, the training, experience and qualifications of persons associated with the member, the member's procedures for safeguarding customer funds and securities, the member's overall financial and operational condition and any other information deemed relevant in the particular circumstances and the time these measures would remain in effect.

### **3150. Reporting Requirements for Clearing Firms**

(a) Exchange Members shall comply with NASD Rule 3150 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3150 by complying with NASD Rule 3150 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 3150 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3150 are transferred into the FINRA rulebook, then Equity Rule 3150 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3150 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) Pursuant to the Rule 9600 Series, the Exchange may in exceptional and unusual circumstances, taking into consideration all relevant factors, exempt a member or class of members unconditionally or on specified terms and conditions from any or all of the provisions of this Rule that it deems appropriate.

### **IM-3150. Exemptive Relief**

(a) Upon written request for exemptive relief pursuant to the Rule 9600 Series, the Exchange generally will grant an exemption from the reporting requirements of Rule 3150 to a self-clearing firm that:

(1) derives, on an annualized basis, at least 85 percent of its revenue from transactions in fixed income securities;

(2) conducts an institutional business that settles transactions on an RVP/DVP basis, provided that such exemption from reporting shall apply only with respect to such institutional business unless the Exchange determines that any other remaining business otherwise qualifies for an exemption under this IM-3150 or is *de minimis* in nature; or

(3) does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts (e.g., that engages solely in proprietary trading, or that conducts business only with other broker-dealers or any other non-customer counter-parties).

(b) Upon written request for exemptive relief pursuant to the Rule 9600 Series, the Exchange also generally will grant an exemption to a clearing firm with respect to one or more of the introducing firms for which it clears if the introducing firm meets one of the above-stated grounds for exemptive relief.

(c) Any self-clearing firm that, due to a change in the facts pertaining to the operation and nature of its business or the operation and nature of the business of a firm for which it clears, as applicable, no longer qualifies for an exemption previously granted by the Exchange from the reporting requirements of Rule 3150 must promptly report such change in circumstances to the Exchange and NASD, Department of Member Regulation, and commence compliance with the reporting requirements of Rule 3150.

### **3160. Extensions of Time Under Regulation T and SEC Rule 15c3-3**

A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with NASD Rule 3160 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3160 by complying with NASD Rule 3160 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under Equity Rule 3160 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3160 are transferred into the FINRA rulebook, then Equity Rule 3160 shall be construed to require Exchange members that are designated to the Exchange for oversight pursuant to SEC Rule 17d-1 to comply with the FINRA rule corresponding to NASD Rule 3160 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.]

### **[3200. Settlements**

#### **3210. Reserved]**

\* \* \* \* \*

### **[3500. Emergency Preparedness**

#### **3510. Business Continuity Plans**

(a) Exchange Members shall comply with NASD Rule 3510 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with Equity Rule 3510 by complying with NASD Rule 3510 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA

departments, and FINRA staff under Equity Rule 3510 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3510 are transferred into the FINRA rulebook, then Equity Rule 3510 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3510 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **3520. Emergency Contact Information**

(a) Each member shall report to the Exchange, via such electronic or other means as the Exchange may specify, prescribed emergency contact information for the member. The emergency contact information for the member includes designation of two emergency contact persons. Each emergency contact person shall be a member of senior management and a registered principal of the member.

(b) Each member must promptly update its emergency contact information, via such electronic or other means as the Exchange may specify, in the event of any material change. With respect to the designated emergency contact persons, each member must identify, review, and, if necessary, update such designations in the manner prescribed by Equity Rule 1160.]

\* \* \* \* \*

## **[4000A. Financial and Operational Rules**

### **4100A. Financial Conditions**

#### **4110A. Capital Compliance**

(a) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4110 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 9557 shall be construed as references to Equity Rule 9557.

#### **4120A. Regulatory Notification and Business Curtailment**

(a) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4120 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 9557 shall be construed as references to Equity Rule 9557.

#### **4140A. Audit**

(a) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4140 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 9557 shall be construed as references to Equity Rule 9557.

#### **4500A. Books, Records and Reports**

4520A. Financial Records and Reporting Requirements

#### **4521A. Notifications, Questionnaires and Reports**

A member designated to Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4521 as if such Rule were part of the Rules of the Exchange.]

\* \* \* \* \*

#### **[5000A. Supplementary Conduct Rules**

##### **5230A. Payments Involving Publications that Influence the Market Price of a Security**

(a) Except as provided in paragraph (b), no member shall, directly or indirectly, give, permit to be given, or offer to give, anything of value to any person for the purpose of influencing or rewarding the action of such person in connection with the publication or circulation in any electronic or other public media, including any investment service or similar publication, Web site, newspaper, magazine or other periodical, radio, or television program of any matter that has, or is intended to have, an effect upon the market price of any security.

(b) The prohibitions in paragraph (a) shall not apply to compensation paid to a person in connection with the publication or circulation of:

- (1) a communication that is clearly distinguishable as paid advertising;
- (2) a communication that discloses the receipt of compensation and the amount thereof in accordance with Section 17(b) of the Securities Act; or
- (3) a research report, as that term is defined in NASD Rule 2711.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2711 are transferred into the FINRA rulebook, then Rule 2711 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2711 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.]

\* \* \* \* \*

**[Options Rules****Chapter I General Provisions****Sec. 1 Definitions**

(a) With respect to these BX Options Rules, the following terms shall have the meanings specified in this Section 1. A term defined elsewhere in the Rules of the Exchange shall have the same meaning with respect to this Chapter I, unless otherwise defined below.

(1) The term "aggregate exercise price" means the exercise price of an options contract multiplied by the number of units of the underlying security covered by the options contract.

(2) The term "American-style option" means an options contract that, subject to the provisions of Options 5, Section 101 of these BX Options Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, may be exercised at any time from its commencement time until its expiration.

(3) The term "associated person" or "person associated with a Participant" means any partner, officer, director, or branch manager of an Options Participant (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with a Participant or any employee of a Participant.

(4) The term "bid" means a limit order to buy one or more options contracts.

(5) The term "Board" means the Board of Directors of Nasdaq BX, Inc.

(6) The term "BX" means Nasdaq BX, Inc.

(7) The term "BX Options" means the BX Options Market, an options trading facility of the Exchange under Section 3(a)(2) of the Exchange Act.

(8) The term "BX Options Book" means the electronic book of orders maintained by the BX Options Trading System.

(9) The term "BX Options Market Maker" or "Options Market Maker" means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules.

(10) The terms "BX Options Order Entry Firm" or "Order Entry Firm" or "OEF" mean those Options Participants representing as agent Customer Orders on BX Options and those non-Market Maker Participants conducting proprietary trading.

(11) The term "BX Options Rules" or "Rules of BX Options" means the Rules of the BX Options Market.

- (12) The term "BX Options Transaction" means a transaction involving an options contract that is effected on or through BX Options or its facilities or systems.
- (13) The term "BX Regulation" means the department of BX that supervises and administers the regulatory functions of BX, including the administration of any regulatory services agreements with another self-regulatory organization to which BX is a party and including MarketWatch and Surveillance.
- (14) The term "BX Rules" means the Rules of Nasdaq BX, Inc.
- (15) The term "call" means an options 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 number of shares of the underlying security covered by the options contract.
- (16) Reserved.
- (17) The term "Clearing Corporation" means The Options Clearing Corporation.
- (18) The term "Clearing Participant" means a Participant that is self-clearing or a Participant that clears BX Options Transactions for other Participants of BX Options.
- (19) The term "closing purchase transaction" means a BX Options Transaction that reduces or eliminates a short position in an options contract.
- (20) The term "closing writing transaction" means a BX Options Transaction that reduces or eliminates a long position in an options contract.
- (21) The term "covered short position" means (i) an options position where the obligation of the writer of a call option is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Rules 610(f) or 610(g), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or less than the exercise price of the options contract in such short position; and (ii) an options position where the writer of a put option holds in the same account as the short position, on a share-for-share basis, a long position in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or greater than the exercise price of the options contract in such short position.
- (22) The term "Customer" means a Public Customer or a broker-dealer.
- (23) The term "Customer Order" means an agency order for the account of a Public Customer, as defined herein or a broker-dealer.

**(24)** The term "discretion" means the authority of a broker or dealer to determine for a Customer the type of option, the class or series of options, the number of contracts, or whether options are to be bought or sold.

**(25)** The term "European-style option" means an options contract that, subject to the provisions of Options 5, Section 101 of these Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on the business day of expiration, or, in the case of option contracts expiring on a day that is not a business day, the last business day prior to its expiration date.

**(26)** The term "Exchange" means Nasdaq BX, Inc.

**(27)** The term "Exchange Act" means the Securities Exchange Act of 1934, as amended, or Rules thereunder.

**(28)** The term "exercise price" means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an options contract.

**(29)** The terms "he," "him" or "his" shall be deemed to refer to persons of female as well as male gender, and to include organizations, as well as individuals, when the context so requires.

**(30)** The term "index option" means an options contract that is an option on a broad-based, narrow-based or micro narrow-based index of equity securities prices.

**(31)** The term "individual equity option" means an options contract which is an option on an equity security.

**(32)** The term "long position" means a person's interest as the holder of one or more options contracts.

**(33)** The term "MarketWatch" means a unit within BX Regulation that is responsible for the real-time surveillance and regulation of the trading of options on BX Options.

**(34)** The term "NBBO" means the national best bid or offer as calculated by BX Options based on market information received by BX Options from OPRA.

**(35)** The term "offer" means a limit order to sell one or more options contracts.

**(36)** The term "opening purchase transaction" means a BX Options Transaction that creates or increases a long position in an options contract.

**(37)** The term "opening writing transaction" means a BX Options Transaction that creates or increases a short position in an options contract.

- (38) The term "options contract" means a put or a call issued, or subject to issuance by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.
- (39) The term "options market close" or "market close" means the time specified by BX Options for the cessation of trading in contracts on BX Options for options on that market day.
- (40) The term "options market open" or "market open" means the time specified by BX Options for the commencement of trading in contracts on BX Options for options on that market day.
- (41) The term "Options Participant" or "Participant" means a firm, or organization that is registered with the Exchange pursuant to Chapter II of these Rules for purposes of participating in options trading on BX Options as a "BX Options Order Entry Firm" or "BX Options Market Maker."
- (42) The term "Options Principal" means a person engaged in the management and supervision of the Options Participant's business pertaining to options contracts that has responsibility for the overall oversight of the Options Participant's options related activities on the Exchange.
- (43) The term "Options Participation Agreement" means the agreement to be executed by Options Participants to qualify to participate on BX Options.
- (44) The term "OPRA" means the Options Price Reporting Authority.
- (45) The term "order" means a firm commitment to buy or sell options contracts as defined in Section 1(d) of Chapter VI.
- (46) The term "outstanding" means an options contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.
- (47) The term "pre-opening" means the period prior to the market open on BX Options, beginning at a time specified by BX Options, during which Participants may log on to the Trading System and submit, amend and withdraw orders, but no trading can occur.
- (48) The term "primary market" means, in the case of securities listed on Nasdaq, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan (which does not include securities listed on the BX Venture Market).
- (49) The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average

during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.

- (i) Calculation of Professional Orders. With respect to computing the number of orders in listed options per day on average during a calendar month for its own beneficial account(s), the following shall apply:
  - (a) Each order is counted toward the number of orders, regardless of the options exchange to which the order was routed in determining Professional orders.
  - (b) A cancel and replace order which replaces a prior order shall be counted as a second order, or multiple new orders in the case of "single-strike algorithms" which track the NBBO. A cancel message is not an order.
  - (c) An order that converts into multiple subordinate orders to achieve an execution strategy shall be counted as one order per side and series, even if the order is routed away. An order that cancels and replaces the resulting subordinate order and results in multiple sides/series shall be counted as a new order per side and series. An order that cancels and replaces the subordinate order on the same side and series will count as one order. For purposes of counting Public Customer orders, if one Public Customer order on the same side and series is subsequently broken-up by a broker into multiple orders for purposes of execution or routed away, this order will count as one order.

**(50)** The term "Public Customer" means a person that is not a broker or dealer in securities.

**(51)** The term "Public Customer Order" means an order for the account of a Public Customer.

**(52)** The term "put" means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option and the Rules of the OCC, to sell to the Clearing Corporation the number of units of the underlying security covered by the options contract, at a price per unit equal to the exercise price, upon the timely exercise of such option.

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

**(54)** The term "quote" or "quotation" means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker's previous bid or offer, if any.

**(55)** The term "Responsible Person" shall mean a United States-based officer, director or management-level employee of an Options Participant, who is registered with the Exchange as an Options Principal, responsible for the direct supervision and control of associated persons of that Options Participant.

**(56)** The term "Rules of the Clearing Corporation" or "Rules of the OCC" means the Certificate of Incorporation, the By-Laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as may be in effect from time to time.

**(57)** The term "SEC" or "Commission" means the United States Securities and Exchange Commission.

**(58)** Reserved.

**(59)** The term "short position" means a person's interest as the writer of one or more options contracts.

**(60)** The term "Short Term Option Series" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a business day and that expires on the Monday, Wednesday or Friday of the next business week, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday, respectively. For a series listed pursuant to this section for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

**(61)** The term "SRO" means a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act.

**(62)** The term "Trading System" or "System" means the automated trading system used by BX Options for the trading of options contracts.

**(63)** The term "type of option" means the classification of an options contract as either a put or a call.

**(64)** The term "uncovered" means a short position in an options contract that is not covered.

**(65)** Reserved.

**(66)** The term "closing index value" in respect of a particular index means the current index value calculated at the close of business on the day of exercise, or, if the day of exercise is not a trading day, on the last trading day before exercise (P.M.-settled), unless

the settlement value of the index is based on the opening price of each component issue on the primary market (A.M.- settled).

**(67)** The term "foreign currency" means the standard unit of the official medium of exchange of a sovereign government or the Euro including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona, or the United States dollar).

**(68)** The term "in-the-money" shall mean the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of Market Maker quoting obligations in Chapter VII, Section 6.

**(69)** The term "out-of-the-money" shall mean the following: for call options, all strike prices above the offer in the underlying security on the primary listing market; for put options, all strike prices below the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of Market Maker quoting obligations in Chapter VII, Section 6. This definition shall only apply for purposes of Market Maker quoting obligations in Chapter VII, Section 6.

**(70)** An "account number" shall mean a number assigned to a Participant. Participants may have more than one account number.

**(71)** A "badge" shall mean an account number, which may contain letters and/or numbers, assigned to BX Market Makers. A BX Market Maker account may be associated with multiple badges.

**(72)** A "mnemonic" shall mean an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics.

**(73)** The term "class" means, when applied to options, all option contracts of the same type and style covering the same underlying interest; provided, however, that OTC options and listed options that would otherwise constitute a single class of options shall constitute separate classes. When applied to futures, the term "class" means all futures covering the same underlying interest.

**(74)** The term "series," when used in respect of options, means all option contracts of the same class and having otherwise identical terms including exercise price (or, in the case of delayed start option contracts that do not yet have a set exercise price, the same exercise price setting formula and exercise price setting date), expiration date, unit of trading and, in the case of futures options or commodity options, series marker if any; and when used in respect of futures, means all futures of the same class having identical terms, including the same maturity date and series marker, if any.

(75) The term "underlying security" when used in respect of any contract other than a cash-settled contract means the security or other asset which the Corporation is obligated to sell or purchase upon exercise or maturity of the contract. When used in respect of a cash-settled contract, the term means the index or other underlying interest on which the exercise settlement amount or final settlement price is based.

## **Sec. 2 Applicability**

(a) These are the BX Rules applicable to the trading of options contracts issued by The Options Clearing Corporation through BX Options, BX's options trading facility, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading on BX Options.

(b) Except to the extent that specific BX Options Rules govern or unless the context otherwise requires, the provisions of the BX Rules shall be applicable to Options Participants and to the trading of option contracts on BX Options and, for purposes of their application with respect to Options Participants and options trading, shall be interpreted in light of the nature of options trading and the BX Options market, and the fact that options on BX Options shall be traded electronically through the Trading System. To the extent that the provisions of the BX Options Rules are inconsistent with any other provisions of the BX Rules, the BX Options Rules shall control.

(c) For the purposes of cross-referencing, interpreting and applying BX Rules to the BX Options Rules: 1) a reference to "members" of BX shall be functionally equivalent to "Participants" in BX Options, whether BX Options Market Makers, Order Entry Firms or both.

(d) For marketing and other purposes, the BX Options Market may be referred to as the "BX Options Market" or "BX Options."

(e) These Rules generally require Options Participants conducting business with the public to comply with applicable requirements of the United States federal securities laws and regulations promulgated thereunder by the Securities and Exchange Commission. To the extent that certain aspects of the federal securities laws and regulations promulgated thereunder do not apply to non-U.S. firms conducting business with non-U.S. customers, these Rules shall be interpreted accordingly, so long as such interpretation is consistent with the maintenance of a fair and orderly options market. In such case, however, such non-U.S. Options Participants must comply with all reasonably comparable laws and regulations of their home countries or of the home countries of their customers, as applicable.

## **Sec. 3 Regulation of BX and its Members**

BX and the Financial Industry Regulatory Authority ("FINRA") are parties to the Regulatory Services Agreement dated as of August 29, 2008, as amended ("Regulatory Contract"). Pursuant thereto, FINRA has agreed to perform certain functions described in these Rules on behalf of BX. BX Options Rules that refer to BX Regulation, BX

Regulation staff, BX Options staff, and BX Options departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of BX pursuant to the Regulatory Contract.

Notwithstanding the fact that BX has entered into the Regulatory Contract with FINRA Regulation to perform some of BX's functions, BX shall retain ultimate legal responsibility for, and control of, such functions.

In addition, BX has incorporated by reference certain FINRA, Chicago Board Options Exchange ("CBOE"), and New York Stock Exchange ("NYSE") rules. BX members shall comply with these rules and interpretations as if such rules and interpretations were part of BX's rules.

## **Chapter II Participation**

### **Sec. 1 Options Participation**

(a) These Rules establish a new category of BX member participation called "Options Participant." Only Options Participants may transact business on BX Options via the Trading System. Options Participants may trade options for their own proprietary accounts or, if authorized to do so under applicable law, and consistent with these BX Options Rules and with applicable law and SEC rules and regulations, may conduct business on behalf of Customers.

(b) A prospective Options Participant must:

- i. complete an Options Participant Application in the form prescribed by the Exchange;
- ii. provide such other information as required by the Exchange;
- iii. be an existing member or become a member of the Exchange, pursuant to the 1000 rules series, and continue to abide by the requirements of the 1000 Series with respect to participation in BX Options; and
- iv. enter into an Options Participant Agreement in the form specified by the Exchange, agree to abide by the same as it has been or shall be from time to time amended, and pledge to abide by the Rules of the Exchange as amended from time to time, and by all circulars, notices, directives or decisions adopted pursuant to or made in accordance with the Rules of the Exchange; and
- v. be under the supervision and control of a Responsible Person.

(c) Upon completion of the application, the Exchange, or person(s) designated by the Exchange ("designee") shall consider whether to approve the application, unless there is just cause for delay. In its consideration process, the Exchange may conduct such investigation as it deems appropriate and may take such steps as it deems necessary to confirm the information provided by the applicant. Within 30 days after the Exchange or its designee has completed its consideration of an application, it shall provide written

notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefore.

**(d)** These BX Options Rules place no limit on the number of qualifying entities that may become Options Participants. However, based on system constraints or capacity restrictions, approval of qualifying applications for Options Participants may, in limited circumstances, be temporarily deferred. To the extent that the Board places limitations on otherwise qualified applicants to act as Options Participants, such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

**(e)** Options Participant status cannot be leased or transferred except in the event of a change in control or corporate reorganization involving an Options Participant. In such a case, Options Participant status may be transferred to a qualified affiliate or successor upon written notice to the Exchange or its designee.

**(f)** Every Options Participant shall file with BX Options and keep current an address where notices may be served, including current addresses of each Responsible Person, as specified in Paragraph (b)(v) of this Section 1.

## **Sec. 2 Requirements for Options Participation**

**(a)** Options Participants may be corporations, partnerships, limited liability companies or sole proprietorships organized under the laws of a jurisdiction of the United States, or such other jurisdictions as the Exchange may approve.

**(b)** Options Participants must be Options Clearing Participants or establish a clearing arrangement with a Clearing Participant.

**(c)** Options Participants must have demonstrated ability to adhere to all applicable Exchange, SEC, Clearing Corporation and Federal Reserve Board policies, rules and regulations related to the trading of options, including those concerning record-keeping, reporting, finance and trading procedures and be able to satisfactorily demonstrate reasonably adequate systems capability and capacity.

**(d)** All associated persons of Options Participants who are not themselves Responsible Persons must be under the supervision of a U.S.-based Responsible Person.

**(e)** Every Options Participant shall have as the principal purpose of being a Participant the conduct of a securities business. Such a purpose shall be deemed to exist if and so long as:

**i.** the Participant has qualified and acts in respect of its business on BX Options as either an OEF or a Options Market Maker, or both; and

**ii.** all transactions effected by the Participant are in compliance with Section 11(a) of the Exchange Act and the rules and regulations adopted thereunder.

(f) Every Options Participant shall at all times maintain membership in another registered options exchange that is not registered solely under Section 6(g) of the Securities Exchange Act of 1934, or in FINRA. Options Participants that transact business with customers shall at all times be members of FINRA.

### **Sec. 3 Persons Associated with Options Participants**

(a) Persons associated with Options Participants shall be bound by the Rules of the Exchange and the Rules of the Clearing Corporation.

(b) Each Options Participant shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Options Participant who are its executive officers, directors, principal shareholders, and general partners. Such persons shall file with the Exchange a Uniform application for Securities Industry Registration or Transfer (Form U- 4).

### **Sec. 4 Good Standing for Options Participants**

(a) To remain in good standing, all Options Participants must:

- i. continue to satisfy the qualification requirements specified by the Exchange, as amended from time to time by the Exchange;
- ii. comply with the Rules of the Exchange; and
- iii. pay on a timely basis such participation, transaction and other fees as the Exchange and/or BX Options shall prescribe.

(b) The good standing of an Options Participant may be suspended, terminated or otherwise withdrawn, as provided in the BX 9550 Rules, if any of the conditions of Section 2 or 3 of this Chapter II are not met or the Options Participant violates any of its agreements with the Exchange and/or BX Options or any of the provisions of the Exchange Rules.

(c) Unless an Options Participant is in good standing, the Participant shall have no rights or privileges of options participation except as otherwise provided by law or the Rules, shall not hold himself or itself out for any purpose as a Participant, and shall not deal with the Exchange and/or BX Options on any basis except as a non-Participant.

## **Chapter III Business Conduct**

### **Sec. 1 Adherence to Law**

No Options Participant shall engage in conduct in violation of the Exchange Act or Rules thereunder, the Rules of the Exchange or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Options Participant shall supervise persons associated with the Participant to assure compliance therewith.

**Sec. 2 Conduct and Compliance with the Rules**

(a) Each Options Participant shall be responsible for ensuring that all arrangements made and systems used in connection with business conducted on BX Options, and the transaction of such business itself, comply with the Options Participant's and associated persons' obligations under the Rules of the Exchange, the Rules of the Clearing Corporation and any other relevant laws, rules, interpretations and obligations. In accordance with the BX Options Rules and in connection with business conducted on BX Options, each Options Participant shall:

- i. have adequate arrangements to ensure that all staff involved in the conduct of business on BX Options are suitable, adequately trained and properly supervised;
- ii. be responsible for the acts and conduct of each associated person,
- iii. establish its trading arrangements such that each Participant is able to meet the requirements set out in Section 1 of this Chapter and that all other relevant obligations contained in the Rules are complied with;
- iv. implement suitable security measures such that only those individuals explicitly authorized by the Options Participant to trade may gain access to passwords and security keys;
- v. ensure that any trading access granted to individuals (whether employees of the Options Participant or otherwise), for example by way of order routing systems, is adequately controlled and supervised, including appropriate checks before any orders are submitted to the Trading System; and
- vi. ensure that accurate information is input into the System, including, but not limited to, the Options Participant's capacity.

**Sec. 3 Rumors**

No Options Participant or person associated with an Options Participant shall circulate, in any manner, rumors of a character which might affect market conditions in any security; provided, however, that this Section shall not prohibit discussion of unsubstantiated information, so long as its source and unverified nature are disclosed.

**Sec. 4 Prevention of the Misuse of Material Nonpublic Information**

(a) Every Options Participant shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Participant's business, to prevent the misuse of material nonpublic information by such Participant or persons associated with such Participant in violation of the federal securities laws or the Rules thereunder, and the Rules of the Exchange.

(b) Misuse of material nonpublic information includes, but is not limited to:

- i.** trading in any securities issued by a corporation, or in any related securities or related options or other derivative securities, while in possession of material nonpublic information concerning that corporation;
- ii.** trading in an underlying security or related options or other derivative securities, while in possession of material nonpublic information concerning imminent transactions in the underlying security or related securities; and
- iii.** disclosing to another person any material nonpublic information involving a corporation whose shares are publicly traded or disclosing an imminent transaction in an underlying security or related securities for the purpose of facilitating the possible misuse of such material nonpublic information.

**(c)** Each Options Participant shall establish, maintain and enforce the following policies and procedures as appropriate for the nature of each Participant's business:

- i.** All associated persons must be advised in writing of the prohibition against the misuse of material nonpublic information.
- ii.** Signed attestations from the Participant and all associated persons affirming their awareness of, and agreement to abide by, the aforementioned prohibitions must be maintained for at least three (3) years, the first two (2) years in an easily accessible place.
- iii.** Records of all brokerage accounts maintained by the Participant and all associated persons must be acquired and maintained for at least three (3) years, the first two (2) years in an easily accessible place, and such brokerage accounts must be reviewed periodically by the Participant for the purpose of detecting the possible misuse of material nonpublic information.
- iv.** Any business dealings the Participant may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Participant receiving, in the ordinary course of business, material nonpublic information concerning any such corporation, must be identified and documented.

**(d)** Participants that are required to file Form X-17A-5 under the Exchange Act or Rules thereunder, with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Participants stating that the procedures mandated by this Section have been established, enforced and maintained.

**(e)** Any Options Participant or associated person who becomes aware of any possible misuse of material nonpublic information must promptly notify BX Regulation.

**(f)** It may be considered conduct inconsistent with just and equitable principles of trade for any Participant or person associated with a Participant who has knowledge of all material terms and conditions of:

- (i) an order and a solicited order,
- (ii) an order being facilitated or submitted to BX Options for price improvement, or
- (iii) orders being crossed;

the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option for the same underlying security as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until (a) the terms and conditions of the order and any changes in the terms and conditions of the order of which the Participant or person associated with the Participant has knowledge are disclosed, or (b) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. The terms of an order are "disclosed" to BX Options Participants when the order is entered into the BX Options Book. For purposes of this Paragraph (f), an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

#### **Sec. 5 Disciplinary Action by Other Organizations**

Every Options Participant shall promptly notify BX Regulation in writing of any disciplinary action, including the basis therefore, taken by any national securities exchange or registered securities association, clearing corporation, commodity futures market or government regulatory body against the Options Participant or its associated persons who are directly involved in derivatives trading, and shall similarly notify BX Regulation of any disciplinary action taken by the Options Participant itself against any of its associated persons who are directly involved in derivatives trading involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or any other significant limitation on activities.

#### **Sec. 6 Other Restrictions on Participants**

Whenever the Exchange shall find that an Options Participant has failed to perform on its contracts or is insolvent or is in such financial or operational condition or is otherwise conducting business in such a manner that it cannot safely conduct business with Customers, creditors or the Exchange, the Exchange may summarily suspend the Options Participant in accordance with Chapter X (Summary Suspension) or may impose such conditions and restrictions upon the Options Participant as the Exchange considers reasonably necessary for the protection of the Exchange, BX Options, and the Customers of such Options Participant.

#### **Sec. 7 Position Limits**

(a) No Options Participant shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Participant has reason to believe that as a result of such transaction the Options Participant or its Customer would, acting alone or in concert with others, directly or indirectly:

(i) exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange, notwithstanding the foregoing options contracts overlying SPDR® S&P 500® exchange-traded fund ("SPY ETF" or "SPY") shall have a position limit of 1,800,000 contracts on the same side of the market;

(ii) exceed the position limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange; or

(iii) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected; or

(iv) exceed the applicable position limit fixed from time to time by PHLX with respect to U.S. Dollar-Settled Foreign Currency Options.

(b) Should an Options Participant have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Participant is in excess of the applicable limit, such Options Participant shall promptly take the action necessary to bring the position into compliance.

### **Sec. 8 Exemptions from Position Limits**

An Options Participant may rely upon any available exemptions from applicable position limits granted from time to time by another Options Exchange for any options contract traded on BX Options provided that such Options Participant (1) provides BX Regulation with a copy of any written exemption issued by another Options Exchange or a written, description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for BX Regulation to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to its trading on BX Options.

### **Sec. 9 Exercise Limits**

(a) No Options Participant shall exercise, for any account in which it has an interest or for the account of any Customer, a long position in any options contract where such Options Participant or Customer, acting alone or in concert with others, directly or indirectly, has or will have:

(i) exceeded the applicable exercise limit fixed from time-to-time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange, notwithstanding the foregoing options contracts overlying SPDR® S&P 500® exchange-traded fund ("SPY ETF" or "SPY") shall have an exercise limit of 1,800,000 contracts on the same side of the market;

(ii) exceeded the exercise limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange;

(iii) exceeded the applicable exercise limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected; or

(iv) exceeded the applicable exercise limit fixed from time-to-time by PHLX with respect to U.S. Dollar-Settled Foreign Currency Options.

(b) an Options Market Maker that has been granted an exemption to position limits pursuant to Section 8 of this Chapter III (Exemption to Position Limits), the number of contracts which can be exercised over a five (5) business day period shall equal the Market Maker's exempted position.

#### **Sec. 10 Reports Related to Position Limits**

Each Options Participant shall maintain and furnish to BX Regulation all reports required by the applicable rule of any Options Exchange of which it is a member with respect to reports related to position limits.

#### **Sec. 11 Liquidation Positions**

(a) Whenever BX Regulation shall find that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all options contracts or one or more classes or series traded on BX Options in excess of the applicable position limit established pursuant to Section 7 of this Chapter III (Position Limits), it may order all Options Participants carrying a position in options contracts of such classes or series for such person or persons to liquidate such positions as expeditiously as possible, consistent with the maintenance of a fair and orderly market.

(b) Whenever such an order is given, no Options Participant shall accept any order to purchase, sell or exercise any options contract for the account of the person or persons named in the order, unless and until BX Regulation expressly approves such person or persons for options transactions.

#### **Sec. 12 Other Restrictions on Options Transactions and Exercises**

(a) BX may impose such restrictions on transactions or exercises in one or more series of options of any class traded on BX Options as BX Regulation in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

i. During the effectiveness of such restrictions, no Options Participant shall, for any account in which it has an interest or for the account of any Customer, engage in any transaction or exercise in contravention of such restrictions.

**ii.** Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day, no restriction on exercise under this Section may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of their expiration or, in the case of an option contract expiring on a day that is not a business day, on the last business day before the expiration date.

**iii.** Exercises of American-style, cash-settled index options shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

**1)** The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the Rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by BX Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension;

**2)** Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of an option contract expiring on a day that is not a business day, the last business day prior to their expiration;

**3)** Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern time. In addition, if trading resumes following such a trading halt pursuant to the procedure described in Section 4 of Chapter V of these Rules, exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (a)(iii)(3) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

**4)** BX Options may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

**(b)** Whenever the issuer of a security underlying a call option traded on BX Options is engaged or proposes to engage in a public underwritten distribution ("public distribution") of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that BX Options impose restrictions upon all opening writing transactions in such options at a "discount" where the resulting short position will be uncovered ("uncovered opening writing transactions").

**i.** In addition to a request, the following conditions are necessary for the imposition of restrictions:

1) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;

2) the underwriters agree to notify BX Regulation upon the termination of their stabilization activities; and

3) the underwriters initiate stabilization activities in such underlying security on a national securities exchange when the price of such security is either at a "minus" or "zero minus" tick.

ii. Upon receipt of such a request and determination that the conditions listed above are met, BX Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after Participants shall have been notified and shall terminate such restrictions upon request of the underwriters or when BX Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.

iii. For purposes of paragraph (b) of this Section 12, an uncovered opening writing transaction in a call option will be deemed to be effected at a "discount" when the premium in such transaction is either:

1) in the case of a distribution of the underlying security not involving the issuance of rights and in the case of a distribution of securities exchangeable for or convertible into the underlying security, less than the amount by which the underwriters' stabilization bid for the underlying security exceeds the exercise price of such option; or

2) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters' stabilization bid in the underlying security at the subscription price exceeds the exercise price of such option.

### **Sec. 13 Mandatory Systems Testing**

(a) Each Options Participant that BX designates as required to participate in a system test must conduct or participate in the testing of its computer systems to ascertain the compatibility of such systems with the Exchange's systems in the manner and frequency prescribed by the Exchange. BX will designate Options Participants as required to participate in a system test based on: (1) the category of the Participant (Market Maker and OEF); (2) the computer system(s) the Participant uses; and (3) the manner in which the Participant connects to the Exchange. BX will give Participants reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Participants' obligations in participating in the test.

(b) Every Options Participant required by BX to conduct or participate in testing of computer systems shall provide to the Exchange such reports relating to the testing as the Exchange may prescribe. Participants shall maintain adequate documentation of tests required by this Section 13 and results of such testing for examination by the Exchange.

(c) An Options Participant that is subject to this Section 13 and that fails to conduct or participate in the tests, fails to file the required reports, or fails to maintain the required documentation, may be subject to a summary suspension or other action taken pursuant to Chapter X of these Rules and/or a disciplinary action pursuant to the Rule 9000 Series of the Rules of the Exchange (Disciplining of Members).

#### **Sec. 14 Limit on Outstanding Uncovered Short Positions**

(a) Whenever it is determined from the reports of uncovered short positions submitted pursuant to Section 2 of Chapter IX of these Rules (Reports of Uncovered Short Positions), viewed in light of current market conditions in options and in underlying securities, that there are outstanding an excessive number of uncovered short positions in options contracts of a given class traded on BX Options or that an excessively high percentage of outstanding short positions in options contracts of a given class traded on BX Options are uncovered, BX Regulation may determine to prohibit Options Participants from any further opening writing transactions on any exchange in options contracts of that class unless the resulting short position will be covered, and BX Regulation may prohibit the uncovering of any existing covered short positions in one or more series of options of that class, as it deems appropriate in the interest of maintaining a fair and orderly market in options contracts or in underlying securities.

(b) BX Regulation may exempt transactions of Options Market Makers from restrictions imposed under this Rule. Such restrictions shall be rescinded upon a determination that they are no longer appropriate.

#### **Sec. 15 Significant Business Transactions of Options Clearing Participants**

Significant Business Transactions of Options Clearing Participants shall be governed by this Section 15 and not by BX Rule 1017. All other Significant Business Transactions of Options Participants shall be subject to BX Rule 1017.

(a) Except as provided in paragraph (c) below, a Participant that clears Options Market Maker trades is required to notify BX Regulation in writing fifteen (15) days prior to any of the following proposed significant business transactions ("SBT"):

- i. the combination, merger or consolidation between the Participant and another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products;
- ii. the transfer from another person, market maker, broker-dealer, or customer of securities or futures accounts that are significant in size or number to the business of the Participant;
- iii. the assumption or guarantee by the Participant of liabilities of another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products, in connection with a direct or indirect acquisition of all or substantially all of the person's assets; or

**iv.** termination of the Participant's clearing business or any material part thereof.

**(b)** Notification of any of the following SBTs shall be made in writing to BX Regulation, not later than five (5) business days from the date on which the SBT becomes effective:

**i.** the sale by the Clearing Participant of a significant part of its assets to another person;

**ii.** a change in the identity of any general partner or a change in the beneficial ownership of ten percent (10%) or more of any class of the outstanding stock of any corporate general partner;

**iii.** a change in the beneficial ownership of twenty percent (20%) or more of any class of the outstanding stock of the Participant or the issuance of any capital stock of the Participant; or

**iv.** the acquisition by the Clearing Participant of assets of another person that would constitute a "business" that is "significant," as those terms are defined in Section 11-01 of Regulation S-X under the Exchange Act.

**(c)** A Clearing Participant is required to notify BX Regulation in writing thirty (30) days prior to a proposed SBT included in paragraph (a) of this Rule, and such SBT shall be subject to the prior approval of BX Regulation, if the Participant's Market Maker clearance activities exceed, or would exceed as a result of the proposed SBT, any of the following parameters:

**i.** fifteen percent (15%) of cleared BX Options Market Maker contract volume for the most recent three (3) months;

**ii.** an average of fifteen percent (15%) of the number of BX Options Market Makers as of each month and for the most recent three (3) months; or

**iii.** twenty-five percent (25%) of BX Options Market Maker gross deductions (haircuts) defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Participant in relation to the aggregate of such haircuts carried by all other Clearing Participants for any month end within the most recent three (3) months.

**(d)** An SBT that comes within paragraph (c) of this Section 15 may be disapproved or conditioned within the thirty (30) day period if BX Regulation determines that such SBT has the potential to threaten the financial or operational integrity of Market Maker transactions. In making this determination, BX Regulation may consider, among other relevant matters, the following:

**i.** The effect of the proposed SBT on the capital size and structure of the resulting Clearing Participant(s), the potential for financial failure and the consequences of any such failure on the BX Options market as a whole, and the potential for increased or decreased operational efficiencies arising from the proposed transaction.

**ii.** The effect of the proposed SBT upon overall concentration of Market Makers, including a comparison of the following measures before and after the proposed transaction:

- 1)** proportion of BX Options Market Maker contract volume cleared;
- 2)** proportion of BX Options Market Makers cleared; and
- 3)** proportion of Market Maker gross deductions (haircuts) as defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Participant(s) in relation to the aggregate of such deductions carried by other Participants that clear market maker transactions.

**iii.** The regulatory history of the affected Participants, specifically as it may indicate a tendency to financial or operational weakness.

**(e)** Transactions that come within paragraph (c) of this Section 15 shall be reviewed according to the following procedures:

**i.** A Participant must provide promptly, in writing, all information reasonably requested by BX Regulation. Any information disclosed by Participants pursuant to the requirements of this Section 15 shall be kept confidential by BX Regulation until such information is otherwise publicly disclosed and shall be used only for purposes of reviewing the proposal.

**ii.** If BX Regulation determines, prior to the expiration of the thirty (30) day period, that a proposed SBT may be approved without conditions, BX Regulation shall promptly so advise the Participant.

**iii.** All decisions to disapprove or condition a proposed SBT or to impose extraordinary requirements shall be in writing, shall include a statement setting forth the grounds for the decision, and the Participant shall be promptly notified of any such decisions by BX Regulation.

**iv.** Notwithstanding any other provisions of the BX Options Rules, the Participant may appeal a decision to disapprove or condition a proposed SBT directly to the Board by filing an application for review with the Secretary of the Exchange within fifteen (15) days of the date of service of the decision. Appeal to the Board shall be the exclusive method of reviewing such a decision.

**v.** An appeal to the Board of a decision to disapprove or condition a proposed SBT shall not operate as a stay of that decision during the pendency of the appeal.

**vi.** BX Regulation shall file notice with the SEC in accordance with the provisions of Section 19(d)(1) of the Exchange Act of all final decisions to disapprove or condition a proposed SBT.

(f) BX Regulation may impose additional financial and/or operational requirements on a Participant that clears Market Maker trades at any time when it determines that the Participant's continuance in business without such requirements has the potential to threaten the financial or operational integrity of Market Maker transactions.

(g) The provisions of this Section 15 do not preclude summary action under Chapter X, Discipline and Summary Suspensions, of these Rules, or other BX Regulation action pursuant to the BX Options Rules.

(h) BX Regulation, upon approval by the Chief Regulatory Officer of BX, may exempt a Participant from the requirements of this Section 15, either generally or in respect of specific types of transactions, based on the limited proportion of Market Maker trades on BX Options that are cleared by the Participant or on the limited importance that the clearing of Market Maker trades bears to the total business of the Participant.

### **Sec. 16 Disruptive Quoting and Trading Activity Prohibited**

(a) No Participant shall engage in or facilitate disruptive quoting and trading activity on the Exchange, as described in subsections (i) and (ii) of this Rule, including acting in concert with other persons to effect such activity.

(i) For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the following facts are present:

(a) Disruptive Quoting and Trading Activity Type 1:

(i) a party enters multiple limit orders on one side of the market at various price levels (the "Displayed Orders"); and

(ii) following the entry of the Displayed Orders, the level of supply and demand for the security changes; and

(iii) the party enters one or more orders on the opposite side of the market of the Displayed Orders (the "Contra-Side Orders") that are subsequently executed; and

(iv) following the execution of the Contra-Side Orders, the party cancels the Displayed Orders.

(b) Disruptive Quoting and Trading Activity Type 2:

(i) a party narrows the spread for a security by placing an order inside the NBBO; and

(ii) the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described in paragraph (b)(i).

(iii) *Applicability.* For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the facts listed above are present. Unless otherwise indicated, the order of the events indicating the pattern does not modify the applicability of the Rule. Further, disruptive quoting and trading activity includes a pattern or practice in which of the quoting and trading activity is conducted on the Exchange as well as a pattern or practice in which some portion of the quoting or trading activity is conducted on the Exchange and the other portions of the quoting or trading activity is conducted on one or more other exchanges.]

\* \* \* \* \*

## **[Chapter V Regulation of Trading on BX Options**

### **Sec. 1 Access to and Conduct on BX Options**

**(a) *Access to BX Options.*** Unless otherwise provided in the Rules, no one but a Participant or a person associated with a Participant shall effect any BX Options Transactions.

**(b) *BX Options Conduct.*** Participants and persons employed by or associated with any Participant, while using the facilities of BX Options, shall not engage in conduct: (i) inconsistent with the maintenance of a fair and orderly market; (ii) apt to impair public confidence in the operations of the Exchange; or (iii) inconsistent with the ordinary and efficient conduct of business. Activities that shall violate the provisions of this paragraph (b) include, but are not limited to, the following:

- i.** failure of a Market Maker to provide quotations in accordance with Chapter VII, Section 6 of these Rules;
- ii.** failure of a Market Maker to bid or offer within the ranges specified by Chapter VII, Section 5 of these Rules;
- iii.** failure of a Participant to supervise a person employed by or associated with such Participant adequately to ensure that person's compliance with this paragraph (b).
- iv.** failure to maintain adequate procedures and controls that permit the Options Participant to effectively monitor and supervise the entry of orders by users to prevent the prohibited practices set forth in this paragraph (b) and Chapter III, Section 2 of these Rules;
- v.** failure to abide by a determination of BX Regulation;
- vi.** effecting transactions that are manipulative as provided in Rule 2110, 2111, 2120 or any other rule of the Exchange;
- vii.** refusal to provide information requested by BX Regulation; and

**viii.** failure to abide by the provisions of the sections of this Chapter V related to limitations on orders.

**(c)** Subject to the Rules, BX Options will provide access to the Trading System to Options Participants in good standing that wish to conduct business on BX Options.

**(d)** Pursuant to the Rules and the arrangements referred to in this Chapter V, BX Regulation may:

- i.** suspend an Options Participant's access to the Trading System following a warning which may be made in writing or verbally (and subsequently confirmed in writing); or
- ii.** terminate an Options Participant's access to the Trading System by notice in writing.

### **Sec. 2 MarketWatch**

Personnel from MarketWatch, a unit of BX Regulation, shall monitor and surveil options trading on BX Options in order to ensure the maintenance of a fair and orderly market.

### **Sec. 3 Trading Halts**

**(a) Halts.** BX Regulation may halt trading in any option contract in the interests of a fair and orderly market. The following are among the factors that shall be considered in determining whether the trading in an option contract should be halted:

- i.** trading in the underlying security has been halted or suspended in the primary market.
- ii.** the opening of such underlying security has been delayed because of unusual circumstances.
- iii.** occurrence of an act of God or other event outside BX Options 's control;
- iv.** a Trading System technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of Options Participant trading applications, or the electrical power supply to the system itself or any related system; or;
- v.** other unusual conditions or circumstances are present.
- vi.** Trading Pauses. Trading on the Exchange in any option contract shall be halted whenever trading in the underlying security has been paused by the primary listing market.

**(A)** Trading in such options contracts may be resumed upon a determination by the Exchange that the conditions that led to the pause are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading, which in no circumstances will be before the Exchange has received notification that the underlying security has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary listing market for the underlying security after ten

minutes have passed since the underlying security was paused by the primary listing market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.

**(B)** During the halt, the Exchange will maintain existing orders on the book, accept orders, and process cancels, except that Market Maker interest entered pursuant to the obligations contained in Chapter VII, Section 5 is not maintained. Auction orders and responses are rejected during a halt.

**(b)** In the event BX Regulation determines to halt trading, all trading in the effected classes of options shall be halted. BX Options shall disseminate through its trading facilities and over OPRA a symbol with respect to classes of options indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

**(c)** No Options Participant or person associated with a Participant shall effect a trade on BX Options in any options class in which trading has been halted under the provisions of this Section 3 during the time in which the halt remains in effect.

**(d)** Capitalized terms used in this paragraph shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

- (i) The System will not open an affected option.
- (ii) After the opening, the Exchange shall reject Market Orders, as defined in Chapter VI, Section 1, and shall notify Participants of the reason for such rejection.
- (iii) When evaluating whether a Market Maker has met the intra-day quoting obligations of Chapter VII, Section 6(d) in options overlying NMS stocks, the Exchange will not consider as part of the trading day the time that an NMS stock underlying an option was in a Limit State or Straddle State.
- (iv) Trades are not subject to an obvious error or catastrophic error review pursuant to Chapter V, Sections 6(c) or (d). Nothing in this provision shall prevent trades from review on Exchange motion pursuant to Chapter V, Section 6(c)(3), or subject to nullification or adjustment pursuant to Chapter V, Section 6(e) - (j).

**(e)** The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

#### **Sec. 4 Resumption of Trading After a Halt**

Trading in an option that has been the subject of a halt under Section 3 of this Chapter V shall be resumed upon the determination by BX Regulation, that the conditions which led

to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Trading shall resume according to the process set forth in Chapter VI, Section 8 of these rules.

### **Sec. 5 Unusual Market Conditions**

(a) BX Options staff may determine that the level of trading activities or the existence of unusual market conditions is such that BX Options is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on BX Options. Upon making such a determination, BX Regulation shall designate the market in such option to be "fast." When a market for an option is declared fast, BX Regulation will provide notice that BX Options quotations are not firm by appending an appropriate indicator to the BX Options quotations.

(b) If a market is declared fast, BX Regulation shall have the power to do one or more of the following with respect to the class or classes involved:

i. Suspend the minimum size requirement as permitted under Chapter VII, Section 6 (Market Maker Quotations) of these Rules.

ii. Take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(c) BX Regulation will monitor the activity or conditions that caused a fast market to be declared, and shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed when BX Options determines that the conditions supporting a fast market declaration no longer exist. BX Regulation will provide notice that its quotations are once again firm by removing the indicator from the BX Options quotations.

(d) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures contained in this Section 6, then BX Regulation, shall instruct BX operations to halt trading in the class or classes so affected.

(e) BX Regulation shall instruct BX operations to halt trading in all options whenever a marketwide trading halt is initiated on the New York Stock Exchange (commonly known as a "circuit breaker") in response to extraordinary market conditions.

### **Sec. 6 Nullification and Adjustment of Options Transactions including Obvious Errors**

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange

prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any Participant to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(a) *Definitions.*

- (1) *Customer.* For purposes of this Rule, a Customer shall not include any broker-dealer or Professional.
- (2) *Erroneous Sell/Buy Transaction.* For purposes of this Rule, an "erroneous sell transaction" is one in which the price received by the person selling the option is erroneously low, and an "erroneous buy transaction" is one in which the price paid by the person purchasing the option is erroneously high.
- (3) *Official.* For purposes of this Rule, the term "Official" shall mean an Exchange staff member or contract employee designated as such by the Chief Regulatory Officer. A list of individual Officials shall be displayed on the Exchange website. The Chief Regulatory Officer shall maintain the list of Officials and update the website each time a name is added to, or deleted from, the list of Officials. In the event no Official is available to rule on a particular matter, the Chief Regulatory Officer or his/her designee shall rule on such matter.
- (4) *Size Adjustment Modifier.* For purposes of this Rule, the Size Adjustment Modifier will be applied to individual transactions as follows:

<b>Number of Contracts per Execution</b>	<b>Adjustment - Theoretical Price (TP) Plus/Minus</b>
1-50	N/A
51-250	2 times adjustment amount
251-1000	2.5 times adjustment amount
1001 or more	3 times adjustment amount

- (b) *Theoretical Price.* Upon receipt of a request for review and prior to any review of a transaction execution price, the "Theoretical Price" for the option must be determined. For purposes of this Rule, if the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of the exceptions in sub-paragraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last

NBO just prior to the trade in question would be the last NBB and last NBO just prior to Exchange's receipt of the order. The Exchange will rely on this paragraph (b) and Commentary .04 of this Rule when determining Theoretical Price.

- (1) *Transactions at the Open*. For a transaction occurring as part of the Opening Process (as defined in Chapter VI, Section 8) the Exchange will determine the Theoretical Price if there is no NBB or NBO for the affected series just prior to the erroneous transaction or if the bid/ask differential of the NBB and NBO just prior to the erroneous transaction is equal to or greater than the Minimum Amount set forth in the chart contained in sub-paragraph (b)(3) below. If the bid/ask differential is less than the Minimum Amount, the Theoretical Price is the NBB or NBO just prior to the erroneous transaction.
- (2) *No Valid Quotes*. The Exchange will determine the Theoretical Price if there are no quotes or no valid quotes for comparison purposes. Quotes that are not valid are:
  - (A) all quotes in the applicable option series published at a time where the last NBB is higher than the last NBO in such series (a "crossed market");
  - (B) quotes published by the Exchange that were submitted by either party to the transaction in question;
  - (C) quotes published by another options exchange if either party to the transaction in question submitted the quotes in the series representing such options exchange's best bid or offer, provided that the Exchange will only consider quotes invalid on other options exchanges in up to twenty-five (25) total options series that the party identifies to the Exchange the quotes which were submitted by such party and published by other options exchanges; and
  - (D) quotes published by another options exchange against which the Exchange has declared self-help.
- (3) *Wide Quotes*. The Exchange will determine the Theoretical Price if the bid/ask differential of the NBB and NBO for the affected series just prior to the erroneous transaction was equal to or greater than the Minimum Amount set forth below and there was a bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction. If there was no bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction then the Theoretical Price of an option series is the last NBB or NBO just prior to the transaction in question, as set forth in paragraph (b) above.

**Bid Price at Time of Trade**

**Minimum Amount**

Below \$2.00

\$0.75

\$2.00 to \$5.00	\$1.25
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.50
Above \$20.00 to \$50.00	\$3.00
Above \$50.00 to \$100.00	\$4.50
Above \$100.00	\$6.00

(c) *Obvious Errors.*

(1) *Definition.* For purposes of this Rule, an Obvious Error will be deemed to have occurred when the Exchange receives a properly submitted filing where the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.25
\$2.00 to \$5.00	\$0.40
Above \$5.00 to \$10.00	\$0.50
Above \$10.00 to \$20.00	\$0.80
Above \$20.00 to \$50.00	\$1.00
Above \$50.00 to \$100.00	\$1.50
Above \$100.00	\$2.00

(2) *Time Deadline.* A party that believes that it participated in a transaction that was the result of an Obvious Error must notify the Exchange's Official in the manner specified from time to time by the Exchange in a notice distributed to Participants. Such notification must be received by the Exchange's Officials within the timeframes specified below:

(A) *Customer Orders.* For an execution of a Customer order, a filing must be received by the Exchange within thirty (30) minutes of the execution, subject to sub-paragraph (C) below; and

- (B) *"Non-Customer" Orders.* For an execution of any order other than a Customer order, a filing must be received by the Exchange within fifteen (15) minutes of the execution, subject to sub-paragraph (C) below.
- (C) *Linkage Trades.* Any other options exchange will have a total of forty-five (45) minutes for Customer orders and thirty (30) minutes for non-Customer orders, measured from the time of execution on the Exchange, to file with the Exchange for review of transactions routed to the Exchange from that options exchange and executed on the Exchange ("linkage trades"). This includes filings on behalf of another options exchange filed by a third-party routing broker if such third-party broker identifies the affected transactions as linkage trades. In order to facilitate timely reviews of linkage trades the Exchange will accept filings from either the other options exchange or, if applicable, the third-party routing broker that routed the applicable order(s). The additional fifteen (15) minutes provided with respect to linkage trades shall only apply to the extent the options exchange that originally received and routed the order to the Exchange itself received a timely filing from the entering participant (i.e., within 30 minutes if a Customer order or 15 minutes if a non-Customer order).
- (3) *Acting on Own Motion.* The President or designee thereof, who is an officer of the Exchange (collectively "Exchange officer") may review a transaction believed to be erroneous on his/her own motion in the interest of maintaining a fair and orderly market and for the protection of investors. A transaction reviewed pursuant to this paragraph may be nullified or adjusted only if it is determined by the Exchange officer that the transaction is erroneous in accordance with the provisions of this Rule, provided that the time deadlines of sub-paragraph (c)(2) above shall not apply. The Exchange officer shall act as soon as possible after becoming aware of the transaction, and ordinarily would be expected to act on the same day that the transaction occurred. In no event shall the Exchange officer act later than 8:30 a.m. Eastern Time on the next trading day following the date of the transaction in question. A party affected by a determination to nullify or adjust a transaction pursuant to this provision may appeal such determination in accordance with paragraph (k) below; however, a determination by an Exchange officer not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Exchange officer's own motion is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of this Rule, no additional relief may be granted under this provision.
- (4) *Adjust or Bust.* If it is determined that an Obvious Error has occurred, the Exchange shall take one of the actions listed below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.
- (A) *Non-Customer Transactions.* Where neither party to the transaction is a Customer, the execution price of the transaction will be adjusted by the Official

pursuant to the table below. Any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4) above.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment - TP Plus</b>	<b>Sell Transaction Adjustment - TP Minus</b>
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

(B) *Customer Transactions.* Where at least one party to the Obvious Error is a Customer, the trade will be nullified, subject to subparagraph (C) below.

(C) If any Participant submits requests to the Exchange for review of transactions pursuant to this rule, and in aggregate that Participant has 200 or more Customer transactions under review concurrently and the orders resulting in such transactions were submitted during the course of 2 minutes or less, where at least one party to the Obvious Error is a non-Customer, the Exchange will apply the non-Customer adjustment criteria set forth in subparagraph (A) above to such transactions.

(d) *Catastrophic Errors.*

(1) *Definition.* For purposes of this Rule, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price</b>	<b>Minimum Amount</b>
Below \$2.00	\$0.50
\$2.00 to \$5.00	\$1.00
Above \$5.00 to \$10.00	\$1.50
Above \$10.00 to \$20.00	\$2.00
Above \$20.00 to \$50.00	\$2.50
Above \$50.00 to \$100.00	\$3.00
Above \$100.00	\$4.00

(2) *Time Deadline.* A party that believes that it participated in a transaction that was the result of a Catastrophic Error must notify the Exchange's Officials in the manner specified from time to time by the Exchange on its website. Such notification must be received by the Exchange's Officials by 8:30 a.m. Eastern Time on the first trading day following the execution. For transactions in an expiring options series that take place on an expiration day, a party must notify the Exchange's Officials within 45 minutes after the close of trading that same day.

(3) *Adjust or Bust.* If it is determined that a Catastrophic Error has occurred, the Exchange shall take action as set forth below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone. In the event of a Catastrophic Error, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any Customer order subject to this sub-paragraph will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment - TP Plus</b>	<b>Sell Transaction Adjustment - TP Minus</b>
Below \$2.00	\$0.50	\$0.50
\$2.00 to \$5.00	\$1.00	\$1.00
\$5.00 to \$10.00	\$1.50	\$1.50
\$10.00 to \$20.00	\$2.00	\$2.00
\$20.00 to \$50.00	\$2.50	\$2.50
\$50.00 to \$100.00	\$3.00	\$3.00
Above \$100.00	\$4.00	\$4.00

(e) *Significant Market Events.*

(1) *Definition.* For purposes of this Rule, a Significant Market Event will be deemed to have occurred when: criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

- (A) Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst- Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:
- (i) \$0.30 (i.e., the largest Transaction Adjustment value listed in sub-paragraph (e)(3)(A) below); times
  - (ii) the contract multiplier for each traded contract; times
  - (iii) the number of contracts for each trade; times
  - (iv) the appropriate Size Adjustment Modifier for each trade, if any, as defined in sub-paragraph (e)(3)(A) below.
- (B) Transactions involving 500,000 options contracts are potentially erroneous;
- (C) Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;
- (D) 10,000 transactions are potentially erroneous.
- (2) *Coordination with Other Options Exchanges.* To ensure consistent application across options exchanges, in the event of a suspected Significant Market Event, the Exchange shall initiate a coordinated review of potentially erroneous transactions with all other affected options exchanges to determine the full scope of the event. When this paragraph is invoked, the Exchange will promptly coordinate with the other options exchanges to determine the appropriate review period as well as select one or more specific points in time prior to the transactions in question and use one or more specific points in time to determine Theoretical Price. Other than the selected points in time, if applicable, the Exchange will determine Theoretical Price in accordance with paragraph (b) above.
- (3) *Adjust or Bust.* If it is determined that a Significant Market Event has occurred then, using the parameters agreed as set forth in sub-paragraph (e)(2) above, if applicable, an Official will determine whether any or all transactions under review qualify as Obvious Errors. The Exchange shall take one of the actions listed below with respect to all transactions that qualify as Obvious Errors pursuant to sub-paragraph (c)(1) above. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.
- (A) The execution price of each affected transaction will be adjusted by an Official to the price provided below unless both parties agree to adjust the transaction to a different price or agree to bust the trade. In the context of a

Significant Market Event, any error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4) above.

<b>Theoretical Price (TP)</b>	<b>Buy Transaction Adjustment - TP Plus</b>	<b>Sell Transaction Adjustment - TP Minus</b>
Below \$3.00	\$0.15	\$0.15
At or above \$3.00	\$0.30	\$0.30

(B) Where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

(4) *Nullification of Transactions.* If the Exchange, in consultation with other options exchanges, determines that timely adjustment is not feasible due to the extraordinary nature of the situation, then the Exchange will nullify some or all transactions arising out of the Significant Market Event during the review period selected by the Exchange and other options exchanges consistent with this paragraph. To the extent the Exchange, in consultation with other options exchanges, determines to nullify less than all transactions arising out of the Significant Market Event, those transactions subject to nullification will be selected based upon objective criteria with a view toward maintaining a fair and orderly market and the protection of investors and the public interest.

(5) *Final Rulings.* With respect to rulings made pursuant to this paragraph, the number of affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. Accordingly, rulings by the Exchange pursuant to this paragraph are non-appealable.

(f) *Trading Halts.* The Exchange shall nullify any transaction that occurs during a trading halt in the affected option on the Exchange pursuant to Commentary .03 of this Rule.

(g) *Erroneous Print in Underlying.* A trade resulting from an erroneous print(s) disseminated by the underlying market that is later nullified by that underlying market shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this Rule, provided a party notifies the Exchange's Officials in a timely manner as set forth below. For purposes of this paragraph, a trade resulting from an erroneous print(s) shall mean any options trade executed during a period of time for which one or more executions in the underlying security are nullified and for one second thereafter. If a party believes that it participated in an erroneous transaction resulting from an erroneous print(s) pursuant to this paragraph it must notify the Exchange's Officials within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification by the underlying

market(s) of nullification of transactions in the underlying security. If multiple underlying markets nullify trades in the underlying security, the allowed notification timeframe will commence at the time of the first market's notification.

- (h) *Erroneous Quote in Underlying*. A trade resulting from an erroneous quote(s) in the underlying security shall be adjusted or busted as set forth in subparagraph (c)(4) this Rule, provided a party notifies the Exchange's Officials in a timely manner as set forth below. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this paragraph, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15-second intervals during the four-minute time period referenced above (excluding the quote(s) in question) and dividing by the number of quotes during such time period (excluding the quote(s) in question). If a party believes that it participated in an erroneous transaction resulting from an erroneous quote(s) pursuant to this paragraph it must notify the Exchange's Officials in accordance with sub-paragraph (c)(2) above.
- (i) Reserved.
- (j) *Linkage Trades*. If the Exchange routes an order pursuant to the Plan (as defined in Chapter XII, Section 1(17)) that results in a transaction on another options exchange (a "Linkage Trade") and such options exchange subsequently nullifies or adjusts the Linkage Trade pursuant to its rules, the Exchange will perform all actions necessary to complete the nullification or adjustment of the Linkage Trade.
- (k) *Verifiable Disruption or Malfunction of Exchange Systems*. Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of Exchange execution, dissemination, or communication systems that caused a quote/order to trade in excess of its disseminated size (e.g. a quote/order that is frozen, because of an Exchange system error, and repeatedly traded). Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of an Exchange dissemination or communication system that prevented a member from updating or canceling a quote/order for which the member is responsible where there is Exchange documentation providing that the member sought to update or cancel the quote/order.
- (l) *Appeals*. A party to a transaction affected by a decision made under this section may appeal that decision to the Exchange Review Council. An appeal must be made in writing, and must be received by BX within thirty (30) minutes after the person making the appeal is given the notification of the determination being appealed. The Exchange Review Council may review any decision appealed, including whether a complaint was timely, whether an Obvious Error or Catastrophic Error occurred,

whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price.

- (1) A Exchange Review Council panel will be comprised minimally of representatives of one (1) member engaged in Market Making and two (2) industry representatives not engaged in Market Making. At no time should a review panel have more than 50% members engaged in Market Making.
- (2) The Exchange Review Council, pursuant to the standards set forth in this rule, shall affirm, modify, or reverse the determination.
- (3) The decision of the Exchange Review Council pursuant to an appeal, or a determination by a BX Official that is not appealed, shall be final and binding upon all parties and shall constitute final BX action on the matter in issue. Any determination by a BX Official or the Exchange Review Council shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.
- (4) The party initiating the appeal shall be assessed a \$500.00 fee if the Exchange Review Council upholds the decision of the BX Official. In addition, in instances where BX, on behalf of an Options Participant, requests a determination by another market center that a transaction is clearly erroneous, BX will pass any resulting charges through to the relevant Options Participant.

***Commentary:*** . . .

**.01** Reserved.

**.02** For the purposes of this Rule, to the extent the provisions of this Rule would result in the Exchange applying an adjustment of an erroneous sell transaction to a price lower than the execution price or an erroneous buy transaction to a price higher than the execution price, the Exchange will not adjust or nullify the transaction, but rather, the execution price will stand.

**.03** Trading Halts. Trades on the Exchange will be nullified when:

- (A) The trade occurred during a trading halt in the affected option on the Exchange;
- (B) Respecting equity options (including options overlying ETFs), the trade occurred during a regulatory halt as declared by the primary market for the underlying security; or
- (C) Respecting index options, the trade occurred during a trading halt on the primary market in underlying securities representing more than 10 percent of the current index value for stock index options.

**.04 Exchange Determining Theoretical Price.** For purposes of this Rule, when the Exchange must determine Theoretical Price pursuant to sub-paragraphs (b)(1)-(3) of this Rule (i.e., at the open, when there are no valid quotes or when there is a wide quote), then the Exchange will determine Theoretical Price as follows.

- (a) The Exchange will request Theoretical Price from the third party vendor defined in paragraph (d) below ("TP Provider") to which the Exchange and all other options exchanges have subscribed. The Exchange will apply the Theoretical Price provided by the TP Provider, except as otherwise described below.
- (b) To the extent an Official of the Exchange believes that the Theoretical Price provided by the TP Provider is fundamentally incorrect and cannot be used consistent with the maintenance of a fair and orderly market, the Official shall contact the TP Provider to notify the TP Provider of the reason the Official believes such Theoretical Price is inaccurate and to request a review and correction of the calculated Theoretical Price. The Exchange shall also promptly provide electronic notice to other options exchanges that the TP Provider has been contacted consistent with this paragraph and include a brief explanation of the reason for the request.
- (c) An Official of the Exchange may determine the Theoretical Price if the TP Provider has experienced a systems issue that has rendered its services unavailable to accurately calculate Theoretical Price and such issue cannot be corrected in a timely manner.
- (d) The current TP Provider to which the Exchange and all other options exchanges have subscribed is: CBOE Livevol, LLC. Neither the Exchange, the TP Provider, nor any affiliate of the TP Provider (the TP Provider and its affiliates are referred to collectively as the "TP Provider"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of the TP Provider pursuant to this Commentary .04. The TP Provider does not guarantee the accuracy or completeness of the calculated Theoretical Price. The TP Provider disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such Theoretical Price. Neither the Exchange nor the TP Provider shall have any liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the use of such Theoretical Price or arising out of any errors or delays in calculating such Theoretical Price.

## **Sec. 7 Audit Trail**

**(a) Order Identification.** When entering orders on BX Options, each Options Participant shall submit order information in such form as may be prescribed by BX in order to allow BX Options to properly prioritize and match orders and report resulting transactions to the Clearing Corporation.

**(b)** An Options Participant must ensure that each options order received from a Customer for execution on BX Options is recorded and time-stamped immediately. The order record must be time-stamped again on execution and also at the time of any modification or cancellation of the order by the Customer. Order records relating to BX Options must contain the following information at a minimum:

- i.** a unique order identification;
- ii.** the underlying security;
- iii.** opening/closing designation;
- iv.** the identity of the Clearing Participant;
- v.** Options Participant identification;
- vi.** Participant Capacity;
- vii.** identity of the individual/terminal completing the order ticket;
- viii.** customer identification;
- ix.** account identification;
- x.** buy/sell;
- xi.** contract volume;
- xii.** contract month;
- xiii.** exercise price;
- xiv.** put/call;
- xv.** price or price limit, price range or strategy price;
- xvi.** special instructions (e.g ., GTC); and
- xvii.** and such other information as may be required by BX Options.

**(c)** An Options Participant that employs an electronic system for order routing or order management which complies with BX Options requirements will be deemed to be complying with the requirements of this Section if the required information is recorded in electronic form rather than in written form.

(d) In addition to any related requirement under applicable securities laws, information recorded pursuant to this Section must be retained by Options Participants for a period of no less than three (3) years after the date of the transaction.

### **Sec. 8 Failure to Pay Premium**

(a) When the Clearing Corporation shall reject a BX Options Transaction because of the failure of the Clearing Participant acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Options Participant acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Participant or to enter into a closing writing transaction in respect of the same options contract that was the subject of the rejected BX Options Transaction for the account of the defaulting Clearing Participant.

(b) Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. EST on the business day following the day the BX Options Transaction was rejected by the Clearing Corporation.

### **Sec. 9 Limitation of Liability**

(a) Except as provided for in Rule 4626, BX Options and its affiliates shall not be liable for any losses, damages, or other claims arising out of the BX Options Trading System or its use. Any losses, damages, or other claims, related to a failure of the BX Options Trading System to deliver, display, transmit, execute, compare, submit for clearance and settlement, adjust, retain priority for, or otherwise correctly process an order, message, or other data entered into, or created by, the BX Options Trading System shall be absorbed by the member, or the member sponsoring the customer, that entered the order, message, or other data into the BX Options Trading System.

## **Chapter VI Trading Systems**

### **Sec. 1 Definitions**

The following definitions apply to Chapter VI for the trading of options listed on BX Options.

(a) The term "System" shall mean the automated system for order execution and trade reporting owned and operated by BX as the BX Options market. The BX Options market comprises:

- (1) an order execution service that enables Participants to automatically execute transactions in System Securities; and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment;
- (2) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and

(3) the data feeds described in Section 19.

(b) The term "System Securities" shall mean all options that are currently trading on BX Options pursuant to Options 4 above. All other options shall be "Non System Securities."

(c) The term "Participant" shall include Options Market Makers and Options Order Entry Firms that are registered to enter orders into the System.

(d) The term "Order" shall mean a single order submitted to the System by a Participant that is eligible to submit such orders.

(e) The term "Order Type" shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) Cancel-replacement order shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order except when the replacement order reduces the size of the order and all other terms and conditions are retained.

(2) Directed Order. The term "Directed Order" means an order to buy or sell which has been directed, provided it is properly marked as such, to a particular market maker ("Directed Market Maker"). Directed Orders are handled within the System pursuant to Chapter VI, Section 10. Directed Orders may be available only in certain options.

(3) "Limit Orders" are orders to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

(4) "Minimum Quantity Orders" are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel. Minimum Quantity Orders received prior to the opening cross or after market close will be rejected.

(5) "Market Orders" are orders to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant.

(6) Reserved.

(7) "Intermarket Sweep Order" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by BX and are executed within the System by Participants at

multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Chapter XII, Section 1. ISOs may have any time-in-force designation except WAIT, are handled within the System pursuant to Chapter VI, Section 10 and shall not be eligible for routing as set out in Chapter VI, Section 11. ISOs with a time-in-force designation of GTC are treated as having a time-in-force designation of Day.

Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed size of any protected bid or offer (as defined in Chapter XII, Section 1) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an intermarket sweep order (as defined in Chapter XII, Section 1). These additional routed orders must be identified as ISOs.

**(8)** "One-cancels-the-other" shall mean an order entered by a Market Maker that consists of a buy order and a sell order treated as a unit; the full execution of one of the orders causes the other to be canceled.

**(9)** "All-or-none" shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-None Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-None Orders received prior to the opening cross or after market close will be rejected.

**(10)** Reserved.

**(11)** The term "On the Open Order" shall mean an order with a designated time-in-force of "OPG". An On the Open Order will be executable only during the Opening Cross. If such order is not executed in its entirety during the Opening Cross, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant.

**(f)** The term "Order Size" shall mean the number of contracts up to 999,999 associated with the Order.

**(g)** The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:

**(1)** "On the Open Order" or "OPG" shall mean for orders so designated, that if after entry into the System, the order is not fully executed in its entirety during the Opening Cross, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant.

**(2)** "Immediate Or Cancel" or "IOC" shall mean for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time

specified by the Exchange on its website and 9:30 a.m. Eastern Time will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable.

(3) "DAY" shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(4) "Good Til Cancelled" or "GTC" shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(5) "WAIT" shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering party.

(h) The term "System Book Feed" shall mean a data feed for System securities.

## **Sec. 2 Days and Hours of Business**

(a) The System operates and shall be available to accept bids and offers and orders from the time prior to market open specified by the Exchange on its website to market close on each business day, unless modified by BX Options. Orders and bids and offers shall be open and available for execution as of 9:30 a.m. Eastern Time and shall close as of 4:00 p.m. Eastern Time except for option contracts on certain fund shares or broad-based indexes which will close as of 4:15 p.m. Eastern Time.

(b) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on individual stocks may be made on BX Options shall correspond to the normal business days and hours for business set forth in the rules of the primary market trading the securities underlying BX Options. Notwithstanding the foregoing, transactions may be effected in options contracts on Fund Shares, as defined in Options 4, Section 3(i); and in options contracts on exchange-traded notes including Index-Linked Securities, as defined in Options 4, Section 3(l), on BX Options until 4:15 p.m.

(c) BX Options shall not be open for business on any holiday observed by BX.

**Sec. 3 Units of Trading**

The unit of trading in each series of options traded on BX Options shall be the unit of trading established for that series by the Clearing Corporation pursuant to the Rules of the Clearing Corporation and the agreements of BX with the Clearing Corporation.

**Sec. 4 Meaning of Premium Quotes and Orders**

(a) *General.* Except as provided in paragraph (b), orders shall be expressed in terms of dollars per unit of the underlying security. For example, a bid of "5" shall represent a bid of \$500 for an options contract having a unit of trading consisting of 100 shares of an underlying security, or a bid of \$550 for an options contract having a unit of trading consisting of 110 shares of an underlying security.

(i) *Mini Options.* Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of ".50" shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares.

(b) *Special Cases.* Orders for an options contract for which BX Options has established an adjusted unit of trading in accordance with Section 4 of this Chapter VI shall be expressed in terms of dollars per 1/100 part of the total securities and/or other property constituting such adjusted unit of trading. For example, an offer of "3" shall represent an offer of \$300 for an options contract having a unit of trading consisting of 100 shares of an underlying security plus ten (10) rights.

(c) All options on foreign currencies where the underlying foreign currency is not the U.S. dollar shall have a minimum increment of \$.01.

(d) In the case of options on foreign currencies, all bids or offers shall be expressed in terms of U.S. dollars per unit of the underlying foreign currency. E.g., a bid of "3.25" for a premium on a \$170 strike price option on the British pound shall represent a bid to pay \$325 per option contract.

**Sec. 5 Minimum Increments**

(a) The Board may establish minimum quoting increments for options contracts traded on BX Options. Such minimum increments established by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Section within the meaning of Section 19 of the Exchange Act and will be filed with the SEC as a rule change for effectiveness upon filing. Until such time as the Board makes a change in the increments, the following principles shall apply:

(1) If the options series is trading at less than \$3.00, five (5) cents;

(2) If the options series is trading at \$3.00 or higher, ten (10) cents; and

(3) For a pilot period scheduled to expire on December 31, 2019 or the date of permanent approval, if earlier, if the options series is trading pursuant to the Penny Pilot program

one (1) cent if the options series is trading at less than \$3.00, five (5) cents if the options series is trading at \$3.00 or higher, unless for QQQQs, SPY and IWM where the minimum quoting increment will be one cent for all series regardless of price. A list of such options shall be communicated to membership via an Options Trader Alert ("OTA") posted on the Exchange's web site.

The Exchange may replace any pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the pilot, based on trading activity in the previous six months. The replacement issues may be added to the pilot on the second trading day in the first month of each quarter.

(4) All Mini Options contracts shall have a minimum price variation as set forth in Options 4, Supplementary Material .08 to Section 6.

(b) The minimum trading increment for options contracts traded on BX Options will be one (1) cent for all series.

### **Sec. 6 Entry and Display of Quotes**

(a) All bids or offers made and accepted on BX Options in accordance with the BX Options Rules shall constitute binding contracts, subject to applicable requirements of the Rules of the Exchange and the Rules of the Clearing Corporation.

(b) Quotes are subject to the following requirements and conditions:

(1) Market Makers may generate and submit option quotations.

(2) The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.

(3) Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.

(4) The System accepts quotes beginning at a time specified by the Exchange and communicated on the Exchange's web site.

(5) **Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which

another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.

**(6) Trade-Through Compliance and Locked or Crossed Markets.** A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(7) Quotes submitted to the System are subject to the following: minimum increments provided for in Chapter VI, Section 5 and risk protections provided for in Chapter VI, Section 18.

(c) Quotes will be displayed in the System as described in Chapter VI, Section 19.

### **Sec. 7 Entry and Display of Orders**

(a) Participants can enter orders into the System, subject to the following requirements and conditions:

(1) Participants shall be permitted to transmit to the System multiple orders at single as well as multiple price levels.

(2) The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange's web site.

(3) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.

(4) Orders submitted to the System are subject to minimum increments provided for in Chapter VI, Section 5, risk protections within Chapter VI, Section 18 and the restrictions of order types within Chapter VI, Section 21(b). Orders may execute at multiple prices.

(5) Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered

conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

**(b) NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Rule Chapter XII, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Chapter XII, Section 1(11)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Chapter XII, Section 1(12)).

**(c)** The System automatically executes eligible orders using the Exchange's displayed best bid an offer ("BBO").

**(d) Trade-Through Compliance and Locked or Crossed Markets.** An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

**(e)** Orders will be displayed in the System as described in Chapter VI, Section 19.

### **Sec. 8 BX Opening and Halt Cross**

**(a)** Definitions. For the purposes of this rule the term:

**(1)** "Imbalance" shall mean the number of contracts of Eligible Interest that may not be matched with other order contracts at a particular price at any given time.

**(2)** "Order Imbalance Indicator" shall mean a message disseminated by electronic means containing information about Eligible Interest and the price in penny increments at which such interest would execute at the time of dissemination. The Order Imbalance Indicator shall disseminate the following information:

**(A)** "Current Reference Price" shall mean an indication of what the opening cross price would be at a particular point in time.

**(B)** the number of contracts of Eligible Interest that are paired at the Current Reference Price;

**(C)** the size of any Imbalance; and

**(D)** the buy/sell direction of any Imbalance.

**(3)** "BX Opening Cross" shall mean the process for opening or resuming trading pursuant to this rule and shall include the process for determining the price at which Eligible Interest shall be executed at the open of trading for the day, or the open of trading for a halted option, and the process for executing that Eligible Interest.

**(4)** "Eligible Interest" shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of IOC (immediate-or-cancel), DAY (day order), GTC (good-till-cancelled), and OPG (On the Open Order). However, orders received via FIX protocol prior to the BX Opening Cross designated with a time-in-force of IOC will be rejected and shall not be considered eligible interest. Orders received via SQF prior to the BX Opening Cross designated with a time-in-force of IOC will remain in-force through the opening and shall be cancelled immediately after the opening.

**(5)** "Market for the Underlying Security" shall mean either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis and announced to the membership on the Exchange's web site.

**(6)** "Valid Width National Best Bid or Offer" or "Valid Width NBBO" shall mean the combination of all away market quotes and any combination of BX Options-registered Market Maker orders and quotes received over the SQF Protocols within a specified bid/ask differential as established and published by the Exchange. The Valid Width NBBO will be configurable by underlying, and tables with valid width differentials will be posted by BX on its website. Away markets that are crossed will void all Valid Width NBBO calculations. If any Market Maker orders or quotes on BX Options are crossed internally, then all such orders and quotes will be excluded from the Valid Width NBBO calculation.

**(7)** "Away Best Bid or Offer" or "ABBO" shall mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer.

**(b)** Processing of BX Opening Cross. For the opening of trading of System securities, the Opening Cross shall occur at or after 9:30, if the dissemination of a regular market hours quote or trade (as determined by the Exchange) by the Market for the Underlying Security has occurred (or, in the case of index options, the Exchange has received the opening price of the underlying index). Or, in the case of a trading halt, the Opening Cross shall occur when trading resumes pursuant to Chapter V, Section 4. Market hours trading shall commence or, in the case of a halted option, resume when the BX Opening Cross concludes.

In each case, the opening of trading or resumption of trading after a halt of System securities will be dependent on the following criteria, provided the ABBO is not crossed:

- (1) If there is a possible trade on BX, a Valid Width NBBO must be present.
- (2) If no trade is possible on BX, then BX will open dependent upon one of the following:
  - (A) A Valid Width NBBO is present;
  - (B) A certain number of other options exchanges (as determined by the Exchange) have disseminated a firm quote on OPRA; or
  - (C) A certain period of time (as determined by the Exchange) has elapsed.
- (3) BX shall disseminate by electronic means an Order Imbalance Indicator every 5 seconds beginning between 9:20 and 9:28, or a shorter dissemination interval as established by the Exchange, with the default being set at 9:25 a.m. The start of dissemination, and a dissemination interval, shall be posted by BX on its website.
- (4)
  - (A) The BX Opening Cross shall occur at the price that maximizes the number of contracts of Eligible Interest in BX Options to be executed at or within the ABBO and within a defined range, as established and published by the Exchange, of the Valid Width NBBO.
  - (B) If more than one price exists under subparagraph (A), and there are no contracts that would remain unexecuted in the cross, the BX Opening Cross shall occur at the midpoint price, rounded to the penny closest to the price of the last execution in that series (and in the absence of a previous execution price, the price will round up, if necessary) of (1) the National Best Bid or the last offer on BX Options against which contracts will be traded whichever is higher, and (2) the National Best Offer or the last bid on BX Options against which contracts will be traded whichever is lower.
  - (C) If more than one price exists under subparagraph (A), and contracts would remain unexecuted in the cross, then the opening price will be the highest/lowest price, in the case of a buy/sell imbalance, at which the maximum number of contracts can trade which is equal to or within a defined range, as established and published by the Exchange, of the Valid Width NBBO on the contra side of the imbalance that would not trade through the ABBO.

Regarding unexecuted contracts:

- (i) If unexecuted contracts remain with a limit price that is equal to the opening price, then the remaining unexecuted contracts will be posted at the opening price, displayed one minimum price variation (MPV) away if displaying at the

opening price would lock or cross the ABBO, with the contra-side BX Options BBO reflected as firm;

- (ii) If unexecuted contracts remain with a limit price that is through the opening price, and there is a contra side ABBO at the opening price, then the remaining unexecuted contracts will be posted at the opening price, displayed one minimum price variation (MPV) away, with the contra side BX Options BBO reflected as firm and order handling of any remaining interest will be done in accordance with the routing and time-in-force instructions of such interest with the opening price representing the reference price set forth in Chapter VI, Section 10;
  - (iii) If unexecuted contracts remain with a limit price that is through the opening price, and there is no contra side ABBO at the opening price, then the remaining contracts will be posted at the opening price, with the contra-side BX Options BBO reflected as non-firm; and
  - (iv) Order handling of any residual unexecuted contracts will be done in accordance with Chapter VI, Section 10(7), with the opening price representing the reference price.
- (5) If the BX Opening Cross price is selected and fewer than all contracts of Eligible Interest that are available in BX Options would be executed, all Eligible Interest shall be executed at the BX Opening Cross price in accordance with the execution algorithm assigned to the associated underlying option.
- (6) All Eligible Interest executed in the BX Opening Cross shall be executed at the BX Opening Cross price, trade reported anonymously, and disseminated via a national market system plan. The BX Opening Cross price shall be the BX Official Opening Price for options that participate in the BX Opening Cross.
- (7) If the conditions specified in (b) above have occurred, but there is an imbalance containing marketable routable interest, then one additional Order Imbalance Indicator will be disseminated, after which the cross will occur, executing the maximum number of contracts at the price provided for in subsection (b)(4) of this Section 8. Any remaining Imbalance will be canceled, posted, or routed as per the directions on the customer's order.
- (c) Absence of Opening Cross. If an Opening Cross in a symbol is not initiated before the conclusion of the Opening Order Cancel Timer, a firm may elect to have orders returned by providing written notification to the Exchange. These orders include all non GTC orders received over the FIX protocol. The Opening Order Cancel Timer represents a period of time since the underlying market has opened, and shall be established and disseminated by BX on its website.

**Sec. 9 Price Improvement Auction ("PRISM")**

A Participant may electronically submit for execution an order it represents as agent on behalf of a Public Customer, broker dealer, or any other entity ("PRISM Order") against principal interest or against any other order (except as provided in sub-paragraph (i)(F) below) it represents as agent (an "Initiating Order") provided it submits the PRISM Order for electronic execution into the PRISM Auction ("Auction") pursuant to this Rule. For purposes of this Rule, a Public Customer order does not include a Professional order.

- (i) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PRISM. A Participant (the "Initiating Participant") may initiate an Auction provided all of the following are met:
  - (A) if the PRISM Order is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") is \$0.01, the Initiating Participant must stop the entire PRISM Order at one minimum price improvement increment better than the NBBO on the opposite side of the market from the PRISM Order, and better than any limit order on the limit order book on the same side of the market as the PRISM Order.
  - (B) the PRISM Order is for the account of a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Participant must stop the entire PRISM Order at a price that is equal to or better than the NBBO on the opposite side of the market from the PRISM Order, provided that such price must be at least one minimum trading increment specified in Chapter VI, Section 5 ("Minimum Increment") better than any limit order on the limit order book on the same side of the market as the PRISM Order.
  - (C) If the PRISM Order is for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Participant must stop the entire PRISM Order at a price that is the better of: (i) the BX BBO price improved by at least the Minimum Increment on the same side of the market as the PRISM Order, or (ii) the PRISM Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO.
  - (D) PRISM Orders that do not comply with the requirements of subparagraphs (A), (B), and (C) above are not eligible to initiate an Auction and will be immediately cancelled.
  - (E) PRISM Orders submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected.

- (F) PRISM Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be immediately cancelled.
- (G) An Initiating Order may not be a solicited order for the account of any BX Options Market Maker assigned in the affected series.

If any of the above criteria are not met, the PRISM Order will be rejected. Pursuant to subparagraph (vi) below, the Exchange will allow a Public Customer PRISM Order to trade on either the bid or offer, if the NBBO is \$0.01 wide, provided (1) the execution price is equal to or within the NBBO, (2) there is no resting customer at the execution price, and (3) \$0.01 is the Minimum Price Variation (MPV) of the option. The Exchange will continue to reject a PRISM Order to buy (sell) if the NBBO is only \$0.01 wide and the Agency order is stopped on the bid (offer) if there is a resting order on the bid (offer).

- (ii) Auction Process. Only one Auction may be conducted at a time in any given series. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(A) Auction Period and PRISM Auction Notification ("PAN").

- (1) To initiate the Auction, the Initiating Participant must mark the PRISM Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PRISM Order (a "stop price"); (b) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest ("auto-match") in which case the PRISM Order will be stopped at the NBBO on the Initiating Order side; or (c) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "No Worse Than" or "NWT" price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the BX BBO on the same side of the market as the PRISM Order represents a limit order on the book, the stop price must be at least one Minimum Increment or better than the booked limit order's limit price. Once the Initiating Participant has submitted a PRISM Order for processing pursuant to this subparagraph, such PRISM Order may not be modified or cancelled. Under any of the circumstances described in sub-paragraphs (a)-(c) above, the stop price or NWT price may be improved to the benefit of the PRISM Order during the Auction, but may not be cancelled. Under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, except for rounding,

when competing quotes, orders or PAN responses have contracts available for execution.

When starting an Auction, the Initiating Participant may submit the Initiating Order with a designation of "surrender" to the other PRISM Participants ("Surrender") which will result in the Initiating Participant forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per Section 9(ii)(E)(2)(a) and Section 9(ii)(F)(2)(a). If Surrender is specified the Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Participant than that which the Initiating Participant would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PRISM Order are Public Customer orders. Surrender information will not be available to other market participants and may not be modified. (2) When the Exchange receives a PRISM Order for Auction processing, a PAN detailing the side, size, and options series of the PRISM Order will be sent over the BX Depth feed and the Exchange's Specialized Quote Feed.

- (3) The Auction will last for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second.
- (4) Any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.
- (5) PAN responses will not be visible to Auction participants, and will not be disseminated to OPRA.
- (6) The minimum price increment for PAN responses and for an Initiating Participant's stop price and/or NWT price shall be the minimum price improvement increment established pursuant to subparagraph (i)(A) above.
- (7) A PAN response size at any given price point may not exceed the size of the PRISM Order. A PAN response with a size greater than the size of the PRISM Order will be immediately cancelled.
- (8) A PAN response must be equal to or better than the displayed NBBO at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response submitted with a price that is outside the NBBO will be immediately cancelled.
- (9) PAN responses on the same side of the market as the PRISM Order are considered invalid and will be immediately cancelled.

- (10) Multiple PAN responses from the same Participant may be submitted during the Auction. Multiple orders at a particular price point submitted by a Participant in response to a PAN may not exceed, in the aggregate, the size of the PRISM Order.
- (B) Conclusion of Auction. The PRISM Auction shall conclude at the earlier to occur of (1) through (3) below, with the PRISM Order executing pursuant to paragraph (C)(1) or (C)(2) below if it concludes pursuant to (2) or (3) of this paragraph.
- (1) The end of the Auction period;
  - (2) For a PRISM Auction any time the BX BBO crosses the PRISM Order stop price on the same side of the market as the PRISM Order;
  - (3) Any time there is a trading halt on the Exchange in the affected series.
- (C) If the situations described in sub-paragraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at: (1) in the case of the BX BBO crossing the PRISM Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at least the Minimum Increment better than the price of such limit order at the time of the conclusion of the Auction; or (2) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.
- (D) An unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.
- (E) Order Allocation - Size Pro-Rata. At the conclusion of the Auction, the PRISM Order will be allocated at the best price(s) as follows for underlying symbols which are designated as Size Pro-Rata, as described in Chapter VI, Section10(1)(C)(2) with the following priority:
- (1) Public Customer orders shall have time priority at each price level. For purposes of this Rule, a Public Customer order does not include a Professional order.

- (2) The Initiating Participant shall be allocated after Public Customer orders as follows:
- (a) If the Initiating Participant selected the single stop price option of the PRISM Auction, PRISM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated, pursuant to Chapter VI, Section 9(ii)(E)(3) through (5) below, among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Participant. The allocation will account for Surrender, if applicable.
  - (b) If the Initiating Participant selected the auto-match option of the PRISM Auction the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Chapter VI, Section 9(ii)(E)(3) through (5) below. Any remaining contracts shall be allocated to the Initiating Participant.
  - (c) If the Initiating Participant selected the "stop and NWT" option of the PRISM Auction, contracts shall be allocated as follows:
    - (i) first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to Chapter VI, Section 9(ii)(E)(3) through (5) below, at each price point;
    - (ii) next, to quotes, orders and PAN responses at prices at the Initiating Participant's NWT price and better than the Initiating Participant's stop price, beginning with the NWT price. The Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after

Public Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Chapter VI, Section 9(ii)(E)(3) through (5) below. Any remaining contracts shall be allocated to the Initiating Participant.

- (3) BX Options Market Makers that were at a price that is equal to the NBBO on the opposite side of the market from the PRISM Order at the time of initiation of the PRISM Auction ("Priority Market Makers") shall have priority up to their quote size in the NBBO which was present when the PRISM Auction was initiated ("Initial NBBO") at each price level at or better than such Initial NBBO after Public Customers and the Initiating Participant have received allocations. Priority Market Maker quotes and PAN responses will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Chapter VI, Section 10(1)(B). Priority Market Maker status is only valid for the duration of the particular PRISM auction.
  - (4) Non-Priority Market Makers and Priority Market Maker interest which exceeded their size in the Initial NBBO shall have priority at each price level at or better than the Initial NBBO after Public Customer, the Initiating Participant and Priority Market Makers have received allocations. Non-Priority Market Maker and Priority Market Maker interest which exceeded their size in the Initial NBBO will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Chapter VI, Section 10(1)(B).
  - (5) All other interest will be allocated, after Chapter VI, Section 9(ii)(E)(1) through (4) have been satisfied. Such interest will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Chapter VI, Section 10(1)(B).
- (F) Order Allocation - Price/Time. At the conclusion of the Auction, the PRISM Order will be allocated at the best price(s) as indicated below for underlying symbols designated as Price/Time as described in Chapter VI, Section 10(1)(C)(1).
- (1) Public Customer orders shall have time priority at each price level. For purposes of this Rule, a Public Customer order does not include a Professional order.

- (2) Initiating Participant shall be allocated after Public Customer orders as follows:
- (a) If the Initiating Participant selected the single stop price option of the PRISM Auction, PRISM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to Chapter VI, Section 9(ii)(F)(3) through (4) below, among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Participant. The allocation will account for Surrender, if applicable.
  - (b) If the Initiating Participant selected the auto-match option of the PRISM Auction the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price), after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Chapter VI, Section 9(ii)(F)(3) through (4) below. Any remaining contracts shall be allocated to the Initiating Participant.
  - (c) If the Initiating Participant selected the "stop and NWT" option of the PRISM Auction, contracts shall be allocated as follows:
    - (i) first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to Chapter VI, Section 9(ii)(F)(3) through (4) below, at each price point;
    - (ii) next, to quotes, orders and PAN responses at prices at the Initiating Participant's NWT price and better than the Initiating Participant's stop price, beginning with the NWT price. The Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after

Public Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Chapter VI, Section 9(ii)(F)(3) through (4) below. Any remaining contracts shall be allocated to the Initiating Participant.

- (3) Priority Market Makers that were at a price that is equal to the NBBO on the opposite side of the market from the PRISM Order at the time of initiation of PRISM Auction shall have priority up to their quote size in the Initial NBBO at each price level better than the Initial NBBO, after Public Customers and the Initiating Participant have received allocations. Priority Market Maker interest at prices better than the Initial NBBO will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Chapter VI, Section 10(1)(B). Priority Market Maker interest at a price equal to or inferior to the Initial NBBO will not have priority over other participants and will be allocated pursuant to the Price/Time algorithm set forth in Exchange Rules at Chapter VI, Section 10(1)(A).
- (4) All other interest will be allocated, after Chapter VI, Section 9(ii)(F)(1) through (3) have been satisfied. Such interest will be allocated pursuant to the Price/Time algorithm set forth in Exchange Rules at Chapter VI, Section 10(1)(A).
- (G) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size. Residual odd lots will be allocated in time priority among interest with the highest priority. Rounding of the Initiating Participant will be up or down to the nearest integer, all other rounding is down to the nearest integer. If rounding would result in an allocation of less than one contract, then one contract will be allocated to the Initiating Participant only if the Initiating Participant did not otherwise receive an allocation.
- (H) If there are PAN responses that cross the then-existing NBBO (provided such NBBO is not crossed), such PAN responses will be executed, if possible, at their limit price(s).
- (I) If the price of the PRISM Auction is the same as that of an order on the limit order book on the same side of the market as the PRISM Order, the PRISM Order may only be executed at a price that is at least one minimum trading increment

- better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PRISM Order will trade at the stop price with all better priced interest being considered for execution at the stop price.
- (J) Any unexecuted PAN responses will be cancelled.
- (K) ISO Orders. If a PRISM Auction is initiated for an order designated as an ISO Order, all executions which are at a price inferior to the Initial NBBO shall be allocated pursuant to the Size Pro-Rata execution algorithm, as described in Chapter VI, Section 10(1)(C)(1)(a), or Price/Time execution algorithm, as described in Chapter VI, Section 10(1)(C)(2)(i), and the aforementioned priority in Chapter VI, Section 9(ii)(E) and (F) shall not apply, with the exception of allocating to the Initiating Participant which will be allocated in accordance with the priority as specified in Chapter VI, Section 9(ii)(E) and (F).
- (iii) The PRISM Auction may be used only where there is a genuine intention to execute a bona fide transaction. It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 2110 if an Initiating Participant submits a PRISM Order (initiating an Auction) and also submits its own PAN response in the same Auction.
- (iv) A pattern or practice of submitting multiple orders in response to a PAN at a particular price point that exceed, in the aggregate, the size of the PRISM Order, will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 2110.
- (v) A pattern or practice of submitting unrelated orders or quotes that cross the stop price, causing a PRISM Auction to conclude before the end of the PRISM Auction period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 2110. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 2110 to engage in a pattern of conduct where the Initiating Participant breaks up a PRISM Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Participant would have otherwise received in accordance with the allocation procedures contained in subparagraph (ii)(E) and (ii)(F) above.
- (vi) In lieu of the procedures in paragraphs (i) - (ii) above, an Initiating Participant may enter a PRISM Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PRISM Auction, provided there is not currently another auction in progress in the same series, in which case the orders will be cancelled. The execution price for such a PRISM Order must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or trade at the same price as any resting Public Customer order.

(a) Chapter VII, Section 12 prevents a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a Participant to establish a relationship with a Public Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Chapter VII, Section 12 for a Participant to circumvent Chapter VII, Section 12 by providing an opportunity for (i) a Public Customer affiliated with the Participant, or (ii) a Public Customer with whom the Participant has an arrangement that allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PRISM Public Customer-to-Public Customer immediate crosses.

(vii) There will be no minimum size requirement for orders to be eligible for the Auction.

### **Sec. 10 Book Processing**

System orders shall be executed through the BX Book Process set forth below:

**(1) Execution Algorithm** - The Exchange will determine to apply, for each option, one of the following execution algorithms described in paragraphs (A) or (B). The Exchange will issue an Options Alert specifying which execution algorithm will govern which options any time it is modified.

**(A) Price/Time** - The System shall execute trading interest within the System in price/time priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed in time priority.

**(B) Size Pro-Rata** - The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded down to the nearest whole number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining Participants in time priority.

**(C) Priority Overlays**

- (1) Priority Overlays Applicable to Price/Time Execution Algorithm: the Exchange may apply the following designated Participant priority overlays, when the Price/Time execution algorithm is in effect:
- (a) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when the Price/Time execution algorithm is in effect.
  - (b) Lead Market Maker ("LMM") Priority: An LMM may be assigned by the Exchange in each option class in accordance with Chapter VII, Section 13. LMM participant entitlements shall only be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves on the Exchange's disseminated price, the LMM will be afforded a participation entitlement. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the opening process. The LMM participation entitlement is as follows:
    - (1) A BX Options LMM shall receive the greater of:
      - (a) contracts the LMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) above with Public Customer priority;
      - (b) 50% of remaining interest if there is one or no other Market Maker at that price;
      - (c) 40% of remaining interest if there is two other Market Makers at that price;
      - (d) 30% of remaining interest if there are more than two other Market Makers at that price; or
      - (e) the Directed Market Maker ("DMM") participation entitlement, if any, set forth in subsection (C)(1)(c) below (if the order is a Directed Order and the LMM is also the DMM).

If rounding would result in an allocation of less than one contract, a BX Options LMM shall receive one contract. Rounding will be up or down to the nearest integer.

Notwithstanding the foregoing, when a Directed Order is received and the DMM's bid/offer is at or improves on the NBBO and the LMM is at the same price level and is not the DMM, the LMM participation entitlement set forth in this subsection (C)(1)(b)(1) will not apply with respect to such Directed Order.

(2) Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at or better than the NBBO.

(c) DMM Priority: A market maker which receives a Directed Order is a DMM with respect to that Directed Order. DMM participant entitlements shall only be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves on the NBBO, the DMM will be afforded a participation entitlement. The DMM shall not be entitled to receive a number of contracts that is greater than the size at a given price point associated with such DMM. DMM participation entitlements will be considered after the opening process. Pursuant to the DMM participation entitlement, the DMM shall receive, with respect to a Directed Order, the greater of:

(1) contracts the DMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) above with Public Customer priority;

(2) 40% of remaining interest; or

(3) the LMM participation entitlement (if the DMM is also the LMM).

If there are multiple DMM quotes at the same price which are at or improve the NBBO when the Directed Order is received, the DMM participation entitlement shall apply only once to the DMM quote which has the highest time priority at the last price executed upon receipt of the Directed Order which is equal to or better than the NBBO. If rounding would result in an allocation of less than one contract, the DMM shall receive one contract. Rounding will be up or down to the nearest integer.

(d) If there are contracts remaining, after LMM or DMM participation entitlements have been applied, such contracts shall be executed based on the Price/Time execution algorithm.

(e) Only one participation entitlement, LMM or DMM, may be applied on a given order.

(2) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange may apply the following designated Participant priority overlays, when the Size Pro-Rata execution algorithm is in effect.

- (i) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when Size Pro-Rata execution algorithm is in effect.
- (ii) LMM Priority: An LMM may be assigned by the Exchange in each option class in accordance with Chapter VII, Section 13. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves on the Exchange's disseminated price, the LMM will be afforded a participation entitlement. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the opening process. The LMM participation entitlement is as follows:

(1) A BX Options LMM shall receive the greater of:

- (a) the LMM's Size Pro-Rata share under (1)(C)(2)(iv) below;
- (b) 50% of remaining interest if there is one or no other Market Maker at that price;
- (c) 40% of remaining interest if there are two other Market Makers at that price;
- (d) 30% of remaining interest if there are more than two other Market Makers at that price; or
- (e) the DMM participation entitlement, if any, set forth in subsection (C)(2)(iii) below (if the LMM is also the DMM).

If rounding would result in an allocation of less than one contract, a BX Options LMM shall receive one contract. Rounding will be up or down to the nearest integer.

Notwithstanding the foregoing, when a Directed Order is received and the DMM's bid/offer is at or improves on the NBBO and the LMM is at the same price level and is not the DMM, the LMM participation entitlement set forth in this subsection (C)(2)(ii)(1) will not apply with respect to such Directed Order.

(2) Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at or better than the NBBO.

If there are contracts remaining, such contracts shall be executed based on the Size Pro-Rata execution algorithm.

(iii) DMM Priority: A market maker which receives a Directed Order is a DMM with respect to that Directed Order. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves the NBBO, the DMM will be afforded a participation entitlement. The DMM shall not be entitled to receive a number of contracts that is greater than the displayed size at a given price point associated with such DMM. DMM participation entitlements will be considered after the opening process. Pursuant to the DMM participation entitlement, the DMM shall receive, with respect to a Directed Order, the greater of:

(1) the DMM's Size Pro-Rata share under (1)(C)(2)(iv) below;

(2) 40% of remaining interest; or

(3) the LMM participation entitlement (if the DMM is also the LMM).

If there are multiple DMM quotes at the same price which are at or improve on the NBBO when the Directed Order is received, the DMM participation entitlement shall apply only to the DMM quote which has the highest time priority at the last price executed upon receipt of the Directed Order which is equal to or better than the NBBO; additional DMM quotes at such price will receive no further allocation of the Directed Order. If rounding would result in an allocation of less than one contract, the DMM shall receive one contract. Rounding will be up or down to the nearest integer.

(iv) Market Maker Priority: After all Public Customer orders have been fully executed and LMM or DMM participation entitlements applied, if applicable, BX Options Market Makers shall have priority over all other Participant orders at the same price. If there are two or more BX Options Market Maker quotes and orders for the same options series at the same price, those shall be executed based on the Size Pro-Rata execution algorithm. If there are contracts remaining after all Market Maker interest has been fully executed, such contracts shall be executed based on the Size Pro-Rata execution algorithm.

(v) Only one participation entitlement, LMM or DMM, may be applied on a given order.

(2) Decrementation - Upon execution, an order shall be reduced by an amount equal to the size of that execution.

(3) Price Improvement - any potential price improvement resulting from an execution in the System shall accrue to the party that is removing liquidity previously posted to the Book.

(4) BX-listed options that are the subject of a trading halt initiated pursuant to Chapter V, Section 3, shall open for trading at the time specified by BX pursuant to Chapter V, Section 4. When the System opens, orders shall be added to the book in time priority and executed as described above in Subsection (1).

(5) **Zero-Bid Option Series.** In the case where the bid price for any options contract is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Chapter VI, Section 5. Orders will be placed on the limit order book in the order in which they were received by the System. With respect to market orders to sell which are submitted prior to the Opening and persist after the Opening, those orders are posted at a price equal to the minimum trading increment as defined in Chapter VI, Section 5.

(6) Routing - All System orders entered by Participants directing or permitting routing to other market centers shall be routed for potential display and/or execution as set forth in Section 11 below.

(7) *Market Access.* In addition to the Exchange Rules regarding routing to away trading centers, Nasdaq Execution Services, LLC, as defined in Chapter VI, Section 11(e) has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by Nasdaq Execution Services to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel the order if it has been routed.

## **Sec. 11 Order Routing**

(a) BX offers two routing strategies, SEEK and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do Not Route or "DNR". The Exchange notes that for purposes of this rule the System will route SEEK and SRCH Orders with no other contingencies. Immediate or Cancel ("IOC") Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the SEEK or SRCH Orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. For purposes of this rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer.

Finally, for purposes of this rule, "exposure" or "exposing" an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. Exposure notifications will be sent to participants in accordance with the routing procedures described in Section 11(c)(ii) below except if an incoming order is joining an already established BBO price when the ABBO is locked or crossed with the BBO, in which case such order will join the established BBO price and no exposure notification will be sent. An order exposure will be sent if the order size is modified. For purposes of this rule BX's opening process is governed by Chapter VI, Section 8 and includes an opening after a trading halt ("Opening Process").

Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The order routing process shall be available to Participants from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Participants can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Chapter XII, Options Order Protection and Locked and Crossed Market Rules.

**(i) Priority of Routed Orders.** Orders sent to other markets do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.

**(ii) Options Participants** whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on the Exchange.

**(A) BX Options** shall route orders in options via Nasdaq Execution Services, LLC ("NES"), a broker-dealer that is a member of an unaffiliated SRO which is the designated examining authority for the broker-dealer. NES serves as the Routing Facility of BX Options. The sole function of the Routing Facility will be to route orders in options listed and open for trading on BX Options to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to BX Options rules on behalf of BX Options. The Exchange and NES may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority. The Routing Facility is subject to regulation as a facility of BX, including the requirement to file proposed rule changes under Section 19 of the Act.

**(B)** Use of NES to route orders to other market centers is optional. Parties that do not desire to use NES must designate orders as not available for routing (a DNR Order, as described in subparagraph(iii)(A) below).

**(C)** BX Options shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and its facilities (including the Routing Facility), and any other entity; or, where there is a routing broker, the Exchange, the Routing Facility and any routing broker, and any other entity, including any affiliate of the routing broker (and if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services).

**(D)** The books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of the Exchange, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of the Exchange for purposes of and subject to oversight pursuant to the Exchange Act. The books and records of the Routing Facility, as a facility of the Exchange, shall be subject at all times to inspection and copying by the Exchange and the Commission.

**(E) Market Access.** In addition to the Exchange Rules regarding routing to away trading centers, NES has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by NES to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel the order if it has been routed.

**(F)** The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (f) below, the routing broker(s) cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

**(iii)** The following order types are available:

**(A) DNR Order.** A DNR Order will never be routed outside of BX regardless of the prices displayed by away markets. A DNR Order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR Order will remain in the BX Order Book and be displayed at a price one minimum price variation (“MPV”) inferior to that away best bid/offer. If the DNR Order is locking or crossing the ABBO, the DNR Order shall be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The Exchange shall immediately expose the order at the ABBO to participants, provided the option series has opened for trading. Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless the ABBO is improved

to a price which crosses the DNR's displayed price, in which case the incoming order will execute at the previous ABBO price. Should the best away market change its price to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price, and expose such orders at the ABBO to participants only if the re-priced order locks or crosses the ABBO. Once priced at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price.

**(B) SEEK Order.** SEEK is a routing option pursuant to which an order will first check the System for available contracts for execution, and then is sent to other available market centers for potential execution. Orders initiate their own route timers and are routed in the order in which their route timers end.

**(1)** If a SEEK is received during an Opening Process it may route as part of the Opening Cross pursuant to Chapter VI, Section 8(b)(7).

**(2)** If a SEEK Order is received after an Opening Process and it is marketable against the ABBO when the ABBO is better than the displayed Exchange BBO, a Route Timer will initiate and expose the SEEK Order at the ABBO to allow market participants an opportunity to interact with the remainder of the SEEK Order. During the Route Timer, the SEEK Order will be included in the displayed Exchange BBO, unless the SEEK Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO.

**(3)** If during the Route Timer in subparagraph (2) above any new interest arrives opposite the SEEK order that is equal to or better than the ABBO price, the SEEK Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the SEEK Order, any new interest arrives opposite the SEEK Order that is marketable against the SEEK Order will trade at the SEEK Order price. When checking the Order Book, the System will seek to execute at the price at which it would send the order to a destination market center. Eligible unexecuted orders will continue to be routed as described in subparagraph (B)(2).

**(4)** If contracts remain unexecuted after routing, they are posted on the Order Book at its limit price. While on the Order Book at the limit price, should the order subsequently be locked or crossed by another market center, the System will not re-expose or route the order to the locking or crossing market center.

**(5)** SEEK Orders will not be eligible for routing until the next time the option series is subject to a new Opening Process.

**(C) SRCH Order.** SRCH Order is a routing option pursuant to which an order will first check the System for available contracts for execution, and then is sent to other available

market centers for potential execution. Orders initiate their own route timers and are routed in the order in which their route timers end.

(1) If a SRCH Order is received during an Opening Process it may route as part of the Opening Cross pursuant to Chapter VI, Section 8(b)(7). A SRCH Order received after the Opening Process that is marketable against the ABBO when the ABBO is better than the displayed Exchange BBO will initiate a Route Timer and expose the SRCH Order at the ABBO to allow market participants an opportunity to interact with the remainder of the SRCH Order.

(2) During the Route Timer described in subparagraph (1), the SRCH Order will be included in the displayed Exchange BBO, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. If there exists a locked market upon receipt of the SRCH Order, the SRCH Order may display at the locked ABBO price.

(3) If, during the Route Timer described in subparagraph (1), any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the SRCH Order, any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order will trade at the SRCH Order price. When checking the Order Book, the System will seek to execute at the price at which it would send the order to a destination market center. Eligible unexecuted orders will continue to be routed as described in subparagraph (C)(1).

(4) If contracts remain un-executed after routing, they are posted on the Order Book at its limit price. While on the Order Book at the limit price, should the order subsequently be locked or crossed by another market center, the order will not re-expose and may route at the end of route timer.

**(b) *Cancellation of Orders and Error Account.***

(1) The Exchange or NES may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, NES, or a routing destination. The Exchange or NES shall provide notice of the cancellation to affected members as soon as practicable.

(2) NES shall maintain an error account for the purpose of addressing positions that result from a technical or systems issue at NES, the Exchange, a routing destination, or a non-affiliate third-party Routing Broker that affects one or more orders ("error positions").

(A) For purposes of this Section 11(g), an error position shall not include any position that results from an order submitted by a member to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis.

- (B) Except as provided in Section 11(g)(2)(C), NES shall not (i) accept any positions in its error account from an account of a member, or (ii) permit any member to transfer any positions from the member's account to NES's error account.
- (C) If a technical or systems issue results in the Exchange not having valid clearing instructions for a member to a trade, NES may assume that member's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.
- (3) In connection with a particular technical or systems issue, NES or the Exchange shall either (i) assign all resulting error positions to members in accordance with subparagraph (A) below, or (ii) have all resulting error positions liquidated in accordance with subparagraph (B) below. Any determination to assign or liquidate error positions, as well as any resulting assignments, shall be made in a nondiscriminatory fashion.
- (A) NES or the Exchange shall assign all error positions resulting from a particular technical or systems issue to the members affected by that technical or systems issue if NES or the Exchange:
- (i) determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the members affected by that technical or systems issue;
  - (ii) determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the members affected by that technical or systems issue; and
  - (iii) has not determined to cancel all orders affected by that technical or systems issue in accordance with subparagraph (g)(1) above.
- (B) If NES or the Exchange is unable to assign all error positions resulting from a particular technical or systems issue to all of the affected members in accordance with subparagraph (A) above, or if NES or the Exchange determines to cancel all orders affected by the technical or systems issue in accordance with subparagraph (g)(1) above, then NES shall liquidate the error positions as soon as practicable. NES shall:
- (i) provide complete time and price discretion for the trading to liquidate the error positions to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; and

(ii) establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and NES/the Exchange associated with the liquidation of the error positions.

(4) NES and the Exchange shall make and keep records to document all determinations to treat positions as error positions and all determinations for the assignment of error positions to members or the liquidation of error positions, as well as records associated with the liquidation of error positions through the third-party broker-dealer.

### **Sec. 12 Anonymity**

(a) The transaction reports produced by the System will indicate the details of the transactions, and shall not reveal contra party identities.

(b) BX shall reveal a Participant's identity in the following circumstances:

(1) when a registered clearing agency ceases to act for a participant, or the Participant's clearing firm, and the registered clearing agency determines not to guarantee the settlement of the Participant's trades;

(2) for regulatory purposes or to comply with an order of an arbitrator or court;

(3) if both Participants to the transaction consent;

(4) Unless otherwise instructed by a member, BX will reveal to a member, no later than the end of the day on the date an anonymous trade was executed, when the member's Order has been decremented by another Order submitted by that same member.

### **Sec. 13 Transaction Price Binding**

The price at which an order is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report shall not be binding if an order was not actually executed but was reported to have been executed in error.

### **Sec. 14 Authorization to Give Up**

(a) General. All transactions will automatically clear through the Participant's guarantor at the time of the trade. For each transaction in which a Participant participates, the Participant may indicate, through post-trade allocation, any Options Clearing Corporation ("OCC") number of a Clearing Participant through which a transaction will be cleared ("Give Up"), provided the Clearing Participant has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s) ("Restricted OCC Number"). A Participant may Give Up a Restricted OCC Number provided the Participant has written authorization as described in paragraph (b)(ii) below ("Authorized Participant").

(b) *Opt In.* Clearing Participants may request the Exchange restrict one or more of their OCC clearing numbers (“Opt In”) as described in subparagraph (i) below. If a Clearing Participant opts In, the Exchange will require written authorization from the Clearing Participant permitting a Participant to Give Up a Clearing Participant’s Restricted OCC Number. An Opt In would remain in effect until the Clearing Participant terminates the Opt In as described in subparagraph (iii) below. If a Clearing Participant does not Opt In, that Clearing Participant’s OCC number would be subject to Give Up by any Participant.

(i) *Clearing Participant Process to Opt In.* A Clearing Participant may Opt In by sending a completed “Clearing Member Restriction Form” listing all Restricted OCC Numbers and Authorized Participants. A Clearing Participant may elect to restrict one or more OCC clearing numbers that are registered in its name at OCC. The Clearing Participant would be required to submit the Clearing Member Restriction Form to the Exchange’s Membership Department as described on the form. Once submitted, the Exchange requires ninety days before a Restricted OCC Number is effective within the System.

(ii) *Participant Give Up Process for Restricted OCC Numbers.* A Participant desiring to Give Up a Restricted OCC Number must become an Authorized Participant. The Clearing Participant will be required to authorize a Participant as described in subparagraph (i) or (iii), unless the Restricted OCC Number is already subject to a Letter of Guarantee that the Participant is a party to, as set forth in paragraph (d) below.

(iii) *Amendments to Authorized Participants or Restricted OCC Numbers.* A Clearing Participant may amend its Authorized Participants or Restricted OCC Numbers by submitting a new Clearing Member Restriction Form to the Exchange’s Membership Department indicating the amendment as described on the form. Once a Restricted OCC Number is effective within the System pursuant to paragraph (i) above, the Exchange may permit the Clearing Participant to authorize, or remove authorization for, a Participant to Give Up the Restricted OCC Number intra-day only in unusual circumstances, and on the next business day in all regular circumstances. The Exchange will promptly notify Participants if they are no longer authorized to Give Up a Clearing Participant’s Restricted OCC Number. If a Clearing Participant removes a Restricted OCC Number, any Participant may Give Up that OCC clearing number once the removal has become effective on or before the next business day.

(c) *System.* The System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry.

(d) *Letter of Guarantee.* A clearing arrangement subject to a Letter of Guarantee would immediately permit the Give Up of a Restricted OCC Number by the Participant that is party to the arrangement.

(e) An intentional misuse of this rule is impermissible, and may be treated as a violation of BX Rule 2110 and Chapter III, Section 1.

### **Sec. 15 Submission for Clearance**

(a) All options transactions effected on BX Options shall be submitted for clearance to the Clearing Corporation, and all such transactions shall be subject to the Rules of the Clearing Corporation. Every Clearing Participant shall be responsible for the clearance of BX Options Transactions of such Clearing Participant and of each Options Participant that gives up such Clearing Participant's name pursuant to a Letter of Guarantee, written authorization to become an Authorized Member under Chapter VI, Section 14, or other authorization given by such Clearing Participant to such Options Participant, which authorization must be submitted to BX.

(b) On each business day at or prior to such time as may be prescribed by the Clearing Corporation, BX Options shall furnish the Clearing Corporation a report of each Clearing Participant's matched trades.

### **Sec. 16 Fees, Dues and Other Charges**

(a) The Board of Directors shall have the power (i) to establish, assess and levy such fees, dues and other charges (including, without limitation, any extraordinary assessments) upon Participants and any other persons using the facilities or services of the Exchange, and upon applicants for and persons being admitted, registered, qualified and/or initiated to any such status, in each case as the Board of Directors may from time to time establish by resolution or in the Rules of the Exchange (which shall be deemed to include any schedule of fees, dues, other charges and penalties as may be in effect from time to time), (ii) to establish rebates, credits and discounts with respect to any of the foregoing, (iii) to establish programs whereby the Exchange shares or permits any person to participate in any identified source of revenues (less any expenses or other charges as the Exchange shall determine) of the Exchange, (iv) to provide for the direct reimbursement to the Exchange of any cost, expense or category thereof, and (v) except insofar as otherwise specified or provided for in the By-Laws, to establish and assess penalties for failure to pay any fees, dues or charges owed to the Exchange, including, without limitation, termination of membership (which membership may be reissued) and forfeiture of all rights as a member. The Board of Directors may authorize any committee thereof or the Chair of the Board of Directors to exercise any powers of the Board of Directors with respect to the assessment of fees, dues, other charges and penalties authorized in accordance with this Section.

(b) Without limiting the generality of the provisions of the By-Laws, the Board of Directors may, from time to time, fix and impose charges upon Participants, measured by their respective net commissions on transactions effected on the Exchange. Such charges shall be payable at such times and shall be collected in such manner as may be determined by the Board of Directors.

(c) The obligation of Participants to abide by the provisions of these By-Laws and the Rules of the Exchange shall include, without limitation, the obligation to pay all

applicable fees, dues and other charges imposed thereon by these By-Laws or the Rules of the Exchange.

(d) The Board of Directors or their designee may suspend or terminate, after due notice, any permit or rights of any Participant or employee thereof using facilities or services of the Exchange, or enjoying any of the privileges therein, who shall not pay dues, fees, other charges, other monies due and owed the Exchange, fines and/or other monetary sanctions in accordance with the Rules of the Exchange.

### **Sec. 17 Message Traffic Mitigation**

For the purpose of message traffic mitigation, based on BX Options 's traffic with respect to target traffic levels and in accordance with BX Options 's overall objective of reducing both peak and overall traffic:

(a) BX Options will periodically delist options with an average daily volume ("ADV") of less than 100 contracts. BX will, on a monthly basis, determine the ADV for each series listed on BX Options and delist the current series and not list the next series after expiration where the ADV is less than 100 contracts. For options series traded solely on BX Options, BX will delay delisting until there is no open interest in that options series.

(b) BX Options will implement a process by which an outbound quote message that has not been sent, but is about to be sent, will not be sent if a more current quote message for the same series is available for sending. This replace on queue functionality will be applied to all options series listed on the BX Options Market in real time and will not delay the sending of any messages.

(c) When the size associated with a bid or offer increases by an amount less than or equal to a percentage (never to exceed 20%) of the size associated with the previously disseminated bid or offer, BX Options will not disseminate the new bid or offer.

(d) All message traffic mitigation mechanisms which are used on BX Options will be identical for the OPRA "top of the book" broadcast.

### **Sec. 18 Risk Protections**

(a) The following are order risk protections on BX:

(1) **Order Price Protection ("OPP")**. OPP is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to market orders or Intermarket Sweep Orders.

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

- (i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.
  - (ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.
- (2) **Market Order Spread Protection.** System Orders that are Market Orders will be rejected if the best of the NBBO and the internal market BBO (the "Reference BBO") is wider than a preset threshold at the time the order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.
- (b) The following are order and quote risk protections on BX:
- (1) **Acceptable Trade Range.** The system will calculate an Acceptable Trade Range to limit the range of prices at which an order will be allowed to execute. The Acceptable Trade Range is calculated by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders). Upon receipt of a new order, the reference price is the NBB for sell orders and the NBO for buy orders or the last price at which the order is posted whichever is higher for a buy order or lower for a sell order.
    - (A) If an order reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the reference price for calculating a new Acceptable Trade Range. If the order remains unexecuted, a New Acceptable Trade Range will be calculated and the order will execute, route, or post up to the new Acceptable Trade Range Threshold Price. This process will repeat until either i) the order/quote is executed, cancelled, or posted at its limit price or ii) the order has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).
    - (B) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the

Exchange will return to a normal trading state and disseminate its best bid and offer.

(c) The following are quote risk protections on BX:

(1) **Anti-Internalization.** Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution. This functionality shall not apply in any auction.

(2) **Quotation Adjustments.**

(A) A BX Market Maker may provide a specified time period and a specified percentage (as these terms are defined below) by which the Exchange's System will automatically remove a BX Market Maker's quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during a specified time period established by the BX Market Maker not to exceed 15 seconds ("Percentage-Based Specified Time Period"). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the number of contracts available at the time of execution plus the number of contracts executed in unexpired prior executions of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a BX Market Maker, not less than 1% ("Specified Percentage"), the System will automatically remove a BX Market Maker's quotes in all series of the underlying security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period ("Percentage-Based Threshold"). A Percentage-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage -Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

(B) A BX Market Maker may provide a specified time period and a volume threshold by which the Exchange's System will automatically remove a BX Market Maker's quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during a specified time period established by the BX Market Maker not to exceed 15 seconds ("Volume-

- Based Specified Time Period") when the BX Market Maker executes a number of contracts which equals or exceeds the designated number of contracts in all options series in an underlying security ("Volume-Based Threshold"). The BX Market Maker's Volume-Based Specified Time Period must be the same length of time as designated for purposes of the Percentage-Based Threshold. A Volume-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (f)(iv) or (f)(v) or the Volume-Based Specified Time Period expires. The Volume-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Volume-Based Specified Time Periods occurring simultaneously and such Volume-Based Specified Time periods may overlap.
- (C) A BX Market Maker or BX Market Maker Group (multiple affiliated BX Market Makers is a "Group" as defined by a BX Participant and provided by such Participant to the Exchange) may provide a specified time period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated BX protocols as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period established by the BX Market Maker not to exceed 15 seconds ("Multi-Trigger Specified Time Period"), the number of times the System automatically removes the BX Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage-Based Threshold, described in (f)(i) above, as well as the Volume-Based Threshold described in (f)(ii) above. Once the System determines that the number of triggers equals or exceeds a number established by either the BX Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that BX Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes in all options series in an underlying issue. A Multi-Trigger Specified Time Period will commence after every trigger of either the Percentage-Based Threshold or the Volume-Based Threshold and will continue until the System removes quotes as described in (f)(iv) or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the BX Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.
- (D) The System will automatically remove quotes in all options in an underlying security when the Percentage-Based Threshold or Volume-Based Threshold has been reached. The System will automatically remove quotes in all options in all underlying securities when the Multi-Trigger Threshold has been reached. The System will send a Purge Notification Message to the BX Market Maker for all affected options when the above thresholds have been reached.

- (i) The Percentage-Based Threshold or Volume-Based Threshold and Multi-Trigger Threshold, are considered independently of each other.
  - (ii) Quotes will be automatically executed up to the BX Market Maker's size regardless of whether the execution exceeds the Percentage-Based Threshold or Volume-Based Threshold.
- (E) If a BX Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Percentage-Based Threshold or Volume-Based Specified Time Period(s). The Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.
- (F) When the System removes quotes as a result of the Percentage-Based Threshold or Volume-Based Threshold, the BX Market Maker must send a reentry indicator to re-enter the System. When the System removes quotes as a result of the Multi-Trigger Threshold, the System will not accept quotes through designated protocols until the BX Market Maker manually requests re-entry. After quotes are removed as a result of the Multi-Trigger Threshold, Exchange staff must set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the BX Market Maker for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.
- (G) The Exchange will require BX Market Makers to utilize either the Percentage-Based Threshold or the Volume-Based Threshold. The Multi-Trigger Threshold is optional.

## **Sec. 19 Data Feeds and Trade Information**

(a) The following data feeds are offered by BX:

- (1) BX Depth of Market (BX Depth) is a data feed that provides full order and quote depth information for individual orders and quotes on the BX Options book, last sale information for trades executed on BX Options, and Order Imbalance Information as set forth in BX Options Rules Chapter VI, Section 8. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on BX and identifies if the series is available for closing transactions only.
- (2) BX Top of Market (BX Top) is a data feed that provides the BX Options Best Bid and Offer and last sale information for trades executed on BX Options. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and

whether the option series is available for trading on BX and identifies if the series is available for closing transactions only.

(b) The following order and execution information is available to Participants:

- (1) **Clearing Trade Interface ("CTI")** is a real-time clearing trade update message that is sent to a Participant after an execution has occurred and contains trade details specific to that Participant. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or The Options Clearing Corporation or "OCC" number; (ii) Exchange badge or house number; (iii) the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity.
- (2) **TradeInfo**, a user interface, permits a Participant to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) cancellation of open orders at the order, port or firm mnemonic level; (iii) a view of orders and executions; and (iv) download of orders and executions for recordkeeping purposes.
- (3) **FIX DROP** is a real-time order and execution update message that is sent to a Participant after an order been received/modified or an execution has occurred and contains trade details specific to that Participant. The information includes, among other things, the following: (i) executions; (ii) cancellations; (iii) modifications to an existing order and (iv) busts or post-trade corrections.

## **Sec. 20 Exchange Sharing of Participant-Designated Risk Settings**

The Exchange may share any Participant-designated risk settings in the Trading System with the Clearing Participant that clears transactions on behalf of the Participant.

## **Sec. 21 Order and Quote Protocols**

(a) Entry and Display of Orders and Quotes. Participants may enter orders and quotes into the System as specified below.

- (i) The Exchange offers Participants the following protocols for entering orders and quotes respectively:
  - (A) "**Financial Information eXchange**" or "**FIX**" is an interface that allows Participants and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.
  - (B) "**Specialized Quote Feed**" or "**SQF**" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the

following: (1) options symbol directory messages (e.g underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series.

## **Sec. 22 Kill Switch**

(a) BX Options Kill Switch is an optional tool that enables BX Options Participants to initiate a message(s) to the System to: (i) promptly remove quotes; and/or (ii) promptly cancel orders. Participants may submit a request to the System to remove/cancel quotes and/or orders based on certain identifier(s) on either a user or group level ("Identifier"). Permissible groups must reside within a single broker-dealer. The System will send an automated message to the BX Options Participant when a Kill Switch request has been processed by the Exchange's System.

(1) If quotes are cancelled by the BX Options Participant utilizing the Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The BX Options Participant will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

(2) If orders are cancelled by the BX Options Participant utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The BX Options Participant will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(3).

(3) After quotes and/or orders are removed/cancelled by the BX Options Participant utilizing the Kill Switch, the BX Options Participant will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the BX Options Participant has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the BX Options Participant. The applicable Clearing Participant also will be notified of the re-entry into the System after quotes and/or orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Participant has requested to receive such notification.

## **Sec. 23 Detection of Loss of Communication**

(a) When the SQF Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and automatically cancel all of the Participant's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same BX Options Market Maker ID and underlying issues.

- (1) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF, FIX or OTTO Port and the Client Application. The Heartbeat message sent by the Participant and subsequently received by the Exchange allows the SQF, FIX or OTTO Port to continually monitor its connection with the Participant.
- (2) SQF Port is the Exchange's System component through which Participants communicate their quotes from the Client Application.
- (3) FIX and OTTO Ports are the Exchange's System components through which Participants communicate their orders from the Client Application.
- (4) Client Application is the System component of the Participant through which the Exchange Participant communicates its quotes and orders to the Exchange.

(b) When the FIX Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to subparagraph (e) automatically cancel all open orders posted.

(c) When the OTTO Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to subparagraph (f) automatically cancel all open orders posted.

(d) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (i) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each Participant and may not be disabled.

- (1) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The Participant may change the default setting systemically prior to each session of connectivity.
- (2) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(e) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (b) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(A) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(B) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(f) The default time period ("nn" seconds) for OTTO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (c) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for OTTO Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(A) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(B) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(g) The trigger for the SQF, FIX and OTTO Ports is event and Client Application specific. The automatic cancellation of the BX Options Market Maker's quotes for SQF Ports and open orders for FIX and OTTO Ports entered into the respective SQF, FIX or OTTO Ports via a particular Client Application will neither impact nor determine the

treatment of the quotes of other BX Options Market Makers entered into SQF Ports or orders of the same or other Participants entered into the FIX or OTTO Ports via a separate and distinct Client Application.

## **Chapter VII Market Participants**

### **Sec. 1 Customer Orders and Order Entry Firms**

Order Entry Firms (OEFs) are those Options Participants representing as agent Customer Orders on BX Options or trading as principal on BX Options.

### **Sec. 2 Market Maker Registration**

Options Participants registered as Market Makers have certain rights and bear certain responsibilities beyond those of other Options Participants. All Market Makers are designated as specialists on BX Options for all purposes under the Exchange Act or Rules thereunder.

(a) To register as a Market Maker, a Participant must file an application in writing on such forms as BX Regulation may prescribe. BX Regulation reviews applications and considers an applicant's market making ability and such other factors as BX Regulation deems appropriate in determining whether to approve an applicant's registration as a Market Maker.

(b) The registration of any Participant as a Market Maker may be suspended or terminated by BX Regulation upon a determination that such Participant has failed to properly perform as a Market Maker.

(c) These Rules place no limit on the number of qualifying entities that may become Market Makers. However, based on system constraints, capacity restrictions or other factors relevant to protecting the integrity of the BX Options Trading System, the Board or its designee may limit access to the Trading System, for a period to be determined in the Board's discretion, pending any action required to address the issue of concern to the Board. To the extent that the Board places limitations on access to the Trading System on any Participant(s), such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Act.

### **Sec. 3 Continuing Market Maker Registration**

(a) An Options Participant that has qualified as an Options Market Maker may register to make markets in individual options.

(b) An Options Market Maker may become registered in an option by entering a registration request via a BX approved electronic interface with BX's systems. Registration shall become effective on the day the registration request is entered.

(c) An Options Market Maker's registration in an option shall be terminated if the Market Maker fails to enter quotations in the option within five (5) business days after the Market Maker's registration in the option becomes effective.

**Sec. 4 Good Standing for Market Makers**

(a) To remain in good standing as a Market Maker, the Market Maker must:

- i. continue to meet the requirements established in SEC Rule 15c3-1(a)(6)(i), and the general membership requirements set forth in the Rule 1010 Series of the BX Rules and the requirements for Market Makers as set forth in BX Rule 4611.
- ii. continue to satisfy the Market Maker qualification requirements specified by BX, as amended from time to time by BX;
- iii. comply with the Rules of the Exchange as well as the Rules of the OCC and the Federal Reserve Board; and
- iv. pay on a timely basis such Participation, transaction and other fees as the Exchange and BX Options shall prescribe.

(b) The good standing of a Market Maker may be suspended, terminated or otherwise withdrawn, as provided in the Rules, if any of said conditions for approval cease to be maintained or the Market Maker violates any of its agreements with the Exchange or any of the provisions of the Rules.

**Sec. 5 Obligations of Market Makers**

(a) In registering as a Market Maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Ordinarily, Market Makers are expected to:

- i. During trading hours, a Market Maker must maintain a two-sided market, pursuant to Section 6(d)(i) of this Chapter VII, in those options in which the Market Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.
- ii. Reserved.
- iii. Engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.
- iv. Compete with other Market Makers in all options in which the Market Maker is registered to trade.

- v. Make markets that will be honored for the number of contracts entered into BX Options' System in all options in which the Market Maker is registered to trade.
  - vi. Update quotations in response to changed market conditions in all options in which the Market Maker is registered to trade.
  - vii. Maintain active markets in all options in which the Market Maker is registered.
  - viii. Honor all orders that the Trading System routes to away markets pursuant to Chapter XII of these Rules.
- (b) Options Market Makers should not effect purchases or sales on BX Options except in a reasonable and orderly manner.
- (c) If BX Regulation finds any substantial or continued failure by an Options Market Maker to engage in a course of dealings as specified in paragraph (a) of this Section, such Options Market Maker will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the Market Maker is registered. Nothing in this Section will limit any other power of the Board under these Rules, or procedures of BX Options with respect to the registration of a Market Maker or in respect of any violation by a Market Maker of the provisions of this Section 5.
- (d) **Market Maker Orders.** Market Makers may enter all order types defined in Chapter VI, Section 1(e) in the options classes to which they are appointed and non-appointed.

#### **Sec. 6 Market Maker Quotations**

(a) *Size Associated with Quotes.* A Market Maker's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the Market Maker is willing to buy or sell. The best bid and best offer entered by a Market Maker must have a size of at least one (1) contract.

(b) *Two-Sided Quotes.*

A Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX Options must enter an offer (bid).

(c) *Firm Quotes.*

i. All quotes and orders entered into the System by Options Participants are firm under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602") for the number of contracts specified and according to the requirements of paragraph (a) above.

ii. Market Maker bids and offers are not firm under this Rule and Rule 602:

1) for the period prior to the Opening Cross; or

2) if any of the circumstances provided in paragraph (b)(3) or (c)(4) of Rule 602 exist.

**(d) *Intra-day Quotes.*** A Market Maker must enter bids and offers for the options to which it is registered, as follows:

**i.** A Market Maker must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. On a daily basis, a Market Maker must make markets consistent with the applicable quoting requirements specified below. An Options Participant will be required to meet each market making obligation separately. A Market Maker who is also the Lead Market Maker, pursuant to Chapter VII, Section 14, will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will be held to Market Maker obligations in all other options series where assigned. A Market Maker who receives a Directed Order, as described in Chapter VI, Section 10, shall be held to the standard of a Directed Market Maker as described in Chapter VII, Section 15.

**(1)** Market Makers, associated with the same Options Participant, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Options Participant's assigned options series are open for trading. Notwithstanding the foregoing, a Market Maker shall not be required to make two-sided markets pursuant to this Chapter VII, Section 6(d)(i)(1) in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

**(a)** An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

**(2)** Specifically, the Exchange will calculate subparagraph (1) above by (i) taking the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for Market Makers; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.

**(3)** BX Regulation may consider exceptions to the requirement to quote 60% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant's compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.

(4) If a technical failure or limitation of a System of BX prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to BX Options timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (1) with respect to the affected quotes.

ii. Bid/ask Differentials (Quote Spread Parameters). Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security. The Exchange may establish differences other than the above for one or more series or classes of options.

iii. A Market Maker may be called upon by BX Regulation to submit a single bid or offer or maintain continuous bids and offers in one or more of the series in options to which the Market Maker is registered whenever, in the judgment of BX Regulation, it is necessary to do so in the interest of fair and orderly markets.

(e) *Options Classes Other Than Those in Which Registered.* A Market Maker shall be considered an OEF under the Rules in all classes of options listed on BX Options. The total number of contracts executed by a Market Maker in options in which it is not registered as a Market Maker shall not exceed 25 percent of the total number of all contracts executed by the Market Maker in any calendar quarter.

(f) Reserved.

## **Sec. 7 Securities Accounts and Orders of Market Makers**

(a) *Identification of Accounts.* In a manner prescribed by BX Regulation, each Market Maker shall file with BX Regulation and keep current a list identifying all accounts for stock, options and related securities trading in which the Market Maker may, directly or indirectly, engage in trading activities or over which it exercises investment discretion. No Market Maker shall engage in stock, options or related securities trading in an account which has not been reported pursuant to this Section.

(b) *Reports of Orders.* Each Market Maker shall, upon request and in the prescribed form, report to BX Regulation every order entered by the Market Maker for the purchase or sale of (i) a security underlying options traded on BX Options, or (ii) a security convertible into or exchangeable for such underlying security, as well as opening and closing positions in all such securities held in each account reported pursuant to paragraph (a) of this Section. The report pertaining to orders must include the terms of each order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times report of execution were received and, if all or part of the order was executed, the quantity and execution price.

(c) *Joint Accounts.* No Market Maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any options contract unless each participant in such joint account is an Options Participant and unless such account is reported to, and not disapproved by, BX Regulation. Such reports in a form prescribed by BX Regulation shall be filed with BX Regulation before any transaction is effected on BX Options for such joint account. A participant in a joint account must:

- i. Be either a Market Maker or a Clearing Participant that carries the joint account.
- ii. File and keep current a completed application on such form as is prescribed by BX Regulation.
- iii. Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.
- iv. Not be a Market Maker registered to the same options classes to which the joint account holder is also registered as a Market Maker.

Commentary .01 Reports of accounts and transactions required to be filed with BX Options pursuant to this Rule relate only to accounts in which a Market Maker, as an individual, directly or indirectly controls trading activities or has a direct interest in the profits or losses of such account. Such reports would be required for accounts over which a Market Maker exercises investment discretion as well as a Market Maker's proprietary accounts.

### **Sec. 8 Letters of Guarantee**

(a) *Required of Each Options Participant.* No Options Participant shall make any transactions on BX Options unless a Letter of Guarantee has been issued for such Participant by a Clearing Participant and filed with BX Regulation, and unless such Letter of Guarantee has not been revoked pursuant to paragraph (c) of this Section.

(b) *Terms of Letter of Guarantee.* A Letter of Guarantee shall provide that the issuing Clearing Participant accepts financial responsibilities for all BX Options Transactions made by the guaranteed Participant.

(c) *Revocation of Letter of Guarantee.* A Letter of Guarantee filed with BX Regulation shall remain in effect until a written notice of revocation has been filed with BX Regulation by the Guarantor Clearing Participant. A revocation shall in no way relieve a Clearing Participant of responsibility for transactions guaranteed prior to the effective date of such revocation.

### **Sec. 9 Financial Requirements for Market Makers**

(a) Each Market Maker shall maintain (i) net liquidating equity in its Market Maker account of not less than \$200,000, and in conformity with such guidelines as the Board may establish from time to time, and (ii) net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each Market Maker which is a Clearing

Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation. This equity requirement, as well as all other provisions of the section (including capital maintenance requirements), applies to each Market Maker account, without regard to the number of Market Maker accounts per firm. The term "net liquidating equity" means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

(b) Each Market Maker that makes an arrangement to finance his transactions as a Market Maker must identify in writing to BX Regulation the source of the financing and its terms. BX Regulation must be informed immediately of the intention of any party to terminate or change any such arrangement.

#### **Sec. 10 Reserved**

Reserved.

#### **Sec. 11 Mass Cancellation of Trading Interest**

An Options Participant may simultaneously cancel all its bids, offers, and orders in all series of options by requesting BX Options operations staff to effect such cancellation.

#### **Sec. 12 Limitations on Order Entry**

(a) **Limitations on Principal Transactions.** With respect to orders routed to BX Options, Options Participants may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on BX Options for at least one (1) second or (ii) the Options Participant has been bidding or offering on BX Options for at least one (1) second prior to receiving an agency order that is executable against such bid or offer or (iii) orders entered into BX PRISM pursuant to Chapter VI, Section 9.

(1) This Rule prevents Options Participants from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on BX Options an opportunity to either trade with the agency order or to trade at the execution price when the Options Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Participant to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on BX Options and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of Section 12 for an Options Participant to be a party to any arrangement designed to circumvent Section 12 by providing an opportunity for a customer to regularly execute against agency orders handled by the Options Participant immediately upon their entry into BX Options.

(b) **Limit Orders.** Options Participants shall not enter Public Customer limit orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is

operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

(c) **Limitations on Solicitation Orders.** An Options Participant may not execute an order it represents as agent on BX Options against orders solicited from members and non-member broker-dealers, whether such solicited orders are entered into BX Options directly by the Options Participant or by the solicited party (either directly or through another Options Participant), if the Options Participant fails to expose orders on BX Options as required by this Rule unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, or (ii) the Options Participant orders entered into BX PRISM pursuant to Chapter VI, Section 9.

(d) Prior to or after submitting an order to BX Options, an Options Participant cannot inform another Options Participant or any other third party of any of the terms of the order for purposes of violating Chapter VII, Section 12.

### **Sec. 13 Lead Market Makers Allocations**

#### **A. LMM Appointment**

- (a) Approved BX Options Market Makers may become LMMs. Only one LMM may be allocated to an options class.
- (b) Initial application(s) to become an LMM shall be in a form and/or format prescribed by the Exchange and shall include the following: (1) background information on the prospective LMM including experience in trading options; (2) the LMM's clearing arrangements; (3) adequacy of capital; and (4) adherence to Exchange rules and ability to meet obligations of an LMM.
- (c) Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein, including, but not limited to, an account of the abilities and background of the applicant as well as any other special requirements that the Exchange may require.
- (d) Once an applicant is approved by the Exchange as an LMM, any material change in capital shall be reported in writing to the Exchange and in no circumstances shall be reported more than two business days after the change.

#### **B. LMM Allocation Application**

- (a) When an options class is to be allocated or reallocated by the Exchange, the Exchange will solicit applications from all eligible LMMs. If the Exchange determines that special qualifications should be sought in the successful applicant, it shall indicate such desired qualifications in the notice.

- (b) An allocation application shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name and background of the LMM, the LMM's experience and capitalization demonstrating an ability to trade the particular options class sought, and any other reasons why the LMM believes it should be assigned or allocated the security. In addition, the Exchange may also require that the application include other information such as system acceptance/execution levels and guarantees. The Exchange may re-solicit applications for any reason, including if it determines that its initial solicitation resulted in an insufficient number of applicants.
- (c) Allocation decisions and automatic allocations, as noted in subsection (g) below, shall be communicated in writing to Exchange members.
- (d) Once the LMM is allocated an issue, such LMM shall immediately notify the Exchange in writing any change to the respective system acceptance/execution levels or any other material change in the application for any assigned issue.
- (e) If an LMM seeks to withdraw from allocation in a security, it should so notify the Exchange at least one business day prior to the desired effective date of such withdrawal.
- (f) Definition of Related Securities. For purposes of this Rule, the term "Related Securities" means, but is not limited to: securities of a partially or wholly owned subsidiary; securities that are convertible into the securities of the issuer; warrants on securities of the issuer; securities issued in connection with a name change; securities issued in a reverse stock split; contingent value rights; "tracking" securities designed to track the performance of the underlying security or corporate affiliate thereof; securities created in connection with the merger or acquisition of one or more companies; securities created in connection with a "spinoff" transaction; convertible on non-convertible senior securities; and securities into which a listed security is convertible, where such Related Securities emanate from or are related to securities underlying options that are currently allocated to a LMM on the Exchange ("Currently Allocated Options"). The term Related Securities does not include Exchange Traded Funds.
- (g) Allocation of Options on Related Securities. Options on Related Securities ("Related Options") shall be automatically allocated to the LMM that is already the LMM in Currently Allocated Options.

### C. LMM Allocation

- (a) Allocations. The Exchange shall allocate new options classes, or reallocate existing options classes to applicants based on the results of such factors as the Exchange deems appropriate. Among the factors that the Exchange may consider in making such decisions are: the number and type of securities in which applicants are currently registered; the capital and other resources of the applicant; recent

allocation decisions within the past eighteen months; the desirability of encouraging the entry of new LMMs into the Exchange's market; order flow commitments; any prior transfers of LMM privileges by the applicant and the reasons therefore and such policies as the Board instructs the Exchange to follow in allocating or reallocating securities. The Exchange may also consider: quality of markets data; and observance of ethical standards and administrative responsibilities. Solely with respect to options class allocations or reallocations, past or contemplated voluntary delisting of options classes by LMMs, done in the best interest of the Exchange, will not be viewed negatively by the Exchange in making allocation and reallocation decisions. The Exchange is empowered to allocate option classes for a limited period of time or subject to such other terms and conditions as it deems appropriate.

#### D. LMM Allocation, Reallocation and Transfer of Issues

Requests to allocate or transfer allocation or transfer of an options class request must be made in writing to the Exchange and such transfer may only be made to an approved LMM. The LMM shall be assigned LMM to an options class for a period defined by the Exchange. The Exchange will communicate such period in solicitation applications (notices) pursuant to Section B (LMM Allocation Application) herein. The Exchange may re-allocate an options class after the defined period has expired.

#### **Sec. 14 LMM Obligations and Quotations**

- (a) *General.* Transactions of an LMM should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no LMM should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.
- (b) *Obligations in Appointed Classes.* With respect to each class of options in his or her appointment, an LMM is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, an LMM is expected to perform the following activities in the course of maintaining a fair and orderly market.
  - (i) To compete with other LMMs and Market Makers to improve the market in all series of options classes to which the LMM is appointed.
  - (ii) To make markets that will be honored for the number of contracts entered into the Trading System in all series of options classes within the LMM's appointment.
  - (iii) To update market quotations in response to changed market conditions in all series of options classes within the LMM's appointment.

- (iv) Options traded on the Trading System may be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid.
  - (v) BX Regulation may establish quote width differences other than as provided in subparagraph (iv) for one or more options series.
  - (vi) In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsections (b)(iv)-(v), the permissible price differential for any in-the-money option series may be identical to those in the underlying security market. In the case of the at-the-money and out-of-the-money series, BX Regulation may waive the requirements of subsections (b)(iv)-(v) on a case-by-case basis when the bid/ask differential for the underlying security is greater than .50. In such instances, the bid/ask differentials for the at-the-money series and the out-of-the-money series may be half as wide as the bid/ask differential in the underlying security in the primary market. Exemptions from subsections (b)(iv)-(v) are subject to Exchange review. BX Regulation must file a report with BX operations setting forth the time and duration of such exemptive relief and the reasons therefore.
- (c) *Unusual Conditions - Opening Auction.* If the interest of maintaining a fair and orderly market so requires, BX Regulation may declare that unusual market conditions exist in a particular issue and allow LMMs in that issue to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under this Rule. In making such determinations to allow wider markets, BX Regulation should consider the following factors: (A) whether there is pending news, a news announcement or other special events; (B) whether the underlying security is trading outside of the bid or offer in such security then being disseminated; (C) whether Options Participants receive no response to orders placed to buy or sell the underlying security; and (D) whether a vendor quote feed is clearly stale or unreliable.
- (i) In the event that BX Regulation determines that unusual market conditions exist in any option, it will be the responsibility of BX Regulation to file a report with Exchange Operations setting forth the relief granted for the unusual market conditions, the time and duration of such relief and the reasons therefore.
- (d) *In Classes of Option Contracts Other Than Those to Which Appointed.* With respect to classes of option contracts outside of their appointment, LMMs should not engage in transactions for an account in which they have an interest that are disproportionate in relation to, or in derogation of, the performance of their obligations as specified in this Rule with respect to the classes in their appointment. Furthermore, LMMs should not:
- (i) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; and

- (ii) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

(e) *Prohibited Practices and Procedures.*

- (i) Any practice or procedure whereby LMMs trading any particular option issue determine by agreement the spreads or option prices at which they will trade that issue is prohibited.
- (ii) Any practice or procedure whereby LMMs trading any particular option issue determine by agreement the allocation of orders that may be executed in that issue is prohibited.

(f) LMM Quotations. An LMM must enter two-sided quotations. An LMM that enters a bid (offer) in a series of an option in which he is registered on BX must enter an offer (bid), except in an assigned options series listed intra-day on BX. These quotations must meet the legal quote width requirements specified in Chapter VII, Section 14(b)(iv), (v) and (vi). A Market Maker who is also the Lead Market Maker, pursuant to this Chapter VII, Section 14, will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will be held to Market Maker obligations in all other options series where assigned pursuant to Chapter VII, Section 6(d).

(1) LMMs, associated with the same Options Participant, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Option Participant's assigned options series are open for trading. An LMM shall not be required to make two-sided markets in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater. However, a LMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Chapter VI, Section 10.

(a) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(2) Specifically, the Exchange will calculate subparagraph (1) above by (i) taking the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.

- (3) BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.
- (4) If a technical failure or limitation of a System of the Exchange prevents a LMM from maintaining, or prevents a LMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the LMM has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this intra-day electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.
- (g) *Required Submission of Quotations.* An LMM may be called upon by BX Regulation to submit a single quote or maintain intra-day quotes in one or more series of an option issue within its appointment whenever, in the judgment of BX Regulation, it is necessary to do so in the interest of maintaining fair and orderly markets.
- (h) *Firm Quotes.* An LMM shall be compelled to buy/sell a specified quantity of option contracts at the disseminated bid/offer pursuant to his obligations with respect to firm quotes.
- (i) All quotes and orders entered into the System by Options Participants are firm under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("SEC Rule 602") for the number of contracts specified and according to the size requirements set forth herein.
- (ii) Market Maker bids and offers are not firm under this Rule and SEC Rule 602:
- (1) for the period prior to the Opening Cross; or
  - (2) if any of the circumstances provided in paragraph (b)(3) or (c)(4) of SEC Rule 602 exist.

### **Sec. 15 Directed Market Makers**

Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of this Section 15, Directed Market Makers provided they indicated to the Exchange, in a form specified, that they will receive Directed Orders.

- (i) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Market Maker is quoting at or improving the Exchange's disseminated price, the Directed Order shall be automatically executed and allocated in accordance with Chapter VI, Section 10 such that the Directed Market Maker shall receive a Directed Market Maker participation entitlement provided for therein.
- (ii) When (a) the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Market Maker on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, or (b) the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be processed as though it were not a Directed Order.
- (iii) A Directed Market Maker must enter two-sided quotations. A Directed Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX must enter an offer (bid), except in an assigned options series listed intra-day on BX. These quotations must meet the legal quote width requirements specified in Chapter VII, Section 6(d)(ii). A Market Maker who receives a Directed Order, as described in Chapter VI, Section 10, shall be held to the standard of a Directed Market Maker as described in Chapter VII, Section 15.
  - (a) Directed Market Makers, associated with the same Options Participant, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Options Participant's assigned options series are open for trading. An Options Participant shall be considered directed in all assigned options once the Options Participant receives a Directed Order in any option in which they are assigned and shall be considered a Directed Market Maker until such time as an Options Participant notifies the Exchange that they are no longer directed. Notwithstanding the foregoing, an Options Participant shall not be required to make two-sided markets in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater. Notwithstanding the obligations specified in subparagraph (iii) above, a Directed Market Maker may still receive a participation entitlement in such series if it elects to quote in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater series and otherwise satisfies the requirements of Chapter VI, Section 10.
    - (i) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").
    - (b) Specifically, the Exchange will calculate subparagraph (a) above by (i) taking the total number of seconds the Options Participant disseminates quotes in each

- assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.
- (c) BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant compliance with this rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.
- (d) If a technical failure or limitation of a System of the Exchange prevents a Directed Market Maker from maintaining, or prevents a Directed Market Maker from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the Directed Market Maker has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this intra-day electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

## **Chapter IX Records, Reports and Audits**

### **Sec. 1 Maintenance, Retention and Furnishing of Books, Records and Other Information**

- (a) Each Options Participant shall make, keep current and preserve such books and records as BX Regulation may prescribe pursuant to the Rules of the Exchange and as may be prescribed by the Exchange Act and the rules and regulations thereunder.
- (b) No Options Participant shall refuse to make available to BX Regulation such books, records or other information as may be called for under the Rules of the Exchange or as may be requested in connection with an investigation by BX Regulation.
- (c) All Options Participants shall prepare and make available all books and records as required by the Rules of the Exchange in English and U.S. dollars.

### **Sec. 2 Reports of Uncovered Short Positions**

- (a) Upon request of BX Regulation, each Options Participant shall submit a report of the total uncovered short positions in each options contract of a class dealt in on BX Options showing:
- i. positions carried by such Options Participant for its own account and

- ii. positions carried by such Options Participant for the accounts of Customers;
- iii. provided that the Options Participant shall not report positions carried for the accounts of other Options Participants where such other Options Participants report the positions themselves.

(b) Such report shall be submitted not later than the second business day following the date the request is made.

### **Sec. 3 Financial Reports and Audits**

Each Options Participant shall submit to BX Regulation answers to financial questionnaires, reports of income and expenses and additional financial information in the type, form, manner and time prescribed by the Exchange or BX Regulation under the Rules of the Exchange.

### **Sec. 4 Automated Submission of Trade Data**

(a) An Options Participant shall submit requested trade data elements, in such automated format as may be prescribed by BX Regulation from time to time, in regard to a transaction(s) that is the subject of the particular request for information.

(b) If the transaction was a proprietary transaction effected or caused to be effected by the Options Participant for any account in which such Participant, or any person associated with the Options Participant, is directly or indirectly interested, the Participant shall submit or cause to be submitted, any or all of the following information as requested by BX Regulation:

- i. Clearing house number or alpha symbol as used by the Options Participant submitting the data;
- ii. Clearing house number(s) or alpha symbol(s) as may be used from time to time, of the Options Participant(s) on the opposite side of the transaction;
- iii. Identifying symbol assigned to the security and where applicable for the options month and series symbols;
- iv. Date transaction was executed;
- v. Number of option contracts for each specific transaction and whether each transaction was an opening or closing purchase or sale, as well as:
  - 1) the number of shares traded or held by accounts for which options data is submitted;
  - 2) where applicable, the number of shares for each specific transaction and whether each transaction was a purchase, sale or short sale;
- vi. Transaction price;

**vii.** Account number; and

**viii.** Market center where transaction was executed.

(c) If the transaction was effected or caused to be effected by the Options Participant for any Customer, such Options Participant shall submit or cause to be submitted any or all the following information as requested by BX Regulation:

**i.** Data elements (i) through (viii) of paragraph (b) above;

**ii.** If the transaction was effected for a Public Customer, customer name, address(es), branch office number, representative number, whether the order was discretionary, solicited or unsolicited, date the account was opened and employer name and tax identification number(s); and

**iii.** If the transaction was effected for a Participant broker-dealer customer, whether the broker-dealer was acting as a principal or agent on the transaction or transactions that are the subject of BX Regulation's request.

(d) In addition to the above trade data elements, an Options Participant shall submit such other information in such automated format as may be prescribed by BX Regulation, as may from time to time be required.

(e) BX Regulation may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (b) and (c) above be submitted to BX Regulation in an automated format.

## **Sec. 5 Regulatory Cooperation**

(a) BX Regulation may enter into agreements that provide for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and other regulatory purposes, with domestic and foreign self-regulatory organizations, as well as associations and contract markets and the regulators of such markets.

(b) No Options Participant, partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange or BX Regulation shall refuse to appear and testify before another exchange or self-regulatory organization in connection with a regulatory investigation, examination or disciplinary proceeding or refuse to furnish documentary materials or other information or otherwise impede or delay such investigation, examination or disciplinary proceeding if the Exchange or BX Regulation requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange or BX Regulation pursuant to paragraph (a) of this Section, including but not limited to Participants and affiliates of the Intermarket Surveillance Group. The requirements of this paragraph (b) shall apply regardless whether the Exchange or BX Regulation has itself initiated a form investigation or disciplinary proceeding.

(c) Whenever information is requested by BX Regulation pursuant to this Section, the Options Participant or person associated with a Participant from whom the information is requested shall have the same rights and procedural protections in responding to such request as such Participant or person would have in the case of any other request for information initiated by BX Regulation pursuant to BX Regulation's investigative powers.

### **Sec. 6 Risk Analysis of Market Maker Accounts**

(a) Each Clearing Participant that clears or guarantees the transactions of Market Makers pursuant to Chapter VII, Section 8 of these Rules (Letters of Guarantee), shall establish and maintain written procedures for assessing and monitoring the potential risks to the Participant's capital over a specified range of possible market movements of positions maintained in such Market Maker accounts and such related accounts as BX Regulation shall from time to time direct.

i. Current procedures shall be maintained as current and filed with BX Regulation.

ii. The procedures shall specify the computations to be made, the frequency of computations, the records to be reviewed and maintained and the position(s) within the organization responsible for the risk management.

(b) Each affected Participant shall at a minimum assess and monitor its potential risk of loss from options Market Maker accounts each business day as of the close of business the prior day through use of a BX Regulation-approved computerized risk analysis program, which shall comply with at least the minimum standards specified below and such other standards as from time to time may be prescribed by BX Regulation:

i. The estimated loss to the Clearing Participant for each Market Maker account (potential account deficit) shall be determined given the impact of broad market movements in reasonable intervals over a range from negative fifteen percent (15%) to positive fifteen percent (15%).

ii. The Participant shall calculate volatility using a method approved by BX Regulation, with volatility updated at least weekly. The program must have the capability of expanding volatility when projecting losses throughout the range of broad market movements.

iii. Options prices shall be estimated through use of recognized options pricing models such as, but not limited to, Black-Scholes and Cox-Reubenstein.

iv. At a minimum, written reports shall be generated which describe for each market scenario:

1) projected loss per options class by account;

2) projected total loss per options class for all accounts; and

3) projected deficits per account and in aggregate.

Upon direction by BX Regulation, each affected Participant shall provide to BX Regulation such information as it may reasonably require with respect to the Participant's risk analysis for any or all of its Market Maker accounts.

### **Sec. 7 Anti-Money Laundering Compliance Program**

Each Options Participant shall comply with BX Rule 3011.

## **Chapter X Discipline and Summary Suspensions**

### **Sec. 1 Imposition of Suspension**

(a) An Options Participant or person associated with an Options Participant that has been expelled or suspended from any SRO or barred or suspended from being associated with a Participant of any SRO, or an Options Participant that is in such financial or operating difficulty that BX Regulation determines that the Options Participant cannot be permitted to continue to do business as a Participant with safety to investors, creditors, other Options Participants, or BX Options, may be summarily suspended.

(b) BX Regulation may limit or prohibit any person with respect to access to services offered by BX Options if any of the criteria of the foregoing sentence is applicable to such person or, in the case of a person who is an Options Participant, if the Exchange determines that such person does not meet the qualification requirements or other prerequisites for such access with safety to investors, creditors, Options Participants or the Exchange.

(c) In the event a determination is made to take summary action pursuant to this Section, notice thereof will be sent to the SEC.

(d) Any person aggrieved by any summary action taken under this Section shall be promptly afforded an opportunity for a hearing by BX Regulation in accordance with the provisions of the 9500 Rules of the Exchange.

(e) A summary suspension or other action taken pursuant to this Chapter IX shall not be deemed to be disciplinary action under the 9500 Rules of the Exchange. The provisions of such 9500 Rules shall be applicable regardless of any action taken pursuant to this Chapter X.

### **Sec. 2 Investigation Following Suspension Violations**

(a) Every Options Participant or person associated with a Participant against which action has been taken in accordance with the Summary Suspension procedures of these Rules shall immediately afford every facility required by BX Regulation for the investigation of his or its affairs and shall forthwith file with the Secretary a written statement covering all information requested, including a complete list of creditors and the amount owing to each and a complete list of each open long and short position in BX Options contracts maintained by the Options Participant and each of his or its Customers.

(b) Paragraph (a) includes, without limitation, the furnishing of such books and records of the Options Participant or person associated with an Options Participant and the giving of such sworn testimony as may be requested by BX Regulation.

### **Sec. 3 Reinstatement Following Suspension**

#### **(a) General.**

**i.** An Options Participant, person associated with an Options Participant or other person suspended or limited or prohibited with respect to access to services offered by BX Options under the Summary Suspension procedures of these Rules may apply for reinstatement within the time period set forth below.

**ii.** Notice of an application for reinstatement shall be given to the Secretary by the Participant and shall be posted by BX Regulation at least five (5) business days prior to the consideration by BX Regulation of said application.

**iii.** BX Regulation may approve an application for reinstatement if it finds that the applicant is operationally and financially able to conduct his business with safety to investors, creditors, Participants, and BX Options.

#### **(b) Suspension Due to Operating Difficulty.**

**i.** An applicant that, by reason of operating difficulty, has been suspended or limited or prohibited with respect to BX Options services, must file any application for reinstatement within six (6) months from the date of such action. Such application must include a statement of all actions taken by the applicant to remedy the operational difficulty in question.

**ii.** If the applicant fails to receive reinstatement, or if the application is not acted upon ninety (90) days of its submission, the applicant shall be afforded an opportunity for a hearing in accordance with the provisions of the 9000 Rules of the Exchange

#### **(c) Suspension Due to Financial Difficulty.**

**i.** An applicant who, by reason of financial difficulty, has been suspended or limited or prohibited with respect to BX Options services, must file any application for reinstatement within thirty (30) days of such action.

**ii.** Such application must include a list of all creditors of the applicant a statement of the amount originally owing and the nature of the settlement in each case, and such other information as may be requested by BX Regulation.

**iii.** The Participant status of an Options Participant summarily suspended by reason of financial difficulty may not be disposed of by BX Regulation until that Participant has been afforded an opportunity for a hearing respecting such summary suspension pursuant to the provisions of the 9000 Rules of the Exchange.

**Sec. 4 Failure to Obtain Reinstatement**

If an Options Participant suspended under the provisions of this Chapter X fails or is unable to apply for reinstatement in accordance with Section 3 of this Chapter X or fails to obtain reinstatement as therein provided, his or its Participant status shall be disposed of by BX Regulation in accordance with the 9500 Rules of the Exchange.

**Sec. 5 Termination of Rights by Suspension**

An Options Participant suspended under the provisions of this Chapter X shall be deprived during the term of his or its suspension of all rights and privileges of Participation.

**Sec. 6 Contracts of Suspended Participants**

(a) When an Options Participant, other than a Clearing Participant, is suspended pursuant to Chapter X of these Rules (Summary Suspension), all open short positions of the suspended Options Participant in options contracts and all open positions resulting from exercise of options contracts, other than positions that are secured in full by a specific deposit or escrow deposit in accordance with the Rules of the Clearing Corporation, shall be closed without unnecessary delay by all Participants carrying such positions for the account of the suspended Participant; provided that BX Regulation may cause the foregoing requirement to be temporarily waived for such period as it may determine if it shall deem such temporary waiver to be in the interest of the public or the other Participants of BX Options.

(b) No temporary waiver hereunder by BX Regulation shall relieve the suspended Options Participant of its obligations or of damages, nor shall it waive the close out requirements of any other Rules.

(c) When a Clearing Participant is suspended pursuant to Chapter X (Summary Suspension) of these Rules, the positions of such Clearing Participant shall be closed out in accordance with the Rules of the Clearing Corporation.

**Sec. 7 Penalty for Minor Rule Violations**

The following BX Options rule and policy violations may be determined by BX Regulation to be minor in nature. If so, BX Regulation may, with respect to any such violation, proceed under the 9200 Series Rules of the Exchange and impose the fine set forth below. BX Regulation is not required to proceed under said Sections as to any rule violation and may, whenever such action is deemed appropriate, commence a disciplinary proceeding under the 9200 Series Rules of the Exchange as to any such violation. A subsequent violation is calculated on the basis of a rolling 24-month period ("Period").

(a) *Position Limit Violations.* Violations of Chapter III, Section 7 of these Rules (Position Limit) are subject to fines as follows:

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<b>Number of Cumulative Violations Within Any Twenty four Month</b>	<b>Sanction (Imposed on Exchange Members or violations occurring in</b>
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<b>Rolling Period*</b>	<b>all other accounts)</b>
First Offense	\$500
Second Offense	\$1,000
Third Offense	\$2,500
Fourth and Each Subsequent Offense	\$5,000

\* A violation that consists of (i) a 1 trade date overage, (ii) a consecutive string of trade date overage violations where the position does not change or where a steady reduction in the overage occurs, or (iii) a consecutive string of trade date overage violations resulting from other mitigating circumstances, may be deemed to constitute one offense, provided that the violations are inadvertent.

**(b) Order Entry.** Violations of Chapter VII, Section 6(a) - (c) of these Rules, (Market Maker Quotations) regarding restrictions on orders entered by Market Makers, will be subject to the fines listed below. Each paragraph of such sections subject to this Rule shall be treated separately for purposes of determining the number of cumulative violations.

Number of Violations Fine Amount Within One Period

1 to 5	Letter of Caution
6 to 10	\$500
11 to 15	\$1000
16 to 20	\$2000

**(c) Intra-day Quotes.** Violations of Chapter VII, Section 6(d) of these Rules regarding Market Maker intra-day bids and offers shall be subject to the fines listed below. Violations of the rule that continue over consecutive trading days will be subject to a separate fine, pursuant to this paragraph (d), for each day during which the violation occurs and is continuing up to a limit of fifteen consecutive trading days. In calculating fine thresholds for each Market Maker, all violations occurring within the Period in any of the Market Makers registered series are to be added together.

Number of Cumulative Fine Amount Violations Within One Period

1	Letter of Caution
2 or more	\$300 per day

**(d) LOPR Reporting and Position Limit Violations.** Violations of Chapter III, Section 7-10 of these Rules regarding position limits and maintaining and furnishing reports related to applicable position limits for Options contracts.

FINE SCHEDULE	LOPR Reporting	Position Limits
First Offense	\$1,000	\$500
Second Offense	\$2,500	\$1,000
Subsequent Offense	\$5,000	\$2,500

**(e) Expiring Exercise Declaration Rules.** Violations of Options 5, Section 100 of these Rules regarding exercise of Options Contracts, allocation of exercise notices and delivery and payment of the underlying security.

FINE SCHEDULE	Individual	Firm
First Offense	\$500	\$1,000
Second Offense	\$1,000	\$2,500
Subsequent Offense	\$2,500	\$5,000

**(f) Audit Trail Submissions and Record Keeping Requirements.** Chapter V, Sections 7, regarding the submission of audit trail information; and Chapter IX, Sections 1-3 of these Rules regarding information to be recorded, retained and provided upon request by BX Regulation or other applicable regulatory entity.

FINE SCHEDULE	Audit Trail Information	Records Provisions
First Offense	\$1,500	\$2,000
Second Offense	\$3,000	\$4,000
Subsequent Offense	\$5,000	\$5,000

**(g) Representation of Orders.** Chapter VII, Section 12 of these Rules regarding Options Participants' restriction on execution of principal orders they represent as agent unless proper exposure parameters are applied.

FINE SCHEDULE	
First Offense	\$1,000
Second Offense	\$2,500
Subsequent Offense	\$5,000

**(h) Trade Reporting.** Chapter VI, Sections 14 and 15 of these Rules regarding all transactions effected on BX Options shall be submitted for clearance to the Clearing Corporation, the Options Participants' obligation to give up the name of the Clearing Participants and the prompt reporting of any change in this identity to BX Options.

FINE SCHEDULE

First Offense	\$1,500
Second Offense	\$3,000
Subsequent Offense	\$5,000

**(i) Locked and Cross Market Violations.** Chapter XII, Section 3 of these Rules (Locked and Crossed Markets) regarding procedures to be followed in the instance of a Locked or a Crossed Market.

#### FINE SCHEDULE

First Offense	\$500
Second Offense	\$1,000
Subsequent Offense	\$2,500

**(j) Trade-Through Violations.** Chapter XII, Section 2(a) of these Rules (Order Protection) regarding tradethroughs.

#### FINE SCHEDULE

First Offense	\$500
Second Offense	\$1,000
Subsequent Offense	\$2,500

**(k) Failure to Timely File Amendments to Form U4, Form U5 and Form BD.** Any member and/or participant organization that is required to file Form U4, Form U5 or Form BD pursuant to Section 1031 of the BX Rules and the Securities and Exchange Act of 1934, and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Members and/or participant organizations shall amend Form U4, Form U5 and Form BD not later than thirty (30) days after the filer knew of or should have known of the need for the amendment.

#### FINE SCHEDULE (Implemented on a running 12 month period)

First Offense	\$500
Second Offense	\$1,000
Subsequent Offense	\$2,000

### **Chapter XI Doing Business with the Public**

#### **Sec. 1 Eligibility**

An OEF may only transact business with Public Customers if such Participant also is a member of another registered national securities exchange or association with which the Exchange has entered into an agreement under Rule 17d-2 under the Exchange Act pursuant to which such other exchange or association shall be the designated options

examining authority for the OEF. Eligibility to transact business with the public shall be based upon an OEF's meeting the general requirements set forth in this Chapter and the net capital requirements set forth in Exchange Act Rule 15c3-1 (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

### **Sec. 2 Registration of Options Principals**

No OEF shall be approved to transact options business with the public until those associated persons who are designated as Options Principals have been approved by and registered with the Exchange. Persons engaged in the management and supervision of the OEF's business pertaining to options contracts shall be designated as Options Principals and shall have responsibility for the overall oversight of the OEF's options related activities on the Exchange.

### **Sec. 3 Registration of Representatives**

(a) No OEF shall be approved to transact business with the public until those persons associated with it who are designated representatives have been approved by and registered with the Exchange.

(b) Persons who perform duties for the OEF which are customarily performed by sales representatives or branch office managers shall be designated as representatives of the OEF. A person accepting orders from non-member customers (unless such customer is a broker-dealer registered with the Securities and Exchange Commission) is required to register with the Exchange and to be qualified by passing the General Securities Registered Representative Examination (Series 7).

### **Sec. 4 Other Affiliations of Registered Persons**

Except with the express written permission of BX Regulation, every registered person shall devote his entire time during business hours to the business of the OEF employing him, or to the business of its affiliates that are engaged in the transaction of business as a broker or dealer in securities or commodities or in such other businesses as have been approved by the OEF's designated examining authority.

### **Sec. 5 Discipline, Suspension, Expulsion of Registered Persons**

The Exchange or BX Regulation may discipline, suspend or terminate the registration of any registered person for violation of the Rules of the Exchange or the Rules of the Clearing Corporation.

### **Sec. 6 Branch Offices**

(a) Every OEF approved to do options business with the public under this Chapter shall file with BX Regulation and keep current a list of each of its branch offices showing the location of each such office and the name of the manager of each such office.

(b) No branch office of an OEF shall transact options business with the public unless the manager of such branch office has been qualified as a Registered Options and Security Futures Principal; provided, that this requirement shall not apply to branch offices in

which not more than three (3) representatives are located so long as the OEF can demonstrate to the satisfaction of BX Regulation that the options activities of such branch offices are appropriately supervised by a Registered Options and Security Futures Principal.

### **Sec. 7 Opening of Accounts**

**(a) Approval Required.** No OEF shall accept an order from a Public Customer to purchase or write an options contract unless the Public Customer's account has been approved for options transactions in accordance with the provisions of this Section.

**(b) Diligence in Opening Account.** In approving a Public Customer's account for options transactions, an OEF shall exercise due diligence to learn the essential facts as to the Public Customer and his investment objectives and financial situation, and shall make a record of such information, which shall be retained in accordance with SEC Rule 17a-4 under the Exchange Act. Based upon such information, the branch office manager or other Options Principal shall approve in writing the Public Customer's account for options transactions; provided, that if the branch office manager is not an Options Principal, his approval shall within a reasonable time be confirmed by an Options Principal.

**i.** In fulfilling its obligations under this paragraph (b) with respect to options Public Customers that are natural persons, an OEF shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

- 1)** investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);
- 2)** employment status (name of employer, self-employed or retired);
- 3)** estimated annual income from all sources;
- 4)** estimated net worth (exclusive of primary residence);
- 5)** estimated liquid net worth (cash, securities, other);
- 6)** marital status;
- 7)** number of dependents;
- 8)** age; and
- 9)** investment experience and knowledge (e.g., number of years, size, frequency and type of transactions for options, stocks and bonds, commodities, other).

**ii.** In addition to the information required in subparagraph (b)(i) above, the Public Customer's account records shall contain the following information, if applicable:

- 1) the source or sources of background and financial information (including estimates) concerning the Public Customer;
- 2) discretionary trading authorization, including agreement on file, name, relationship to Public Customer and experience of person holding trading authority;
- 3) date(s) options disclosure document(s) furnished to Public Customer;
- 4) nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions);
- 5) name of representative;
- 6) name of the Options Principal approving account;
- 7) date of approval; and
- 8) dates of verification of currency of account information.

**iii.** Refusal of a Public Customer to provide any of the information called for in this paragraph (b) shall be so noted on the Public Customer's records at the time the account is opened. Information provided shall be considered together with other information available in determining whether and to what extent to approve the account for options transactions.

**(c) Verification of Public Customer Background and Financial Information.** The background and financial information upon which the account of every new Public Customer that is a natural person has been approved for options trading, including all of the information required in paragraph (b)(ii) of this Section, unless the information is included in the Public Customer's account agreement, shall be sent to the Public Customer for verification or correction within fifteen (15) days after the Public Customer's account has been approved for options transactions. A copy of the background and financial information on file with the OEF shall also be sent to the Public Customer for verification within fifteen (15) days after the OEF becomes aware of any material change in the Public Customer's financial situation. Absent advice from the Public Customer to the contrary, the information will be deemed to be verified.

**(d) Agreements to Be Obtained.** Within fifteen (15) days after a Public Customer's account has been approved for options transactions, an OEF shall obtain from the Public Customer a written agreement that the account shall be handled in accordance with the Rules of the Exchange and the Rules of the Clearing Corporation and that such Public Customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Chapter III, Section 7 and 9 of these Rules.

**(e) Options Disclosure Documents to Be Furnished.** At or prior to the time a Public Customer's account is approved for options transactions, an OEF shall furnish the Public

Customer with one (1) or more current options disclosure documents issued by the OCC in accordance with the requirements of Section 15 of this Chapter XI (Delivery of Current Options Disclosure Documents and Prospectus).

(f) Every OEF transacting business with the public in uncovered options contracts shall develop, implement and maintain specific written procedures governing the conduct of such business that shall at least include the following:

- i. specific criteria and standards to be used in evaluating the suitability of a Public Customer for uncovered short options transactions;
- ii. specific procedures for approval of accounts engaged in writing uncovered short options contracts (which for the purposes of this Section shall include combinations and any transactions that involve naked writing), including written approval of such accounts by an Options Principal;
- iii. designation of a specific Registered Options and Security Futures Principal(s) as responsible for approving accounts that do not meet the specific criteria and standards for writing uncovered short options transactions and for maintaining written records of the reasons for every account so approved;
- iv. establishment of specific minimum net equity requirements for initial approval and maintenance of Public Customer uncovered options accounts; and
- v. requirements that Public Customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short options transactions, at or prior to the initial uncovered short options transaction pursuant to Section 15 of this Chapter XI (Delivery of Current Options Disclosure Documents and Prospectus).

### **Sec. 8 Supervision of Accounts**

(a) *Duty to Supervise - General.* Each member that conducts a public customer options business shall ensure that its written supervisory system policies and procedures pursuant to FINRA Rules 3110, 3120, 3130 and 3170 adequately address the member's public customer options business.

(b) *Duty to Supervise — Non-Participant Accounts.* Every OEF shall develop and implement a written program for the review of its non-Participant Public Customer accounts and all orders in such accounts, insofar as such accounts and orders relate to options contracts.

(c) *Duty to Supervise — Uncovered Short Options.* Every OEF shall develop and implement specific written procedures concerning the manner of supervision of Public Customer accounts maintaining uncovered short (written) options positions (which for the purposes of this Section shall include combinations and any transactions that involve

naked writing) and specifically providing for frequent supervisory review of such accounts.

(d) Reserved.

(e) *Maintenance of Public Customer Records.* Background and financial information of Public Customers who have been approved for options transactions shall be maintained at the principal supervisory office having jurisdiction over the office servicing a Public Customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each Public Customer's options account on a timely basis to determine:

- i. the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;
- ii. the size and frequency of options transactions;
- iii. commission activity in the account;
- iv. profit or loss in the account;
- v. undue concentration in any options class or classes; and
- vi. compliance with the provisions of Regulation T of the Federal Reserve Board.

### **Sec. 9 Suitability of Recommendations**

(a) Every OEF, Options Principal or representative who recommends to a Public Customer the purchase or sale (writing) of any options contract shall have reasonable grounds for believing that the recommendation is not unsuitable for such Public Customer on the basis of the information furnished by such Public Customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such OEF, Options Principal or representative.

(b) No OEF, Options Principal or representative shall recommend to a Public Customer an opening transaction in any options contract unless the person making the recommendation has a reasonable basis for believing at the time of making the recommendation that the Public Customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the options contract.

### **Sec. 10 Discretionary Accounts**

(a) *Authorization and Approval Required.* No OEF shall exercise any discretionary power with respect to trading in options contracts in a Public Customer's account unless such Public Customer has given prior written authorization and the account has been accepted in writing by a Registered Options and Security Futures Principal.

- i.** Each participant shall designate specific Registered Options and Security Futures Principals to review discretionary accounts. A Registered Options and Security Futures Principal other than the Registered Options and Security Futures Principal who accepted the account shall review the acceptance of each discretionary account to determine that the Registered Options and Security Futures Principal accepting the account had a reasonable basis for believing that the Public Customer was able to understand and bear the risks of the strategies or transactions proposed, and the reviewing Registered Options and Security Futures Principal shall maintain a record of the basis for his determination.
- ii.** Every discretionary order shall be identified as discretionary on the order at the time of its entry into BX Options market.
- iii.** Discretionary accounts shall receive frequent appropriate supervisory review by a Registered Options and Security Futures Principal who is not exercising the discretionary authority.
- (b) Record of Transactions.** A record shall be made of every options transaction for an account with respect to which an OEF is vested with any discretionary power, such record to include the name of the Public Customer, options class and series, number of contracts, premium, and date and time when such transaction took place.
- (c) Excessive Transactions Prohibited.** No OEF shall effect with or for any Public Customer's account with respect to which such Participant is vested with any discretionary power any transactions of purchase or sale of options contracts that are excessive in size or frequency in view of the financial resources and character of such account.
- (d) Options Programs.** Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the Public Customer shall be furnished with a written explanation of the nature and risks of such programs.
- (e) Discretion as to Price or Time Excepted.** This rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts in a specified security shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent a specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined in Rule 3110(c)(4), pursuant to valid Good-Till-Cancelled instructions issued on a "not held" basis. Any exercise of time and price discretion must be reflected on the order ticket.
- (f)** Any participant that does not utilize computerized surveillance tools for the frequent and appropriate review of discretionary account activity must establish and implement procedures to require Registered Options and Security Futures Principal qualified

individuals who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

### **Sec. 11 Confirmation to Public Customers**

(a) Every OEF shall promptly furnish to each Public Customer a written confirmation of each transaction in options contracts that shows the underlying security, type of options, expiration month, exercise price, number of options contracts, premium, commissions, date of transaction and settlement date, and shall indicate whether the transaction is a purchase or sale and whether a principal or agency transaction.

(b) The confirmation shall, by appropriate symbols, distinguish between Exchange options transactions and other transactions in option contracts though such confirmation does not need to specify the exchange or exchanges on which such option contracts were executed.

### **Sec. 12 Statement of Accounts to Public Customers**

(a) Every OEF shall send to its Public Customers a statement of account showing security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement; provided, however, that such charges need not be specifically delineated on the statement if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

(b) With respect to options Public Customers having a general (margin) account, the Public Customer statement shall also provide the mark-to-market price and market value of each options position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account, and the general (margin) account equity. For purposes of this paragraph (b), general (margin) account equity shall be computed by subtracting the total of the short security values and any debit balance from the total of the long security values and any credit balance.

(c) The Public Customer statement shall bear a legend stating that further information with respect to commissions and other charges related to the execution of listed options transactions has been included in confirmations of such transactions previously furnished to the Public Customer, and that such information will be made available to the Public Customer promptly upon request.

(d) Public Customer statements shall bear a legend requesting that the Public Customer promptly advise the Participant of any material change in the Public Customer's investment objectives or financial situation.

(e) Public Customer statements shall be sent at least quarterly to all accounts having a money or a security position during the preceding quarter and at least monthly to all accounts having an entry during the preceding month.

**Sec. 13 Statements of Financial Condition to Public Customers**

Every OEF shall send to each of its Public Customers statements of the Participant's financial condition as required by SEC Rule 17a-5 under the Exchange Act.

**Sec. 14 Addressing of Communications to Public Customers**

No OEF shall address any communications to a Public Customer in care of any other person unless either: (1) the Public Customer, within the preceding twelve (12) months, has instructed the OEF in writing to send communications in care of such other persons, or (2) duplicate copies are sent to the Public Customer at some other address designated in writing by him.

**Sec. 15 Delivery of Current Options Disclosure Documents and Prospectus**

**(a) Options Disclosure Documents.** Every OEF shall deliver a current options disclosure document issued by the OCC to each Public Customer at or prior to the time such Public Customer's account is approved for options transactions. Where a Public Customer is a broker or dealer, the OEF shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current options disclosure documents, as requested by the broker or dealer, to enable it to comply with the requirements of this Section 15.

**i.** The term "current options disclosure document" means, as to any category of underlying security, the most recent edition of such document that meets the requirements of Rule 9b-1 under the Exchange Act.

**ii.** A copy of each amendment to an options disclosure document shall be furnished to each Public Customer who was previously furnished the options disclosure document to which the amendment pertains, not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such Public Customer. BX Regulation will advise OEFs when an options disclosure document is amended.

**(b)** The written description of risks required by this Section 15 shall be in a format prescribed by the Exchange or in a format developed by the Participant, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

**(c)** Below is a sample risk description for use by OEFs to satisfy the requirements of paragraph (b) of this Section 15:

*Special Statement for Uncovered Options Writers.*

*There are special risks associated with uncovered options writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all Public Customers approved for options transactions.*

- 1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.*
- 2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.*
- 3. Uncovered options writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.*
- 4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.*
- 5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.*
- 6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period. NOTE: It is expected that you will read the booklet entitled CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS available from your broker. In particular, your attention is directed to the chapter entitled Risks of Buying and Writing Options. This statement is not intended to enumerate all of the risks entailed in writing uncovered options.*

#### **Sec. 16 Restrictions on Pledge and Lending of Public Customers' Securities**

**(a)** No OEF shall lend, either to itself or to others, securities carried for the account of any Public Customer, unless such OEF shall first have obtained a separate written authorization from such Public Customer permitting the lending of the securities.

**(b)** Regardless of any agreement between an OEF and a Public Customer authorizing the OEF to lend or pledge such securities, no OEF shall lend or pledge more of such securities than is fair and reasonable in view of the indebtedness of the Public Customer to such OEF, except such lending as may be specifically authorized under paragraph (c) of this Section 16.

(c) No OEF shall lend securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be loaned in view of the indebtedness of the Public Customer, unless such OEF first obtains from such Public Customer a separate written authorization designating the particular securities to be loaned.

(d) No OEF shall hold securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be pledged in view of the indebtedness of the Public Customer, unless such securities are segregated and identified by a method that clearly indicates the interest of such Public Customer in those securities.

### **Sec. 17 Transactions of Certain Public Customers**

(a) No OEF shall execute any transaction in securities or carry a position in any security in which:

i. an officer or employee of the Exchange, BX Regulation, BX Options or any national securities exchange that is a participant of the Clearing Corporation, or an officer or employee of a corporation in which the Exchange, or such other exchange owns the majority of the capital stock, is directly or indirectly interested, without the prior written consent of the Exchange; or

ii. a partner, officer, director, principal shareholder or employee of another OEF is directly or indirectly interested, without the consent of such other OEF.

(b) Where the required consent has been granted, duplicate reports of the transaction and position shall promptly be sent to the Exchange or OEF, as the case may be.

### **Sec. 18 Guarantees**

No OEF shall guarantee a Public Customer against loss in his account or in any transaction effected with or for such Public Customer.

### **Sec. 19 Profit Sharing**

(a) No OEF, person associated with an OEF or Options Principal shall share directly or indirectly in the profits or losses in any Public Customer's account, whether carried by such OEF, or any other OEF, without the prior written consent of the OEF carrying the account.

(b) Where such consent is obtained, the OEF, person associated with an OEF or Options Principal shall share in the profits or losses in such account only in direct proportion to the financial contribution made to the account by such person.

### **Sec. 20 Assuming Losses**

No OEF shall assume for its own account any position established for a Public Customer in a security traded on the Exchange after a loss to the Public Customer has been established or ascertained, unless the position was created by the OEF's mistake or unless approval of BX Regulation has first been obtained.

**Sec. 21 Transfer of Accounts**

Every Options Participant shall expedite the transfer of a customer's account pursuant to BX Rules IM-2110-7 and 11870.

**Sec. 22 Communications with Public Customers**

Options Participants and associated persons of Options Participants shall be bound to comply with the Communications with Public Customers rule of the FINRA, as applicable, as though said rules were part of these Rules

**Sec. 23 Fidelity Bond**

Options Participants approved to transact business with the public under these Rules and every Clearing Participant shall comply with all applicable provisions of BX Rule 3020.

**Sec. 24 Public Customer Complaints**

(a) Every OEF conducting a non-Participant Public Customer business shall make and keep current a separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved.

(b) The term "options-related complaint" shall mean any written statement by a Public Customer or person acting on behalf of a Public Customer alleging a grievance arising out of or in connection with listed options.

(c) The central file shall be located at the principal place of business of the Participant or such other principal office as shall be designated by the OEF.

i. Each options-related complaint received by a branch office of an OEF shall be forwarded to the office in which the separate, central file is located not later than thirty (30) days after receipt by the branch office.

ii. A copy of every options-related complaint shall be maintained at the branch office that is the subject of a complaint.

(d) At a minimum, the central file shall include:

i. identification of complainant;

ii. date complaint was received;

iii. identification of the representative servicing the account, if applicable;

iv. a general description of the subject of the complaint; and

v. a record of what action, if any, has been taken by the Participant with respect to the complaint.

**Sec. 25 Telephone Solicitation**

Options Participants and associated persons shall comply with all applicable provisions of BX Rule 2212.

**Chapter XII Options Order Protection and Locked and Crossed Market Rules****Sec. 1 Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of this Chapter XII:

- (1) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.
- (2) "Bid" or "Offer" means the bid price or the offer price communicated by a member of an Eligible Exchange to any Broker/Dealer, or to any customer, at which it is willing to buy or sell, as either principal or agent, but shall not include indications of interest.
- (3) "Broker/Dealer" means an individual or organization registered with the SEC in accordance with Section 15(b)(1) of the Exchange Act or a foreign broker or dealer exempt from such registration pursuant to Rule 15a-6 under the Exchange Act.
- (4) "Complex Trade" means: (i) the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different option series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular investment strategy; or (ii) the execution of a stock-option order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.
- (5) "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.
- (6) "Customer" means an individual or organization that is not a Broker/Dealer.
- (7) "Eligible Exchange" means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

- (8) "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- (9) "Intermarket Sweep Order (ISO)" means a limit order for an options series that meets the following requirements:
- (a) When routed to an Eligible Exchange, the order is identified as an ISO;
  - (b) Simultaneously with the routing of the order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.
- (10) "Locked Market" means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an Eligible Options Class.
- (11) "NBBO" means the national best bid and offer in an option series as calculated by an Eligible Exchange.
- (12) "Non-Firm" means, with respect to quotations, that Members of an Eligible Exchange are relieved of their obligation to be firm for their quotations pursuant to Rule 602 under the Exchange Act.
- (13) "OCC" means The Options Clearing Corporation.
- (14) "OPRA" means the Options Price Reporting Authority.
- (15) "OPRA Plan" means the plan filed with the SEC pursuant to Section 11Aa(1)(C)(iii) of the Exchange Act, approved by the SEC and declared effective as of January 22, 1976, as from time to time amended.
- (16) "Participant" means an Eligible Exchange whose participation in the Plan has become effective pursuant to Section 3(c) of the Plan.
- (17) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.
- (18) "Protected Bid" or "Protected Offer" means a Bid or Offer in an options series, respectively, that:
- (a) Is disseminated pursuant to the OPRA Plan; and
  - (b) Is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.
- (19) "Protected Quotation" means a Protected Bid or Protected Offer.

(20) "Quotation" means a Bid or Offer.

(21) "SEC" means the United States Securities and Exchange Commission.

(22) "Trade-Through" means a transaction in an options series at a price that is lower than a Protected Bid or higher than a Protected Offer.

## **Sec. 2 Order Protection**

(a) *Avoidance of Trade-Throughs.* Except as provided in paragraphs (b) and (c) below, Members shall not effect Trade-Throughs.

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

(1) If an Eligible Exchange repeatedly fails to respond within one second to incoming orders attempting to access its Protected Quotations, the Exchange may bypass those Protected Quotations by:

(i) Notifying the non-responding Eligible Exchange immediately after (or at the same time as) electing self-help; and

(ii) Assessing whether the cause of the problem lies with its own systems and, if so, taking immediate steps to resolve the problem;

Any time a determination to bypass Protected Quotations of an Eligible Exchange is made pursuant to this sub-paragraph, the Exchange must promptly document the reasons supporting such determination.

(2) The transaction traded through a Protected Quotation being disseminated by an Eligible Exchange during a trading rotation;

(3) The transaction that constituted the Trade-Through occurred when there was a Crossed Market;

(4) The transaction that constitutes the Trade-Through is the execution of an order identified as an ISO;

(5) The transaction that constitutes the Trade-Through is effected by the Exchange while simultaneously routing an ISO to execute against the full displayed size of any better-priced Protected Quotation;

(6) The Eligible Exchange displaying the Protected Quotation that was traded through had displayed, within one second prior to execution of the Trade-Through, a Best bid or Best offer, as applicable, for the options series with a price that was equal or inferior to the price of the Trade-Through transaction;

(7) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;

(8) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;

(9) The transaction that constituted the Trade-Through was the execution of an order for which, at the time of receipt of the order, a Member had guaranteed an execution at no worse than a specified price (a "stopped order"), where:

(i) the stopped order was for the account of a Customer;

(ii) the Customer agreed to the specified price on an order-by-order basis; and

(iii) the price of the Trade-Through was, for a stopped buy order, lower than the national Best Bid in the options series at the time of execution, or, for a stopped sell order, higher than the national Best Offer in the options series at the time of execution;

(10) The transaction that constituted the Trade-Through was the execution of an order that was stopped at a price that did not Trade-Through an Eligible Exchange at the time of the stop; or

(11) The transaction that constituted the Trade-Through was the execution of an order at a price that was not based, directly or indirectly, on the quoted price of the options series at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

### **Sec. 3 Locked and Crossed Markets**

(a) *Prohibition.* Except for quotations that fall within the provisions of paragraph (b) of this Rule, Members shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a Protected Quotation.

(b) *Exceptions.*

(1) The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment;

(2) The locking or crossing quotation was displayed at a time when there is a Crossed Market; or

(3) The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

### **Sec. 4 Reserved**

Reserved.

## **Chapter XIII Margin Requirements**

### **Sec. 1 General Rule**

No Participant or associated person may effect a transaction or carry an account for a Customer, whether a Participant or non-Participant of BX Options, without proper and adequate margin in accordance with this Chapter XIII and Regulation T.

### **Sec. 2 Time Margin Must be Obtained**

The amount of margin required by this Chapter XIII shall be obtained as promptly as possible and in any event within a reasonable time.

### **Sec. 3 Margin Requirements**

(a) A Participant or associated person must be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or the New York Stock Exchange ("NYSE") as the same may be in effect from time to time.

(b) Such election shall be made in writing by a notice filed with BX Regulation.

(c) Upon the filing of such election, a Participant or associated person shall be bound to comply with the margin rules of the CBOE or the NYSE, as applicable, as though said rules were part of these Rules.

### **Sec. 4 Margin Required is Minimum**

(a) The amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby: but nothing in these Rules shall be construed to prevent a Participant or associated person from requiring margin in an amount greater than that specified.

(b) BX Options may at any time impose higher margin requirements with respect to such positions when it deems such higher margin requirements to be advisable.

### **Sec. 5 Joint Back Office Participants**

(a) *Requirements for Joint Back Office Participants.* Every Participant or associated person that maintains a joint back office ("JBO") arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System that is not an NYSE member and that has elected instead to be bound by CBOE margin requirements shall comply with the requirements prescribed below:

i. Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 and subject to the capital requirements prescribed by Rule 15c3-1 therein; and shall not be eligible to operate under the provisions of SEC Rule 15c3-1(b)(i).

ii. Each JBO participant must meet and maintain a minimum account equity requirement of \$1,000,000 with each clearing broker-dealer where a JBO account is carried. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or

securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Chapter XIII of these Rules.

**iii.** Each JBO participant must meet and maintain the ownership standards established by the clearing broker-dealer; and

**iv.** Each JBO participant must employ (or have access to) a qualified Series 27 principal.

**(b) Requirements for Clearing Participants Carrying the Accounts of JBO Participants.** Every Clearing Participant carrying JBO accounts in accordance with Regulation T, Section 220.7 of the Federal Reserve Board is subject to the requirements outlined below:

**i.** Each Participant which carries JBO accounts shall not allow its (a) tentative net capital to fall below \$25 million; or in the alternative its (b) net capital to fall below \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options market maker accounts and provided that at least 60% of the sum of gross haircuts calculated for all options market maker and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options market maker transactions. In addition, the firm operating pursuant to (b) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of gross options market maker deductions to adjusted net capital in accordance with the provisions of SEC Rule 15c3-1.

**ii.** Each Participant which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Chapter XIII of these Rules.

**iii.** Each Participant which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO Participant's account equity and the proprietary haircut calculated pursuant to SEC Rule 15c3- 1 for the positions maintained in such account.

**iv.** Each Participant which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.

**v.** The Participant must develop risk analysis standards which are acceptable to the BX Regulation. At minimum these standards must comply with the requirements of Chapter IX, Section 6 of these Rules.

**vi.** Each Participant which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing, of its intention to carry such accounts.

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

***Supplementary Material: . . .***

.01 JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Chapter XIII of these Rules.

**Chapter XIV Index Rules**

**Sec. 1 Application of Index Rules**

The Sections in this Chapter are applicable only to index options (options on indices of securities as defined below). The Sections in Chapters I through XIII are also applicable to the options provided for in this Chapter, unless such Sections are specifically replaced or are supplemented by Sections in this Chapter. Where the Sections in this Chapter indicate that particular indices or requirements with respect to particular indices will be "Specified," BX Options shall file a proposed rule change with the Commission to specify such indices or requirements.

**Sec. 2 Definitions**

**(a)** The term "aggregate exercise price" means the exercise price of the options contract times the index multiplier.

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

**(c)** The term "A.M.-settled index option" means an index options contract for which the current index value at expiration shall be determined as provided in Section 11(a)(5) of this Chapter

**(d)** The term "call" means an options 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 current index value times the index multiplier.

**(e)** The term "current index value" with respect to a particular index options contract means the level of the underlying index reported by the reporting authority for the index, or any multiple or fraction of such reported level specified by BX Options. The current

index value with respect to a reduced-value long term options contract is one-tenth of the current index value of the related index option. The "closing index value" shall be the last index value reported on a business day.

**(f)** The term "exercise price" means the specified price per unit at which the current index value may be purchased or sold upon the exercise of the option.

**(g)** Unless separately defined elsewhere in these Rules, the term "expiration date" means (i) in the case of such an option expiring prior to February 1, 2015, the Saturday immediately following the third Friday of the expiration month of such option contract; and (ii) in the case of such an option expiring on or after February 1, 2015, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange on which such option is listed is not open for business, the preceding day on which such Exchange is open for business. Notwithstanding the foregoing, in the case of certain options expiring on or after February 1, 2015 that the Clearing Corporation has designated as grandfathered, the term "expiration date" shall mean the Saturday immediately following the third Friday of the expiration month.

**(h)** The term "European-style index option" means an option on an industry or market index that can be exercised only on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day prior to the day it expires.

**(i)** The term "index multiplier" means the amount 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 contract.

**(j)** The term "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries.

**(k)** The term "market index" and "broad-based index" mean an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

**(l)** The term "put" means an options 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 current index value times the index multiplier.

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

**(n)** The term "reporting authority" with respect to a particular index means the institution or reporting service designated by BX as the official source for (1) calculating the level of the index from the reported prices of the underlying securities that are the basis of the

index and (2) reporting such level. The reporting authority for each index approved for options trading on BX Options shall be Specified (as provided in Section 1 of this Chapter) in the Supplementary Material to this Section 2.

(o) The term "Short Term Option Series" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively.

(p) The term "underlying security" or "underlying securities" with respect to an index options contract means any of the securities that are the basis for the calculation of the index.

## **Supplementary Material to Section 2**

### **01. Index Reporting Authority-**

Reserved.

### **Sec. 3 Designation of a Broad-Based Index**

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Section 3 of Options 4 of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) BX Options may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least \$75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least \$100 million;

- (6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Options 4 applicable to individual underlying securities;
- (7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;
- (8) No single component security accounts for more than ten percent (10%) 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 thirty-three percent (33%) of the weight of the index;
- (9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;
- (10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;
- (11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, or one or more major market data vendors during the time options on the index are traded on BX Options;
- (12) BX Options reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of BX Options' current Independent System Capacity Advisor ("ISCA") allocation and the number of new messages per second expected to be generated by options on such index;
- (13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;
- (14) If an 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 an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;
- (15) BX Options has written surveillance procedures in place with respect to surveillance of trading of options on the index.
- (c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:
- (1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) 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 ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

#### **Sec. 4 Dissemination of Information**

(a) BX Options shall disseminate, or shall assure that the current index value is disseminated, after the close of business and from time-to-time on days on which transactions in index options are made on BX OPTIONS.

(b) BX Options shall maintain, or shall assure that the current index value is maintained 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 current index value.

#### **Sec. 5 Position Limits for Broad-Based Index Options**

(a) Options Participants shall comply with the following applicable rules:

(1) of the Chicago Board Options Exchange with respect to position limits for broad-based index options or with the applicable rules of BX Options for broad-based index options traded on BX Options but not traded on the Chicago Board Options Exchange;

(2) of Nasdaq PHLX LLC ("PHLX") with respect to position limits for PHLX proprietary products;

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value indices. For such purposes, ten reduced-value contracts shall equal one contract.

#### **Sec. 6 Designation of Narrow-Based and Micro-Narrow-Based Index Options**

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Options 4 of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index.* BX Options may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, 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, equal dollar-weighted, or modified capitalization-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 or a modified 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 30% 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% (65% 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 Options 4, Section 3 applicable to individual underlying securities;
- (8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.
- (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.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(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 or a modified 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 BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless such failure is determined by BX Options 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.

(d) Notwithstanding paragraph (a) above, BX Options may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading

volume of less than \$50,000,000 (or in the case of an index with 15 or more component securities, \$30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

**(2)** The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal-dollar weighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

**(i)** For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. BX Options reserves the right to rebalance quarterly at its discretion.

**(ii)** For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

**(iii)** For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, BX Options will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

**(iv)** BX Options may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

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

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that 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 may have an average daily trading volume of only 22,750 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) 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 daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

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

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

(10) If the 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 in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

- (1) The index meets the criteria of paragraph (d)(1) of this Rule;
- (2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Options 4.
- (3) Each component security in the index has a market capitalization of at least \$75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only \$50 million;
- (4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and
- (5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;
- (6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on BX Options;
- (7) If the 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 in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;
- (8) 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;
- (9) 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;
- (10) In a capitalization-weighted index and a modified 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;
- (11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. BX Options reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index BX Options will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section BX Options will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless such failure is determined by BX Options 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 1934 Act.

### **Sec. 7 Position Limits for Industry and Micro-Narrow Based Index Options**

(a) Options Participants shall comply with the applicable following rules:

(1) of the Chicago Board Options Exchange with respect to position limits for Industry and Micro-Narrow Based Index Options traded on BX Options and also on the Chicago Board Options Exchange or with the applicable rules of BX Options for industry index options traded on BX Options but not traded on the Chicago Board Options Exchange;

(2) of Nasdaq PHLX LLC ("PHLX") with respect to position limits for PHLX proprietary products;

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value index options. For such purposes, ten (10) reduced-value options shall equal one (1) full-value contract.

### **Sec. 8 Exemptions from Position Limits**

An options Participant may rely upon any available exemptions from applicable position limits granted from time to time by an Options Exchange for any options contract traded on BX Options provided that such Options Participant (1) provides BX Regulation with a

copy of any written exemption issued by another Options Exchange or a written, description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for BX Regulation to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to their trading on BX Options.

### **Sec. 9 Exercise Limits**

(a) In determining compliance with Section 9 of Chapter III of these Rules (Exercise Limits), exercise limits for index options contracts shall be equivalent to the position limits prescribed for options contracts with the nearest expiration date in Section 5 or Section 7 of this Chapter.

(b) For a market-maker granted an exemption to position limits pursuant to Section 8(c) of Chapter III of these Rules (Exemptions from Position Limits), the number of contracts that can be exercised over a five business day period shall equal the market-maker's exempted position.

(c) In determining compliance with exercise limits applicable to stock index options, options contracts on a stock index group shall not be aggregated with options contracts on an underlying stock or stocks included in such group, options contracts on one stock index group shall not be aggregated with options contracts on any other stock index group.

(d) With respect to index options contracts for which an exemption has been granted in accordance with the provisions of Section 8(a) of this Chapter, the exercise limit shall be equal to the amount of the exemption.

### **Sec. 10 Trading Sessions**

(a) Days and Hours of Business. Except as otherwise provided in this Rule or under unusual conditions as may be determined by BX Regulation, transactions in index options may be effected on BX Options between the hours of 9:30 a.m. and 4:15 p.m. Eastern time. With respect to options on foreign indexes, BX Regulation shall determine the days and hours of business.

(b) To begin trading at 9:30 am, an opening shall be held in each class of index options as provided in Section 8 of Chapter VI of these Rules (Opening the Market).

(c) Instituting Halts and Suspensions. Trading on BX Options in any index option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than twenty percent (20%), in the case of a broad based index, and ten percent (10%) for all other indices, of the index value is halted or suspended. BX Regulation also may halt trading in an index option when, in his or her judgment, such action is appropriate in the interests of a fair and orderly market and to protect investors. Among the facts that may be considered are the following:

- (1) whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;
  - (2) whether the current calculation of the index derived from the current market prices of the stocks is not available;
  - (3) the extent to which the opening has been completed or other factors regarding the status of the opening; and
  - (4) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present, including, but not limited to, the activation of price limits on futures exchanges.
- (d) **Resumption of Trading Following a Halt or Suspension.** Trading in options of a class or series that has been the subject of a halt or suspension by BX Regulation may resume if BX Regulation determines that the interests of a fair and orderly market are served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions that led to the halt or suspension are no longer present, and the extent to which trading is occurring in stocks underlying the index. At the end of a halt, trading in each class of index options shall resume as provided in Section 4 of Chapter V of these Rules (Resumption of Trading After A Halt).
- (e) **Circuit Breakers.** Section 5 of Chapter V of these Rules (Trading Halts Due to Extraordinary Market Volatility) applies to index options trading with respect to the initiation of a marketwide trading halt commonly known as a "circuit breaker."
- (f) **Special Provisions for Foreign Indices.** When the hours of trading of the underlying primary securities market for an index option do not overlap or coincide with those of BX Options, all of the provisions as described in paragraphs (c), (d) and (e) above shall not apply except for (c)(4).
- (g) **Pricing When Primary Market Does Not Open.** When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation.

## **Sec. 11 Terms of Index Options Contracts**

### **(a) General.**

- (1) **Meaning of Premium Bids and Offers.** Bids and offers shall be expressed in terms of dollars and cents per unit of the index.
- (2) **Exercise Prices.** BX Options shall determine fixed-point intervals of exercise prices for call and put options.

**(3) Expiration Months.** Index options contracts may expire at three (3)-month intervals or in consecutive months. BX Options may list up to six (6) expiration months at any one time, but will not list index options that expire more than twelve (12) months out.

**(4) Reserved.**

**(5) A.M.-Settled Index Options.** The last day of trading for A.M.-settled index options shall be the business day prior to the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the second business day preceding the expiration date. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Clearing Corporation, on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day before its expiration date, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

**(i)** In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Section 10(g) of this Chapter, unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation; and

**(ii)** In the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on BX Options:

Reserved.

**(b) Long-Term Index Options Series.**

**(1)** Notwithstanding the provisions of Paragraph (a)(3), above, BX Options may list long-term index options series that expire from nine (9) to sixty (60) months from the date of issuance.

**(i)** Index long term options series may be based on either the full or reduced value of the underlying index. There may be up to ten (10) expiration months, none further out than sixty (60) months. Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than nine (9) months.

**(ii)** When a new Index long term options series is listed, such series will be opened for trading either when there is buying or selling interest, or forty (40) minutes prior to the close, whichever occurs first. No quotations will be posted for such options series until they are opened for trading.

**(2) Reduced-Value Long Term Options Series.**

**(i)** Reduced-value long term options series may be approved for trading on Specified (as provided in Section 1 of this Chapter) indices.

**(ii)** Expiration Months. Reduced-value long term options series may expire at six-month intervals. When a new expiration month is listed, series may be near or bracketing the current index value. Additional series may be added when the value of the underlying index increases or decreases by ten (10) to fifteen (15) percent.

**(c)** Procedures for Adding and Deleting Strike Prices. The procedures for adding and deleting strike prices for index options are provided in Section 6 of Options 4 of these Rules (Series of Options Contracts Open for Trading), as amended by the following:

**(1)** The interval between strike prices will be no less than \$5.00.

**(2)** New series of index options contracts may be added up to the fourth business day prior to the business day of expiration, or, in the case of an index option contract expiring on a day that is not a business day, up to the fifth business day prior to expiration.

**(3)** When new series of index options with a new expiration date are opened for trading, or when additional series of index options in an existing expiration date are opened for trading as the current value of the underlying index to which such series relate moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading. In the case of all classes of index options, the term "reasonably related to the current value of the underlying index" shall have the meaning set forth in Paragraph (c)(4) below.

**(4)** Notwithstanding any other provision of this paragraph (c), BX Options may open for trading additional series of the same class of index options as the current index value of the underlying index moves substantially from the exercise price of those index options that already have been opened for trading on BX Options. The exercise price of each series of index options opened for trading on BX Options shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on BX Options. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within thirty percent (30%) of the current index value. BX Options may also open for trading additional series of index options that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision.

**(d)** Index Level. The reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration

of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

**(e) Index Values for Settlement.** The Rules of the Clearing Corporation specify that, unless the BX Options Rules provide otherwise, the current index value used to settle the exercise of an index options contract shall be the closing index for the day on which the index options contract is exercised in accordance with the Rules of the Clearing Corporation or, if such day is not a business day, for the most recent business day.

**(f) Index Level at Expiration .** With respect to any securities index on which options are traded on BX Options, the source of the prices of component securities used to calculate the current index level at expiration is determined by the reporting authority for that index.

**(g)**

**(1) Quarterly Options Series Program**

The Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either index options or options on exchange traded funds ("ETF"). In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules. The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year.

**(i)** The Exchange will not list a Short Term Option Series on an options class the expiration of which coincides with that of a Quarterly Options Series on that same options class.

**(ii)** Quarterly Options Series shall be P.M. settled.

**(iii)** The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but not more than five, strike prices above and two, but not more than five, strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange may open for trading additional Quarterly Options Series of the same class if the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current index value of the underlying index moves substantially from the exercise price of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term "reasonably related to the current index value of the underlying

index" means that the exercise price is within thirty percent (30%) of the current index value. The Exchange may also open for trading additional Quarterly Options Series that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision. The Exchange may open additional strike prices of a Quarterly Options Series that are above the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater than five. The Exchange may open additional strike prices of a Quarterly Options Series that are below the value of the underlying index provided that the total number of strike prices below the value of the underlying index is no greater than five. The opening of any new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(iv) The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

Except as otherwise provided, all Exchange rules applicable to stock index options will also be applicable to quarterly expiring index options listed pursuant to this section.

(h)

#### (1) Short Term Option Series Program

After an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire on the Friday of the following business week that is a business day ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(i) The Exchange may select up to thirty (30) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the thirty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each index option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to twenty (20) Short Term Option Series on index options for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(ii) No Short Term Option Series on an index option class may expire in the same week during which any monthly option series on the same index class expire or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same index class.

(iii) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the calculated value of the underlying index at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security or calculated index value). Any strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index.

(iv) If the Exchange has opened less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current value of the underlying index moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current value of the underlying index provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(v) The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same index option class that expire in accordance with the normal monthly expiration cycle.

### **Sec. 12 Debit Put Spread Cash Account Transactions**

Debit put spread positions in European-style, broad-based index options traded on BX Options (hereinafter "debit put spreads") may be maintained in a cash account as defined by Federal Reserve Board Regulation T Section 220.8 by a Public Customer, provided that the following procedures and criteria are met:

(a) The customer has received BX Regulation approval to maintain debit put spreads in a cash account carried by an Options Participant. A customer so approved is hereinafter referred to as a "spread exemption customer."

(b) The spread exemption customer has provided all information required on BX Options approved forms and has kept such information current.

(c) The customer holds a net long position in each of the stocks of a portfolio that has been previously established or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio. The debit put spread position must be carried in an account with a member of a self regulatory organization participating in the Intermarket Surveillance Group.

(d) The stock portfolio or its equivalent is composed of net long positions in common stocks in at least four industry groups and contains at least twenty (20) stocks, none of which accounts for more than fifteen percent (15%) of the value of the portfolio (hereinafter "qualified portfolio"). To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity in the stocks.

(e) The exemption applies to European-style broad-based index options dealt in on BX Options to the extent the underlying value of such options position does not exceed the unhedged value of the qualified portfolio. The unhedged value would 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) A debit put spread in BX Options -traded broad-based index options with European-style exercises is defined as 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) expires 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 will be permitted in the cash account as long as it is continuously associated with a qualified portfolio of securities with a current market value at least equal to the underlying aggregate index value of the long side of the debit put spread.

(g) The qualified portfolio must be maintained with either an Options Participant, another broker-dealer, a bank, or securities depository.

(h) The spread exemption customer shall agree promptly to provide BX Regulation any information requested concerning the dollar value and composition of the customer's stock portfolio, and the current debit put spread positions.

(i) The spread exemption customer shall agree to and any Options Participant carrying an account for the customer shall:

- (i) comply with all BX Options Rules and regulations;
  - (ii) liquidate any debit put spreads prior to or contemporaneously with a decrease in the market value of the qualified portfolio, which debit put spreads would thereby be rendered excessive; and
  - (iii) promptly notify BX Regulation of any change in the qualified portfolio or the debit put spread position which causes the debit put spreads maintained in the cash account to be rendered excessive.
- (i) If any Options Participant carrying a cash account for a spread exemption customer with a debit put spread position dealt in on BX Options has a reason to believe that as a result of an opening options transaction the customer would violate this spread exemption, and such opening transaction occurs, then the Options Participant has violated this Section 11.
- (j) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the spread exemption and may form the basis for subsequent denial of an application for a spread exemption hereunder.

### **Sec. 13 Disclaimers**

- (a) Applicability of Disclaimers. The disclaimers in paragraph (b) below shall apply to the reporting authorities identified in the Supplemental Material to Section 2 of this Chapter.
- (b) Disclaimer. No reporting authority, and no affiliate of a reporting authority (each such reporting authority, its affiliates, and any other entity identified in this Rule are referred to collectively as a "Reporting Authority"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of an index it publishes, any opening, intraday or closing value therefore, or any data included therein or relating thereto, in connection with the trading of any options contract based thereon or for any other purpose. The Reporting Authority shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the Reporting Authority does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefore, or any data included therein or related thereto. The Reporting Authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such index, any opening, intra-day, or closing value therefore, any data included therein or relating thereto, or any options contract based thereon. The Reporting Authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefore, any data included therein or relating thereto, or any options contract based thereon, or arising out of any errors or delays in calculating or disseminating such index.

**Sec. 14 Exercise of American-style Index Options**

No Options Participant may prepare, time stamp or submit an exercise instruction for an American-style index options series if the Options Participant knows or has reason to know that the exercise instruction calls for the exercise of more contracts than the then "net long position" of the account for which the exercise instruction is to be tendered. For purposes of this Rule: (i) the term "net long position" shall mean the net position of the account in such option at the opening of business of the day of such exercise instruction, plus the total number of such options purchased that day in opening purchase transactions up to the time of exercise, less the total number of such options sold that day in closing sale transactions up to the time of exercise; (ii) the "account" shall be the individual account of the particular customer, market-maker or "non-customer" (as that term is defined in the By-Laws of the Clearing Corporation) who wishes to exercise; and (iii) every transaction in an options series effected by a market-maker in a market-maker's account shall be deemed to be a closing transaction in respect of the market-maker's then positions in such options series. No Options Participant may adjust the designation of an "opening transaction" in any such option to a "closing transaction" except to remedy mistakes or errors made in good faith.]

\* \* \* \* \*

**NASDAQ BX, Inc. Rules****GENERAL EQUITY AND OPTIONS RULES****General 1 General Provisions**

(a) The Rules of the Exchange are adopted pursuant to the By-Laws of the Exchange. The Rules of the Exchange shall become effective as provided in the By-Laws. The Rules of the Exchange shall be interpreted in such manner as will aid in effectuating the purposes and business of the Exchange, and so as to require that all practices in connection with the investment banking and securities business shall be just, reasonable and not unfairly discriminatory. Unless the context otherwise requires, the terms used in these Rules, if defined in the By-Laws of the Exchange, shall have the meaning as defined in the By-Laws of the Exchange.

(b) Unless the context otherwise requires:

(1) The terms "Act" or "Exchange Act" mean the Securities Exchange Act of 1934, as amended.

(2) The term "Board" means the Board of Directors of Nasdaq BX, Inc.

(3) The term "BX" means Nasdaq BX, Inc.

(4) The term "BX Regulation" means the department of BX that supervises and administers the regulatory functions of BX, including the administration of any regulatory services agreements with another self-regulatory organization to which BX is a party and including MarketWatch and Surveillance.

- (5) The term "BX Rules" means the Rules of Nasdaq BX, Inc.
- (6) The term "By-Laws" means the By-Laws of the Exchange.
- (7) The term "Code of Procedure" means the procedural rules contained in the Rule 9000 Series.
- (8) The terms "Commission" or "SEC" mean the Securities and Exchange Commission (SEC), established pursuant to the Act.
- (9) The term "Exchange" means Nasdaq BX, Inc.
- (10) The term "Exchange Review Council" means the committee authorized and directed to act for the Board of Directors of the Exchange in a manner consistent with the Equity Rules with respect to (1) an appeal or review of a disciplinary proceeding; (2) a statutory disqualification decision; (3) a review of a membership proceeding; (4) a review of an offer of settlement, a letter of acceptance, waiver, and consent, and a minor rule violation plan letter; (5) the exercise of exemptive authority; (6) an appeal of proceedings involving Exchange Rules 4612, 4619, 4620, 11890 and Options 3, Section 20; and (7) such other proceedings or actions authorized by the Equity Rules.
- (11) The terms "FINRA" or "NASD", mean, collectively, the Financial Industry Regulatory Authority, Inc. and its subsidiaries.
- (12) The term "FINRA Regulatory Contract" means the regulatory services agreement between the Exchange and FINRA, pursuant to which FINRA has agreed to perform certain regulatory functions on behalf of the Exchange.
- (13) The terms "he," "him" or "his" shall be deemed to refer to persons of female as well as male gender, and to include organizations, as well as individuals, when the context so requires.
- (14) The term "MarketWatch" means a unit within BX Regulation that is responsible for the real-time surveillance and regulation of the trading of options on BX Options. Personnel from MarketWatch, shall monitor and surveil options trading on BX Options in order to ensure the maintenance of a fair and orderly market.
- (15) The terms "member" or "Exchange Member" mean any registered broker or dealer that has been admitted to membership in the Exchange.
- (16) The term "Nasdaq" means The Nasdaq Stock Market LLC.
- (17) The term "person" shall include any natural person, partnership, corporation, association, or other legal entity.

(18) The term "primary market" means, in the case of securities listed on Nasdaq, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of Nasdaq-listed securities, and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan (which does not include securities listed on the BX Venture Market).

(19) The term "Regulation Department" means the Department of the Exchange that supervises and administers the regulatory functions of the Exchange, including the administration of any regulatory services agreements with other self-regulatory organizations to which the Exchange is a party.

(20) The term "Rules" or "Rules of the Exchange" mean the General Rules, Equity Rules and Options Rules, Equity Rules hereafter amended or supplemented, and also includes the Grandfathered Rules.

(21) The term "SRO" means a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act.

## **General 2 Organization and Administration**

### **Section 1. Reserved**

### **Section 2. Fees, Dues and Other Charges**

(a) The Board of Directors shall have the power (i) to establish, assess and levy such fees, dues and other charges (including, without limitation, any extraordinary assessments) upon members and any other persons using the facilities or services of the Exchange, and upon applicants for and persons being admitted, registered, qualified and/or initiated to any such status, in each case as the Board of Directors may from time to time establish by resolution or in the Rules of the Exchange (which shall be deemed to include any schedule of fees, dues, other charges and penalties as may be in effect from time to time), (ii) to establish rebates, credits and discounts with respect to any of the foregoing, (iii) to establish programs whereby the Exchange shares or permits any person to participate in any identified source of revenues (less any expenses or other charges as the Exchange shall determine) of the Exchange, (iv) to provide for the direct reimbursement to the Exchange of any cost, expense or category thereof, and (v) except insofar as otherwise specified or provided for in the By-Laws, to establish and assess penalties for failure to pay any fees, dues or charges owed to the Exchange, including, without limitation, termination of membership (which membership may be reissued) and forfeiture of all rights as a member. The Board of Directors may authorize any committee thereof or the Chair of the Board of Directors to exercise any powers of the Board of Directors with respect to the assessment of fees, dues, other charges and penalties authorized in accordance with this Rule.

(b) Without limiting the generality of the provisions of the By-Laws, the Board of Directors may, from time to time, fix and impose charges upon members, measured by their respective net commissions on transactions effected on the Exchange. Such charges shall be payable at such times and shall be collected in such manner as may be determined by the Board of Directors.

(c) The obligation of members to abide by the provisions of these By-Laws and the Rules of the Exchange shall include, without limitation, the obligation to pay all applicable fees, dues and other charges imposed thereon by these By-Laws or the Rules of the Exchange.

(d) The Board of Directors or their designee may suspend or terminate, after due notice, any permit or rights of any member or employee thereof using facilities or services of the Exchange, or enjoying any of the privileges therein, who shall not pay dues, fees, other charges, other monies due and owed the Exchange, fines and/or other monetary sanctions in accordance with the Rules of the Exchange.

### **Section 3. Reserved**

### **Section 4. Limitation on Affiliation between the Exchange and Members**

(a) No member or person associated with a member shall be the beneficial owner of greater than twenty percent (20%) of the then-outstanding voting securities of Nasdaq, Inc.

(b) For purposes of this Rule, any calculation of the number of shares of common stock outstanding at any particular time shall be made in accordance with the last sentence of SEC Rule 13d-3(d)(1)(i)(D). The term "beneficial owner" shall have the meaning set forth in the Restated Certificate of Incorporation of Nasdaq, Inc.

### **Section 5. Regulation of the Exchange and Its Members**

(a) The Exchange and FINRA are parties to the FINRA Regulatory Contract, pursuant to which FINRA has agreed to perform certain functions described in the Equity Rules on behalf of the Exchange. Equity Rules that refer to the Exchange's Regulation Department, Regulation Department staff, Exchange staff, and Exchange departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of the Exchange pursuant to the FINRA Regulatory Contract.

(b) Notwithstanding the fact that the Exchange has entered into the FINRA Regulatory Contract with FINRA to perform some of the Exchange's functions, the Exchange shall retain ultimate legal responsibility for, and control of, such functions. In addition, the Exchange has incorporated by reference certain NASD rules. Exchange members shall comply with these rules and interpretations as if such rules and interpretations were part of the General Equity and Options Rules.

(c) FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If an NASD rule that is incorporated by reference in a rule of the Exchange is transferred into the FINRA rulebook, then the Exchange rule shall be construed to require Exchange members to comply with the FINRA rule corresponding to the NASD rule

(regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 6. Applicability**

(a) The General Equity and Options Rules and Equity Rules shall apply to all members and persons associated with a member. Persons associated with a member shall have the same duties and obligations as a member under the Equity Rules.

(b) The 9000 Series and General 6 of these Rules and the Grandfathered Rules shall apply to all former BOX Options Participants and associated persons for activities that occurred during the time that BOX was a facility of the Exchange. The Grandfathered Rules shall also apply to activities of members, members organizations, persons associated with members, and other persons subject to the jurisdiction of the Exchange that occurred prior to the adoption of the Equity Rules.

(c) A member or person associated with a member, who has been expelled, canceled or revoked from membership or from registration or who has been barred from being associated with all members, shall cease to have any privileges of membership or registration. A member or person associated with a member who has been suspended from membership or registration shall also cease to have any privileges of membership or registration other than those under the Code of Procedure as set forth in the Rule 9000 Series. In neither case shall such a member or person associated with a member be entitled to recover any admission fees, dues, assessments or other charges paid to the Exchange.

(d) A member or person associated with a member who has been suspended from membership or from registration shall be considered as a non-member during the period of suspension for purposes of applying the provisions of the Equity Rules which govern dealings between members and non-members. However, such member or person associated with a member shall have all of the obligations imposed by the Equity Rules.

### **Section 7. Regulatory Independence**

(a) In furtherance of the independence of the Exchange's regulatory functions from its commercial operations, the Exchange shall ensure that, unless it obtains prior Commission approval, the regulatory functions subject to the FINRA Regulatory Contract shall at all times continue to be performed by FINRA or an affiliate thereof or by another independent self-regulatory organization.

### **Section 8. Delegation, Authority and Access**

(a) The Exchange delegates to its subsidiary BX Equities LLC the authority to act on behalf of the Exchange as set forth in a Delegation Agreement approved by the Commission pursuant to its authority under the Act.

(b) Notwithstanding any delegation of authority to BX Equities LLC pursuant to this Rule, the staff, books, records and premises of BX Equities LLC are the staff, books, records and premises of the Exchange subject to oversight pursuant to the Act, and all

officers, employees and agents of BX Equities LLC are the officers, employees and agents of the Exchange for purposes of the Act.

### **Section 9. Reliance on Current Membership List**

The Secretary of the Exchange shall keep a currently accurate and complete membership roll, containing the name and address of each Exchange member, and the name and address of the executive representative of each Exchange member. In any case where a membership has been terminated, such fact shall be recorded together with the date on which the membership ceased. The membership roll of the Exchange shall at all times be available to all members of the Exchange, to all governmental authorities, and to the general public; provided, however, that the names and address of executive representatives shall not be available to the general public. For the purpose of complying with pertinent Rules, a member shall be entitled to rely on such membership roll.

### **Section 10. Executive Representative**

Each Exchange member shall appoint and certify to the Secretary of the Exchange one "executive representative" who shall represent, vote, and act for the Exchange member in all the affairs of the Exchange; provided, however, that other representatives of an Exchange member may also serve on the Exchange Board or committees of the Exchange or otherwise take part in the affairs of the Exchange. If an Exchange member is also a member of FINRA or Nasdaq, the Exchange executive representative shall be the same person appointed to serve as the FINRA or Nasdaq executive representative. An Exchange member may change its executive representative or appoint a substitute for its executive representative upon giving notice thereof to the Exchange Secretary via electronic process or such other process as the Exchange may prescribe. An executive representative of an Exchange member or a substitute shall be a member of senior management. Each executive representative shall maintain an Internet electronic mail account for communication with the Exchange and shall update firm contact information as prescribed by the Exchange. Each member shall review and, if necessary, update its executive representative designation and contact information in the manner prescribed by General 2, Section 11.

### **Section 11. Contact Information Requirements**

(a) Each member shall report to the Exchange all contact information required by the Exchange via the FINRA Contact System.

(b) Each member shall update its required contact information promptly, but in any event not later than 30 days following any change in such information. In addition, each member shall review and, if necessary, update its required contact information, via such means as the Exchange may specify, within 17 business days after the end of each calendar year.

(c) Each member shall comply with any Exchange request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by Exchange staff.

**Section 12. Business Continuity and Disaster Recovery Plan Testing Requirements for Members and Options Participants Pursuant to Regulation SCI**

With respect to the Exchange's business continuity and disaster recovery plans, including its backup systems, the Exchange shall:

(a) Establish standards for the designation of those Members and Options Participants that the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of fair and orderly markets in the event of the activation of such plans. Such standards may include volume-based and/or market share-based criteria, and may be adjusted from time to time by the Exchange. The Exchange will provide public notice of the standards;

(b) Designate Members and Options Participants pursuant to the standards established in paragraph (a) of this Rule and require participation by such designated Members and Options Participants in scheduled functional and performance testing of the operation of such plans, in the manner and frequency specified by the Exchange, provided that such frequency shall not be less than once every 12 months. The Exchange will provide at least six months prior notice to Members and Options Participants that are designated for mandatory testing, and participation of such Members and Options Participants is a condition of membership.

**Section 13. Fingerprint-Based Background Checks of Employees and Independent Contractors**

(a) In order to enhance the physical security of the facilities, systems, data, and information of the Exchange and its affiliates (collectively, the "Exchange Entities"), it shall be the policy of the Exchange Entities to conduct a fingerprint-based criminal records check of (i) all prospective and current employees of the Exchange Entities, (ii) all prospective and current independent contractors who have or are anticipated to have access to facilities of the Exchange Entities for ten business days or longer, and (iii) all prospective and current temporary employees who have or are anticipated to have access to facilities of the Exchange Entities for ten business days or longer. The Exchange Entities shall apply this policy in all circumstances where permitted by applicable law.

(b) The Exchange Entities shall submit fingerprint cards obtained pursuant to the foregoing policy to the Attorney General of the United States or his or her designee for identification and processing. The Exchange Entities shall at all times maintain the security of fingerprint cards and information received from the Attorney General or his or her designee.

(c) The Exchange Entities shall evaluate information received from the Attorney General or his or her designee in accordance with the terms of a written fingerprint policy and provisions of applicable law. A felony or serious misdemeanor conviction will be a factor in considering whether to hire a prospective employee, take adverse employment action with respect to a current employee, or deny prospective or current independent contractors or temporary employees access to facilities of the Exchange Entities.

(d) All current and prospective employees, independent contractors, and temporary employees of the Exchange Entities shall be fingerprinted prior to being given access to facilities of the Exchange Entities that are subject to regulation by the Commission. All other current or prospective employees, independent contractors, and temporary employees of the Exchange Entities shall be fingerprinted as soon as practicable, either before or after the commencement of an employment or contracting relationship. A prospective employee, independent contractor, or temporary employee who refuses to submit to fingerprinting will be denied employment or access. A current employee, independent contractor, or temporary employee who refuses to submit to fingerprinting will be denied employment or access following notice and being given three opportunities to submit.

#### **Section 14. Restrictions on Affiliation**

(a) Except as provided in paragraph (b):

(1) the Exchange or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in, or engage in a business venture with, an Exchange member or an affiliate of an Exchange member in the absence of an effective filing under Section 19(b) of the Act; and

(2) an Exchange member shall not be or become an affiliate of the Exchange, or an affiliate of an entity affiliated with the Exchange, in the absence of an effective filing under Section 19(b) of the Act.

The term "affiliate" shall have the meaning specified in Rule 12b-2 under the Act; provided, however, that for purposes of this Rule, one entity shall not be deemed to be an affiliate of another entity solely by reason of having a common director. The term "business venture" means an arrangement under which (A) the Exchange or an entity with which it is affiliated, and (B) an Exchange member or an affiliate of an Exchange member, engage in joint activities with an expectation of shared profit and a risk of shared loss from common entrepreneurial efforts.

(b) Nothing in this Rule shall prohibit, or require a filing under Section 19(b) of the Act, for:

(1) an Exchange member or an affiliate of an Exchange member acquiring or holding an equity interest in Nasdaq, Inc. that is permitted by the ownership limitations contained in General 2, Section 4, or

(2) the Exchange or an entity affiliated with the Exchange acquiring or maintaining an ownership interest in, or engaging in a business venture with, an affiliate of an Exchange member if:

(A) there are information barriers between the member and the Exchange and its facilities, such that the member

(i) will not be provided an informational advantage concerning the operation of the Exchange and its facilities, and will not be provided changes or improvements to the trading system that are not available to the industry generally or other Exchange members;

(ii) will not have any knowledge in advance of other Exchange members of proposed changes, modifications, or improvements to the operations or trading systems of the Exchange and its facilities, including advance knowledge of Exchange filings pursuant to Section 19(b) of the Act;

(iii) will be notified of any proposed changes, modifications, or improvements to the operations or trading systems of the Exchange and its facilities in the same manner as other Exchange members are notified; and

(iv) will not share employees, office space, or databases with the Exchange or its facilities, Nasdaq, Inc., or any entity that is controlled by Nasdaq, Inc.; and

(B) the Exchange's Regulatory Oversight Committee certifies, on an annual basis, to the Director of the Division of Trading & Markets that the Exchange has taken all reasonable steps to implement the requirements of this rule and is in compliance therewith.

(c) Nasdaq, Inc., which is the holding company owning the Exchange and Nasdaq Execution Services, LLC, shall establish and maintain procedures and internal controls reasonably designed to ensure that Nasdaq Execution Services, LLC does not develop or implement changes to its system on the basis of non-public information regarding planned changes to Exchange systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated members of the Exchange in connection with the provision of inbound routing to the Exchange.

### **Section 15. Business Continuity Plans**

(a) Exchange Members shall comply with NASD Rule 3510 as if such Rule were part of the Exchange's Rules. The Exchange and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with this Rule by complying with NASD Rule 3510 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under this Rule are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3510 are transferred into the FINRA rulebook, then Equity Rule 3510 shall be construed to require Exchange members to comply with

the FINRA rule corresponding to NASD Rule 3510 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 16. Emergency Contact Information**

(a) Each member shall report to the Exchange, via such electronic or other means as the Exchange may specify, prescribed emergency contact information for the member. The emergency contact information for the member includes designation of two emergency contact persons. Each emergency contact person shall be a member of senior management and a registered principal of the member.

(b) Each member must promptly update its emergency contact information, via such electronic or other means as the Exchange may specify, in the event of any material change. With respect to designated emergency contact persons, each member must identify, review, and, if necessary, update such designations in the manner prescribed by General 2, Section 11.

### **General 3 Membership and Access**

#### **Section 1. Membership, Registration and Qualification Requirements**

Series 1000 of the Rules of the Nasdaq Stock Market, LLC ("Nasdaq"), as such rules may be in effect from time to time (the "Nasdaq Rule 1000 Series"), are hereby incorporated by reference into this Nasdaq BX Rule 1000 Series (other than Nasdaq Rules 1031, 1050, 1090, 1130, 1150, 1160, and 1170), and are thus Nasdaq BX Rules and thereby applicable to Nasdaq BX Members, Associated Persons, and other persons subject to the Exchange's jurisdiction. Nasdaq BX Members, Associated Persons, and other persons subject to the Exchange's jurisdiction shall comply with the Nasdaq Rule 1000 Series as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the Nasdaq Rule 1000 Series shall be read to refer to the Nasdaq BX-related meaning of such term. The defined terms "Exchange" or "Nasdaq" shall be read to refer to the Nasdaq BX Exchange; "Rule" or "Exchange Rule" shall be read to refer to the Exchange Rules; the defined term "Applicant" in the Nasdaq Rule 1000 Series shall be read to refer to an Applicant to the Nasdaq BX Exchange; the defined terms "Board" or "Exchange Board" in the Nasdaq Rule 1000 Series shall be read to refer to the Nasdaq BX Board of Directors; the defined term "Director" in the Nasdaq Rule 1000 Series shall be read to refer to a Director of the Board of the Nasdaq BX Exchange; the defined term "Exchange Review Council" in the Nasdaq Rule 1000 Series shall be read to refer to the Nasdaq BX Exchange Review Council; the defined term "Subcommittee" in the Nasdaq Rule 1000 Series shall be read to refer to a Subcommittee of the Nasdaq BX Exchange Review Council; the defined term "Interested Staff" in the Nasdaq Rule 1000 Series shall be read to refer to Interested Staff of Nasdaq BX; the defined term "Member" in the Nasdaq Rule 1000 Series shall be read to refer to a Nasdaq BX Member; the defined term "Associated Person" shall be read to refer to a Nasdaq BX Associated Person; the defined terms "Exchange Membership Department" or "Membership Department" shall be read to refer to the Nasdaq BX Membership Department; and the defined term "Exchange Regulation Department" shall be read to refer to the Nasdaq BX Regulation Department.

Additionally, cross references in the Nasdaq Rule 1000 Series to "Rule 0120" shall refer to Nasdaq BX Rule 0120, cross references in the Nasdaq Rule 1000 Series to Rule 3010 shall refer to Nasdaq BX Rule 3010; cross references in the Nasdaq Rule 1000 Series to Rule 3011 shall refer to Nasdaq BX Rule 3011; and cross references to "General 4, Section 1.1200 Series" shall be read to refer to the Nasdaq BX Rule 1200 Series.

#### **General 4 [Regulation] Registration Requirements**

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#### **General 9 Regulation**

##### **Section 1. General Standards**

###### **(a) Standards of Commercial Honor and Principles of Trade**

A member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

###### **(b) Trading Ahead of Customer Limit Order**

Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-2 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-2 are transferred into the FINRA rulebook, then Equity Interpretive Material 2110-2 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-2 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

For purposes of subparagraph (b):

(1) the reference to "NASD Rules" in NASD Interpretive Material 2110-2(a) shall be construed as a reference to "the Rules of the Exchange",

(2) references to "NASD's Board of Governors" shall be construed as references to "the Exchange Board",

(3) references to Rule 2110, Rule 2320, and Rule 3110, shall be construed as references to General 9, Sections 1, 11 and 30.

(4) references to "NASD" shall be construed as references to "the Exchange", and

(5) references to Rule 6610 shall be construed as references to NASD Rule 6610.

(6) Exchange members and persons associated with a member relying upon the exemption set forth in NASD Interpretive Material 2110-2(c) shall comply with

the provisions of the NASD Rule 4600 Series cited therein as if such Rules were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with this subparagraph (b) by complying with NASD Interpretive Material 2110-2 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under this subparagraph (b) are being performed by FINRA on behalf of the Exchange.

**(c) Front Running Policy**

Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-3 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-3 are transferred into the FINRA rulebook, then this subparagraph (c) shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-3 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**(d) Trading Ahead of Research Reports**

No member shall use any facility of the Exchange to establish, increase, decrease or liquidate an inventory position in a security or a derivative of such security based on non-public advance knowledge of the content or timing of a research report in that security. A member must establish, maintain and enforce policies and procedures reasonably designed to restrict or limit the information flow between research department personnel, or other persons with knowledge of the content or timing of a research report, and trading department personnel, so as to prevent trading department personnel from utilizing non-public advance knowledge of the issuance or content of a research report for the benefit of the member or any other person.

**(e) Anti-Intimidation / Coordination**

The Exchange is issuing this interpretation to codify a longstanding policy. It is conduct inconsistent with just and equitable principles of trade for any member or person associated with a member to coordinate the prices (including quotations), trades, or trade reports of such member with any other member or person associated with a member; to direct or request another member to alter a price (including a quotation); or to engage, directly or indirectly, in any conduct that threatens, harasses, coerces, intimidates, or otherwise attempts improperly to influence another member or person associated with a member. This includes, but is not limited to, any attempt to influence another member or person associated with a member to adjust or maintain a price or quotation, whether displayed on any facility operated by the Exchange or otherwise, or refusals to trade or other conduct that retaliates against or discourages the competitive activities of another market maker or market participant. Nothing in this interpretation respecting coordination

of quotes, trades, or trade reports shall be deemed to limit, constrain, or otherwise inhibit the freedom of a member or person associated with a member to:

(1) set unilaterally its own bid or ask in any security listed on the Exchange or other exchange-listed security traded on the Exchange pursuant to unlisted trading privileges, the prices at which it is willing to buy or sell any security listed on the Exchange or other exchange-listed security, and the quantity of shares of any security listed on the Exchange or other exchange-listed security that it is willing to buy or sell;

(2) set unilaterally its own dealer spread, quote increment, or quantity of shares for its quotations (or set any relationship between or among its dealer spread, inside spread, or the size of any quote increment) in any security listed on the Exchange or other exchange-listed security;

(3) communicate its own bid or ask, or the prices at or the quantity of shares in which it is willing to buy or sell any security listed on the Exchange or other exchange-listed security to any person, for the purpose of exploring the possibility of a purchase or sale of the security listed on the Exchange or other exchange-listed security, and to negotiate for or agree to such purchase or sale;

(4) communicate its own bid or ask, or the price at or the quantity of shares in which it is willing to buy or sell any security listed on the Exchange or other exchange-listed security, to any person for the purpose of retaining such person as an agent or subagent for the member or for a customer of the member (or for the purpose of seeking to be retained as an agent or subagent), and to negotiate for or agree to such purchase or sale;

(5) engage in any underwriting (or any syndicate for the underwriting) of securities to the extent permitted by the federal securities laws;

(6) take any unilateral action or make any unilateral decision regarding the market makers with which it will trade and the terms on which it will trade unless such action is prohibited by the second and third sentences of this Interpretation; and

(7) deliver an order to another member for handling, provided, however, that the conduct described in (1) through (7) is otherwise in compliance with all applicable law.

**(f) Confirmation of Callable Common Stock.** Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-6 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-6 are transferred into the FINRA rulebook, then this subparagraph (f) shall be construed to require Exchange

members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-6 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**(g) Interfering With the Transfer of Customer Accounts in the Context of Employment Disputes.** Exchange members and persons associated with a member shall comply with NASD Interpretive Material 2110-7 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2110-7 are transferred into the FINRA rulebook, then this subparagraph (g) shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2110-7 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

For purposes of this subparagraph (g), references to Rule 11870 shall be construed as references to Equity Rule 11870.

**(h) Trading Ahead of Customer Market Orders**

Exchange members and persons associated with a member shall comply with NASD Rule 2111 as if such Rule were part of the Rules of the Exchange. For purposes of this Rule, references to IM-2110-2, Rule 2320, and Rule 3110 shall be construed as references to Exchange IM-2110-2, General 9, Sections 11, and 30.

(1) Exchange members and persons associated with a member relying upon the exemption set forth in NASD Rule 2111(f) shall comply with the provisions of the NASD Rule 4600 Series and 6400 Series cited therein as if such Rules were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 1(h) by complying with NASD Rule 2111(f) as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 1(h) are being performed by FINRA on behalf of the Exchange.

(2) FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2111 or the provisions of the NASD Rule 4600 Series or 6400 Series cited therein are transferred into the FINRA rulebook, then General 9, Section 1 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2111, the NASD Rule 4600 Series or the NASD Rule 6400 Series (regardless of whether such rules are renumbered or amended) as if such rules were part of the Rules of the Exchange.

**(i) Use of Manipulative, Deceptive or Other Fraudulent Devices**

No member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive or other fraudulent device or contrivance.

**Section 2. Customers' Securities or Funds**

(a) Exchange Members and persons associated with a member shall comply with FINRA Rule 2150 as if such Rule were part of the Rules of the Exchange.

Nothing in FINRA Rule 2150, as applied to Exchange members and their associated persons, shall be construed to authorize any Exchange member or associated person to act in a manner inconsistent with Section 11(a) of the Act.

**(b) Segregation of Customers' Securities.**

Exchange Members and persons associated with a member shall comply with FINRA Interpretive Material 2150 as if such Rule were part of the Rules of the Exchange. For purposes of this Rule, references to FINRA Rule 2150 shall be construed as references to General 9, Section 2.

**Section 3. Communications with the Public**

(a) Exchange members and persons associated with a member shall comply with NASD Rule 2210 (except NASD Rule 2210(c)) as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 3 by complying with NASD Rule 2210 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 3 are being performed by FINRA on the Exchange's behalf.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2210 are transferred into the FINRA rulebook, then General 9, Section 3 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2210 (except NASD Rule 2210(c), but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange. For purposes of this Rule, references to Rule 2210 shall be construed as references to General 9, Section 3.

**(b) Guidelines to Ensure That Communications With the Public Are Not Misleading.**  
Members and persons associated with a member shall comply with NASD Interpretive Material 2210-1 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2210-1 are transferred into the FINRA rulebook, then Equity Interpretive Material 2210-1 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA

rule corresponding to NASD Interpretive Material 2210-1 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(c) Limitations on Use of the Exchange's Name. Members may indicate membership in the Exchange in any communication with the public, provided that the communication complies with the applicable standards of General 9, Section 3 and neither states nor implies that the Exchange, or any other corporate name or facility affiliated with Exchange, or any other regulatory organization, endorses, indemnifies, or guarantees the member's business practices, selling methods, the class or type of securities offered, or any specific security.

#### **Section 4. Institutional Sales Material and Correspondence**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 2211 (except NASD Rule 2211(c) and (d)(3)) as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2211 are transferred into the FINRA rulebook, then General 9, Section 4 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2211 (except NASD Rule 2211(c) and (d)(3), but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to an "NASD member" shall be construed as references to an "Exchange member", and

(2) references to Rules 2210 and 3110 shall be construed as references to General 9, Sections 3 and 30, respectively, and references to Rule 3010(d) shall be construed as references to NASD Rule 3010(d), as incorporated into the Rules of the Exchange by General 9, Section 20.

#### **Section 5. Telemarketing**

Exchange members and persons associated with a member shall comply with FINRA Rule 3230 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2212 are transferred into the FINRA rulebook, then General 9, Section 5 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2212 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**Section 6. Forwarding of Proxy and Other Issuer-Related Materials**

(a) Exchange Members shall comply with FINRA Rule 2251 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, the guidance adopted by FINRA with respect to reasonable rates of reimbursement as provided in FINRA Rule 2251 and the accompanying supplementary material is hereby adopted as the guidance of the Exchange Board.

(c) For purposes of this Rule:

(1) references to FINRA shall be construed as references to the Exchange, and

(2) references to Rule 2251 shall be construed as references to General 9, Section 6.

(d) Notwithstanding the foregoing, an Exchange Member that is not the beneficial owner of a security registered under Section 12 of the Act is prohibited from granting a proxy to vote the security in connection with a shareholder vote on the election of a member of the board of directors of an issuer (except for a vote with respect to the uncontested election of a member of the board of directors of any investment company registered under the Investment Company Act of 1940), executive compensation, or any other significant matter, as determined by the Commission, by rule, unless the beneficial owner of the security has instructed the member to vote the proxy in accordance with the voting instructions of the beneficial owner.

**Section 7. Disclosure of Financial Condition, Control Relationship with Issuer and Participation or Interest in Primary or Secondary Distribution**

(a) Exchange Members shall comply with FINRA Rule 2261 as if such Rule were part of the Rules of the Exchange.

(b) Disclosure of Control Relationship with Issuer. Exchange Members shall comply with FINRA Rule 2262 as if such Rule were part of the Rules of the Exchange.

(c) Disclosure of Participation or Interest in Primary or Secondary Distribution. Exchange Members shall comply with FINRA Rule 2269 as if such Rule were part of the Rules of the Exchange.

**Section 8. SIPC Information**

Exchange Members shall comply with FINRA Rule 2266 as if such Rule were part of the Rules of the Exchange.

**Section 9. Fairness Opinions**

Exchange Members and persons associated with a member shall comply with NASD Rule 2290 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2290 are transferred into the FINRA rulebook, then General 9, Section 9 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2290 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**Section 10. Recommendations to Customers (Suitability)**

(a) Exchange members and associated persons of a member shall comply with NASD Rule 2310 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2310 are transferred into the FINRA rulebook, then General 9, Section 10 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 2310 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange. For purposes of this Rule, references to Rule 3110 shall be construed as references to General 9, Section 30.

(b) Fair Dealing with Customers. Exchange members and associated persons of a member shall comply with NASD Interpretive Material 2310-2 (except NASD IM-2310-2(e)(1)) as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2310-2 are transferred into the FINRA rulebook, then Equity Interpretive Material 2310-2 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2310-2 (except NASD IM-2310-2(e)(1), but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

For purposes of this Rule:

(1) references to "the Association's Rules" or "Association Rules" shall be construed as references to "the Rules of the Exchange",

(2) references to interpretations and actions of NASD District Business Conduct Committees and the NASD Board of Governors shall be construed to reflect the policy of the Exchange with respect to the application of General 9, Section 10,

(3) references to the "Association" shall be construed as references to the "Exchange",  
and

(4) references to the Rule 2840 Series shall be construed as references to the Equity Rule 2840 Series.

**(c) Suitability Obligations to Institutional Customers.**

(1) Exchange members and associated persons of a member shall comply with NASD Interpretive Material 2310-3 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 2310-3 are transferred into the FINRA rulebook, then General 9, Section 10 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Interpretive Material 2310-3 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

For purposes of this subparagraph (c), references to the "Association" shall be construed as references to the "Exchange".

**Section 11. Best Execution and Interpositioning**

(a) In any transaction for or with a customer or a customer of another broker-dealer, a member and persons associated with a member shall use reasonable diligence to ascertain the best market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. Among the factors that will be considered in determining whether a member has used "reasonable diligence" are:

- (1) The character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- (2) the size and type of transaction;
- (3) the number of primary markets checked;
- (4) accessibility of the quotation; and
- (5) the terms and conditions of the order which result in the transaction, as communicated to the member and persons associated with the member.

(b) In any transaction for or with a customer, no member or person associated with a member shall interject a third party between the member and the best available market except in cases where the member can demonstrate that to his or her knowledge at the time of the transaction the total cost or proceeds of the transaction, as confirmed to the member acting for or with the customer, was better than the prevailing market for the security. A member's obligations to his or her customer are generally not fulfilled when he or she channels transactions through another broker/dealer or some person in a similar position, unless he or she can show that by so doing he or she reduced the costs of the transactions to the customer.

(c) When a member cannot execute directly with a market maker but must employ a broker's broker or some other means in order to insure an execution advantageous to the

customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

(d) Failure to maintain or adequately staff an order room or other department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a member of his or her obligations. However, the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the member acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.

(e) A member through whom a retail order is channeled, as described above, and who knowingly is a party to an arrangement whereby the initiating member has not fulfilled his or her obligations under this Rule, will also be deemed to have violated this Rule.

(f) The obligations described in paragraphs (a) through (e) above exist not only where the member acts as agent for the account of his or her customer but also where retail transactions are executed as principal and contemporaneously offset.

**(g) Interpretive Guidance with Respect to Best Execution Requirements.**

Subparagraph (a) requires, among other things, that a member or person associated with a member comply with subparagraph (a) when customer orders are routed to it from another broker/dealer for execution. This subparagraph (g) addresses certain interpretive questions concerning the applicability of the best execution rule.

For the purposes of General 9, Section 11, the term "market" or "markets" is to be construed broadly and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker/dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker/dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm's best execution obligations.

A member's duty to provide best execution in any transaction "for or with a customer of another broker/dealer" does not apply in instances when another broker/dealer is simply executing a customer order against the member's quote. Stated in another manner, the duty to provide best execution to customer orders received from other broker/dealers arises only when an order is routed from the broker/dealer to the member for the purpose of order handling and execution. This clarification is intended to draw a distinction

between those situations in which the member is acting solely as the buyer or seller in connection with orders presented by a broker/dealer against the member's quote, as opposed to those circumstances in which the member is accepting order flow from another broker/dealer for the purpose of facilitating the handling and execution of such orders.

### **Section 12. Customer Account Statements**

(a) Exchange Members shall comply with NASD Rule 2340 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2340 are transferred into the FINRA rulebook, then General 9, Section 12 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2340 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3110, and Equity Rule 11860 shall be construed as references to General 9, Section 30, Rule 2310A and Equity Rule 11860.

(c) Pursuant to the Rule 9600 Series, the Exchange may exempt any member from the provisions of this Rule for good cause shown.

### **Section 13. Margin Disclosure Statement**

(a) Exchange Members shall comply with NASD Rule 2341 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2341 are transferred into the FINRA rulebook, then General 9, Section 13 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2341 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3110 shall be construed as references to General 9, Section 30.

### **Section 14. Approval Procedures for Day-Trading Accounts**

(a) Exchange Members shall comply with FINRA Rule 2130 as if such Rule were part of the Rules of the Exchange.

For purposes of this Rule, references to Rule 2361 and Rule 3110 shall be construed as references to General 9, Sections 14 and 30.

(b) Day-Trading Risk Disclosure Statement. Exchange Members shall comply with FINRA Rule 2270 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 14 by complying with FINRA Rule 2270 as written. Accordingly, Exchange members may submit an alternative disclosure statement to FINRA's Advertising Department as provided in the FINRA Rule. Functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 14 are being performed by FINRA on the Exchange's behalf.

For purposes of this Rule, references to Rule 2360 and Rule 3110 shall be construed as references to General 9, Sections 14 and 30.

### **Section 15. Borrowing From or Lending to Customers**

Exchange Members and persons associated with a member shall comply with FINRA Rule 3240 as if such Rule were part of the Rules of the Exchange.

### **Section 16. Charges for Services Performed**

Exchange Members shall comply with NASD Rule 2430 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2430 are transferred into the FINRA rulebook, then General 9, Section 16 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2430 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 17. Net Transactions with Customers**

(a) Exchange Members shall comply with NASD Rule 2441 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2441 are transferred into the FINRA rulebook, then General 9, Section 17 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2441 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

For purposes of this Rule, references to Rule 3110 shall be construed as references to General 9, Section 30.

### **Section 18. Payments for Market Making**

(a) No member or person associated with a member shall accept any payment or other consideration, directly or indirectly, from an issuer of a security, or any affiliate or promoter thereof, for publishing a quotation, acting as market maker in a security, or submitting an application in connection therewith.

(b) The provisions of paragraph (a) shall not preclude a member from accepting:

(1) payment for bona fide services, including, but not limited to, investment banking services (including underwriting compensation and fees); and

(2) reimbursement of any payment for registration imposed by the Securities and Exchange Commission or state regulatory authorities and for listing of an issue of securities imposed by a self-regulatory organization.

(c) For purposes of this Rule, the following terms shall have the stated meanings:

(1) "affiliate"

(A) The term "affiliate" shall mean a company which controls, is controlled by, or is under common control with a member;

(B) The term affiliate is presumed to include, but is not limited to, the following for purposes of subparagraph (A), above:

(i) a company will be presumed to control a member if the company beneficially owns 10 percent or more of the outstanding voting securities of a member which is a corporation, or beneficially owns a partnership interest in 10 percent or more of the distributable profits or losses of a member which is a partnership;

(ii) a member will be presumed to control a company if the member and persons associated with the member beneficially own 10 percent or more of the outstanding voting securities of a company which is a corporation, or beneficially own a partnership interest in 10 percent or more of the distributable profits or losses of a company which is a partnership;

(iii) a company will be presumed to be under common control with a member if:

a. The same natural person or company controls both the member and company by beneficially owning 10 percent or more of the outstanding voting securities of a member or company which is a corporation, or by beneficially owning a partnership interest in 10 percent or more of the distributable profits or losses of a member or company which is a partnership; or

b. A person having the power to direct or cause the direction of the management or policies of the member or

the company also has the power to direct or cause the direction of the management or policies of the other entity in question.

(C) The provisions of subparagraphs (A) and (B) hereof notwithstanding, none of the following shall be presumed to be an affiliate of a member for purposes of this Rule:

(i) an investment company registered with the Commission pursuant to the Investment Company Act of 1940, as amended;

(ii) a "separate account" as defined in Section 2(a)(37) of the Investment Company Act of 1940, as amended;

(iii) a "real estate investment trust" as defined in Section 856 of the Internal Revenue Code;

(iv) a "direct participation program" as defined in Rule 2310A; and

(v) a corporation, trust, partnership or other entity issuing financing instrument-backed securities which are rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

(2) "promoter" means any person who founded or organized the business or enterprise of an issuer, is a director or employee of an issuer, acts or has acted as a consultant, advisor, accountant or attorney to an issuer, is the beneficial owner of any of an issuer's securities that are considered "restricted securities" under Rule 144, or is the beneficial owner of five percent (5%) or more of the public float of any class of an issuer's securities, and any other person with a similar interest in promoting the entry of quotations or market making in an issuer's securities; and

(3) "quotation" shall mean any bid or offer at a specified price with respect to a security, or any indication of interest by a member in receiving bids or offers from others for a security, or an indication by a member that he wishes to advertise his general interest in buying or selling a particular security.

### **Section 19. Discretionary Accounts**

Exchange Members shall comply with NASD Rule 2510 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2510 are transferred into the FINRA rulebook, then General 9, Section 19 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2510 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

For purposes of applying this Rule, references to Rule 3010 and Rule 3110 shall be construed as references to General 9, Sections 20 and 30, respectively.

### **Section 20. Supervision**

(a) Each member shall establish and maintain a system to supervise the activities of each registered representative and associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable Exchange rules. Exchange members shall comply with FINRA Rules 3110 and 3170 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 20 by complying with FINRA Rules 3110 and 3170 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 20 are being performed by FINRA on behalf of the Exchange.

(b) For purposes of this Rule:

(1) references to "FINRA Rules", "rules of FINRA", or "Rules of the Financial Industry Regulatory Authority" shall be construed as references to "Rules of the Exchange",

(2) the term "registered person" in FINRA Rule 3170(a)(1) shall be defined as "any person registered with the Exchange as a representative or principal pursuant to the General 4, Section 1.1200 Series of the General Equity and Options Rules",

(3) references to Article V, Section 3 of FINRA's By-Laws shall be construed as references to General 4, Section 1.1210,

(4) references to Rule 2210 and Rule 3110 shall be construed as references to General 9, Sections 3 and 30, and

(5) references to registration with FINRA or the Financial Industry Regulatory Authority shall be construed as references to registration with the Exchange.

(c) Pursuant to the Rule 9600 Series, the Exchange may in exceptional circumstances, taking into consideration all relevant factors, exempt any member unconditionally or on specified terms and conditions from the requirements contained in FINRA Rule 3170, as applied to Exchange members through General 9, Section 20. A member seeking an exemption must file a written application pursuant to the Rule 9600 Series within 30 days after receiving notice or obtaining actual knowledge that it meets one of the criteria in FINRA Rule 3170. A member that meets one of the criteria in Rule 3170 for the first time may elect to reduce its staffing levels pursuant to the provisions of FINRA Rule 3170 or, alternatively, to seek an exemption hereunder, as appropriate; such a member may not seek relief from the Rule by both reducing its staffing levels pursuant to Rule 3170 and requesting an exemption.

(d) Standards for Reasonable Review. Exchange members and persons associated with a member shall comply with FINRA Rule 3110, Supplementary Material .12 as if such Supplementary Material were part of the Rules of the Exchange.

For purposes of this Rule:

(1) references to Rule 3110 shall be construed as references to General 9, Section 20; and

(2) references to "FINRA Rules" shall be construed as references to "the Rules of the Exchange".

(e) Guidance on Heightened Supervision Requirements. Exchange members shall comply with NASD Notice to Members 97-19 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3010-2 are transferred into the FINRA rulebook, then Equity Interpretive Material 3010-2 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Interpretive Material 3010-2 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 21. Supervisory Control System**

(a) Members and persons associated with a member shall comply with NASD Rule 3012 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 21 by complying with NASD Rule 3012 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 21 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3012 are transferred into the FINRA rulebook, then General 9, Section 21 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3012 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to "NASD Rules" shall be construed as references to "Rules of the Exchange".

### **Section 22. Annual Certification of Compliance and Supervisory Processes**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3013 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3013 are transferred into the FINRA rulebook, then General 9, Section 22 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3012 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to "NASD Rules" shall be construed as references to "Rules of the Exchange",

(2) references to IM-3013 shall be construed as references to General 9, Section 22, and

(3) references to "MSRB rules" shall be deleted.

(c) **Annual Compliance and Supervision Certification.** Exchange Members and persons associated with a member shall comply with NASD Interpretive Material IM-3013 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Interpretive Material 3013 are transferred into the FINRA rulebook, then General 9, Section 22 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Interpretive Material 3013 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange. For purposes of this Rule:

(1) references to "NASD Rules" shall be construed as references to "Rules of the Exchange",

(2) references to NASD Rule 3013 and Rule 2110 shall be construed as references to General 9, Sections 1 and 22,

(3) references to "NASD members" shall be construed as references to "Exchange Members",

(4) references to "the NASD Board of Governors" shall be construed as references to "the Board of Directors of the Exchange", and

(5) references to "MSRB rules" shall be deleted.

**Section 23. Outside Business Activities of an Associated Person**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3030 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3030 are transferred into the FINRA rulebook, then General 9, Section 23 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3030 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 3030 shall be construed as references to General 9, Section 23.

#### **Section 24. Private Securities Transactions of an Associated Person**

(a) Exchange Members and persons associated with a member shall comply with NASD Rule 3040 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3040 are transferred into the FINRA rulebook, then General 9, Section 24 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3040 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule:

(1) references to Rule 3040 shall be construed as references to General 9, Section 24, and

(2) references to "immediately family members (as defined in Rule 2790)" shall be construed to mean a person's parents, mother-in-law or father-in-law, spouse, brother or sister, brother-in-law or sister-in-law, son-in-law or daughter-in-law, and children, and any other individual to whom the person provides material support.

#### **Section 25. Transactions for or by Associated Persons**

Exchange Members and persons associated with a member shall comply with NASD Rule 3050 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3050 are transferred into the FINRA rulebook, then General 9, Section 25 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3050 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

#### **Section 26. Influencing or Rewarding Employees of Others**

Exchange Members and persons associated with a member shall comply with NASD Rule 3060 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3060 are transferred into the FINRA rulebook, then General 9, Section 26 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3060 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 27. Reporting Requirements**

(a) Exchange Members and persons associated with a member shall comply with FINRA Rule 4530 (excluding FINRA Rule 4530(h)) as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 27 by complying with FINRA Rule 4530 as written (excluding Rule 4530(h)), including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 27 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3070 are transferred into the FINRA rulebook, then Equity Rule 3070 shall be construed to require Exchange members and persons associated with a member to comply with the FINRA rule corresponding to NASD Rule 3070 (excluding Rule 3070(g) but regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, the requirement of FINRA Rule 4530(e) to respond to FINRA with respect to any customer complaint, examination, or inquiry shall be construed as a requirement to respond to FINRA and the Exchange.

### **Section 28. Disclosure to Associated Persons When Signing Form U4**

Exchange Members shall comply with NASD Rule 3080 as if such Rule were part of the Rules of the Exchange. In lieu of incorporating in the written statement the language in paragraph (2) of NASD Rule 3080, members shall include the following provision:

A claim alleging employment discrimination, including a sexual harassment claim, in violation of a statute is not required to be arbitrated under the Rules of the Exchange. Such a claim may be arbitrated under Exchange rules only if the parties have agreed to arbitrate it, either before or after the dispute arose. The rules of other arbitration forums may be different.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3080 are transferred into the FINRA rulebook, then General 9, Section 28 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3080 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

**Section 29. Transactions Involving Exchange Employees**

(a) When a member has actual notice that an Exchange employee has a financial interest in, or controls trading in, an account, the member shall promptly obtain and implement an instruction from the employee directing that duplicate account statements be provided by the member to the Exchange.

(b) No member shall directly or indirectly make any loan of money or securities to any Exchange employee. Provided, however, that this prohibition does not apply to loans made in the context of disclosed, routine banking and brokerage agreements, or loans that are clearly motivated by a personal or family relationship.

(c) Notwithstanding the annual dollar limitation set forth in General 9, Section 26, no member shall directly or indirectly give, or permit to be given, anything of more than nominal value to any Exchange employee who has responsibility for a regulatory matter that involves the member. For purposes of this subsection, the term "regulatory matter" includes, but is not limited to, examinations, disciplinary proceedings, membership applications, listing applications, delisting proceedings, and dispute-resolution proceedings that involve the member.

**Section 30. Books and Records**

(a) Requirements. Each member shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations and statements of policy promulgated thereunder and with the Rules of the Exchange and as prescribed by SEC Rule 17a-3. The record keeping format, medium, and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934.

**(b) Customer Account Information**

Each member shall maintain accounts opened after January 1, 1991 as follows:

(1) for each account, each member shall maintain the following information:

(A) customer's name and residence;

(B) whether customer is of legal age;

(C) signature of the registered representative introducing the account and signature of the member or partner, officer, or manager who accepts the account; and

(D) if the customer is a corporation, partnership, or other legal entity, the names of any persons authorized to transact business on behalf of the entity;

(2) for each account other than an institutional account, and accounts in which investments are limited to transactions in open-end investment company shares that are not recommended by the member or its associated persons, each member shall also make reasonable efforts to obtain, prior to the settlement of the initial transaction in the account, the following information to the extent it is applicable to the account:

(A) customer's tax identification or Social Security number;

(B) occupation of customer and name and address of employer; and

(C) whether customer is an associated person of another member; and

(3) for discretionary accounts, in addition to compliance with subparagraphs (1) and (2) above, and General 9, Section 19 of these Rules, the member shall:

(A) obtain the signature of each person authorized to exercise discretion in the account;

(B) record the date such discretion is granted; and

(C) in connection with exempted securities other than municipals, record the age or approximate age of the customer.

(4) For purposes of this Rule, General 9, Sections 10 and 19, the term "institutional account" shall mean the account of:

(A) a bank, savings and loan association, insurance company, or registered investment company;

(B) an investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or

(C) any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million.

#### (d) Record of Written Complaints

Each member shall keep and preserve in each office of supervisory jurisdiction, as defined in General 9, Section 20, either a separate file of all written complaints of customers and action taken by the member, if any, or a separate record of such complaints and a clear reference to the files containing the correspondence connected with such complaint as maintained in such office.

(e) "Complaint" Defined

A "complaint" shall be deemed to mean any written statement of a customer or any person acting on behalf of a customer alleging a grievance involving the activities of those persons under the control of the member in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer.

(f) Requirements When Using Predispute Arbitration Agreements With Customers

(1) Any predispute arbitration clause shall be highlighted and shall be immediately preceded by the following language in outline form.

This agreement contains a predispute arbitration clause. By signing an arbitration agreement the parties agree as follows:

(A) All parties to this agreement are giving up the right to sue each other in court, including the right to a trial by jury, except as provided by the rules of the arbitration forum in which a claim is filed.

(B) Arbitration awards are generally final and binding; a party's ability to have a court reverse or modify an arbitration award is very limited.

(C) The ability of the parties to obtain documents, witness statements and other discovery is generally more limited in arbitration than in court proceedings.

(D) The arbitrators do not have to explain the reason(s) for their award.

(E) The panel of arbitrators will typically include a minority of arbitrators who were or are affiliated with the securities industry.

(F) The rules of some arbitration forums may impose time limits for bringing a claim in arbitration. In some cases, a claim that is ineligible for arbitration may be brought in court.

(G) The rules of the arbitration forum in which the claim is filed, and any amendments thereto, shall be incorporated into this agreement.

(2)

(A) In any agreement containing a predispute arbitration agreement, there shall be a highlighted statement immediately preceding any signature line or other place for indicating agreement that states that the agreement contains a predispute arbitration clause. The statement shall also indicate at what page and paragraph the arbitration clause is located.

(B) Within thirty days of signing, a copy of the agreement containing any such clause shall be given to the customer who shall acknowledge receipt thereof on the agreement or on a separate document.

(3)

(A) A member shall provide a customer with a copy of any predispute arbitration clause or customer agreement executed between the customer and the member, or inform the customer that the member does not have a copy thereof, within ten business days of receipt of the customer's request. If a customer requests such a copy before the member has provided the customer with a copy pursuant to subparagraph (2)(B) of this paragraph, the member must provide a copy to the customer by the earlier date required by this subparagraph (3)(A) or by subparagraph (2)(B).

(B) Upon request by a customer, a member shall provide the customer with the names of, and information on how to contact or obtain the rules of, all arbitration forums in which a claim may be filed under the agreement.

(4) No predispute arbitration agreement shall include any condition that:

(A) limits or contradicts the rules of any self-regulatory organization;

(B) limits the ability of a party to file any claim in arbitration;

(C) limits the ability of a party to file any claim in court permitted to be filed in court under the rules of the forums in which a claim may be filed under the agreement;

(D) limits the ability of arbitrators to make any award.

(5) If a customer files a complaint in court against a member that contains claims that are subject to arbitration pursuant to a predispute arbitration agreement between the member and the customer, the member may seek to compel arbitration of the claims that are subject to arbitration. If the member seeks to compel arbitration of such claims, the member must agree to arbitrate all of the claims contained in the complaint if the customer so requests.

(6) All agreements shall include a statement that "No person shall bring a putative or certified class action to arbitration, nor seek to enforce any pre-dispute arbitration agreement against any person who has initiated in court a putative class action; or who is a member of a putative class who has not opted out of the class with respect to any claims encompassed by the putative class action until: (i) the class certification is denied; or (ii) the class is decertified; or (iii) the customer is excluded from the class by the court. Such forbearance to enforce an agreement

to arbitrate shall not constitute a waiver of any rights under this agreement except to the extent stated herein."

(g) Negotiable Instruments Drawn From A Customer's Account

No member or person associated with a member shall obtain from a customer or submit for payment a check, draft, or other form of negotiable paper drawn on a customer's checking, savings, share, or similar account, without that person's express written authorization, which may include the customer's signature on the negotiable instrument. Each member shall maintain the authorization required for a period of three years. This provision shall not, however, require maintenance of copies of negotiable instruments signed by customers.

(h) Order Audit Trail System Record Keeping Requirements

(1) Exchange Members shall comply with NASD Rule 3110(h) as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3110(h) are transferred into the FINRA rulebook, then General 9, Section 30(h) shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3110(h) (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(2) For purposes of this Rule, references to Rule 6951 shall be construed as references to NASD Rule 6951, as applied to Exchange members by Equity Rule 6950.

(i) Holding of Customer Mail

Upon the written instructions of a customer, a member may hold mail for a customer who will not be at his or her usual address for the period of his or her absence, but (A) not to exceed two months if the member is advised that such customer will be on vacation or traveling or (B) not to exceed three months if the customer is going abroad.

(j) Changes in Account Name or Designation

Before any customer order is executed, there must be placed upon the memorandum for each transaction, the name or designation of the account (or accounts) for which such order is to be executed. No change in such account name(s) (including related accounts) or designation(s) (including error accounts) shall be made unless the change has been authorized by a member or a person(s) designated under the provisions of the Equity Rules. Such person must, prior to giving his or her approval of the account designation change, be personally informed of the essential facts relative thereto and indicate his or her approval of such change in writing on the order or other similar record of the

member. The essential facts relied upon by the person approving the change must be documented in writing and preserved for a period of not less than three years, the first two years in an easily accessible place, as the term "easily accessible place" is used in SEC Rule 17a-4.

For purposes of this paragraph (j), a person(s) designated under the provisions of the Equity Rules to approve account name or designation changes must pass a qualifying principal examination appropriate to the business of the firm.

(k) Customer Account Information. Additional information is required to be obtained prior to making recommendations to customers (see General 9, Section 10) and in connection with discretionary accounts (see General 9, Section 19).

### **Section 31. Use of Information Obtained in Fiduciary Capacity**

Exchange Members shall comply with NASD Rule 3120 as if such Rule were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3120 are transferred into the FINRA rulebook, then General 9, Section 31 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3120 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 32. Approval of Change in Exempt Status Under SEC Rule 15c3-3**

(a) Application — For the purposes of this Rule, the term "member" shall be limited to any member of the Exchange who is subject to SEC Rule 15c3-3 and is not designated to another self-regulatory organization by the Commission for financial responsibility pursuant to Section 17 of the Act and SEC Rule 17d-1 promulgated thereunder. Further, the term shall not be applicable to any member that is subject to Section 402.2(c) of the rules of the Treasury Department.

(b) A member operating pursuant to any exemptive provision as contained in subparagraph (k) of SEC Rule 15c3-3 under the Act (Rule 15c3-3), shall not change its method of doing business in a manner which will change its exemptive status from that governed by subparagraph (k)(1) or (k)(2)(ii) to that governed by subparagraph (k)(2)(i); or from subparagraph (k)(1), (k)(2)(i) or (k)(2)(ii) to a fully computing firm that is subject to all provisions of Rule 15c3-3; or commence operations that will disqualify it for continued exemption under Rule 15c3-3 without first having obtained the prior written approval of the Exchange.

(c) In making the determination as to whether to approve, deny in whole or in part an application made pursuant to paragraph (b), Exchange staff shall consider among other things the type of business in which the member is engaged, the training, experience and qualifications of persons associated with the member, the member's procedures for safeguarding customer funds and securities, the member's overall financial and

operational condition and any other information deemed relevant in the particular circumstances and the time these measures would remain in effect.

### **Section 33. Reporting Requirements for Clearing Firms**

(a) Exchange Members shall comply with NASD Rule 3150 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 33 by complying with NASD Rule 3150 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 33 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3150 are transferred into the FINRA rulebook, then General 9, Section 33 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 3150 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(b) Pursuant to the Rule 9600 Series, the Exchange may in exceptional and unusual circumstances, taking into consideration all relevant factors, exempt a member or class of members unconditionally or on specified terms and conditions from any or all of the provisions of this Rule that it deems appropriate.

(c) Exemptive Relief.

(1) Upon written request for exemptive relief pursuant to the Rule 9600 Series, the Exchange generally will grant an exemption from the reporting requirements of General 9, Section 33 to a self-clearing firm that:

(A) derives, on an annualized basis, at least 85 percent of its revenue from transactions in fixed income securities;

(B) conducts an institutional business that settles transactions on an RVP/DVP basis, provided that such exemption from reporting shall apply only with respect to such institutional business unless the Exchange determines that any other remaining business otherwise qualifies for an exemption under this subparagraph (c) or is *de minimis* in nature; or

(C) does not execute transactions for customers or otherwise hold customer accounts or act as an introducing broker with respect to customer accounts (e.g., that engages solely in proprietary trading, or that conducts business only with other broker-dealers or any other non-customer counter-parties).

(2) Upon written request for exemptive relief pursuant to the Rule 9600 Series, the Exchange also generally will grant an exemption to a clearing firm with

respect to one or more of the introducing firms for which it clears if the introducing firm meets one of the above-stated grounds for exemptive relief.

(3) Any self-clearing firm that, due to a change in the facts pertaining to the operation and nature of its business or the operation and nature of the business of a firm for which it clears, as applicable, no longer qualifies for an exemption previously granted by the Exchange from the reporting requirements of General 9, Section 33 must promptly report such change in circumstances to the Exchange and NASD, Department of Member Regulation, and commence compliance with the reporting requirements of General 9, Section 33.

### **Section 34. Extensions of Time Under Regulation T and SEC Rule 15c3-3**

A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with NASD Rule 3160 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 34 by complying with NASD Rule 3160 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 34 are being performed by FINRA on behalf of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 3160 are transferred into the FINRA rulebook, then General 9, Section 34 shall be construed to require Exchange members that are designated to the Exchange for oversight pursuant to SEC Rule 17d-1 to comply with the FINRA rule corresponding to NASD Rule 3160 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

### **Section 35. Nonregistered Foreign Finders**

(a) Member firms, and persons associated with a member, may pay to nonregistered foreign persons transaction-related compensation based upon the business of customers they direct to member firms if the following conditions are met:

(1) the member firm has assured itself that the nonregistered foreign person who will receive the compensation (the "finder") is not required to register in the U.S. as a broker/dealer nor is subject to a disqualification as defined in the Exchange Rules, and has further assured itself that the compensation arrangement does not violate applicable foreign law;

(2) the finders are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad;

(3) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;

(4) customers receive a descriptive document, similar to that required by Rule 206(4)- 3(b) of the Investment Advisers Act of 1940, that discloses what compensation is being paid to finders;

(5) customers provide written acknowledgment to the member firm of the existence of the compensation arrangement and that such acknowledgment is retained and made available for inspection by the Exchange;

(6) records reflecting payments to finders are maintained on the member firm's books and actual agreements between the member firm and persons compensated are available for inspection by the Exchange; and

(7) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

### **Section 36. Reserved.**

### **Section 37. Anti-Money Laundering Compliance Program**

Exchange Members and persons associated with a member shall comply with FINRA Rule 3310 as if such Rule were part of the Rules of the Exchange.

#### **••• Supplementary Material:**

#### **.01 Independent Testing Requirements**

Exchange members and persons associated with a member shall comply with FINRA Rule 3310.01 as if such Rule were part of the Rules of the Exchange. For purposes of this Rule, references to FINRA Rule 3310 shall be construed as references to General 9, Section 37.

#### **.02 Review of Anti-Money Laundering Compliance Person Information**

Each Exchange member must identify, review and, if necessary, update the information regarding its anti-money laundering compliance person designated pursuant to this Rule in the manner prescribed by General 2, Section 11.

### **Section 38. Margin Requirements**

(a) A member that is not designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with the initial and maintenance margin requirements of Regulation T and the self-regulatory organization to which the member is designated for oversight pursuant to SEC Rule 17d-1. Members shall comply with Regulation T and such self-regulatory organization rules, and shall submit to such self-regulatory organization any filings required thereunder, in each case as if such rules were part of the Rules of the Exchange.

(b) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with the initial and maintenance margin requirements of Regulation T and the NASD Rule 2520 as if such Rules were part of the Rules of the Exchange.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2520 are transferred into the FINRA rulebook, then General 9, Section 38 shall be construed to require Exchange members designated to the Exchange for oversight pursuant to SEC Rule 17d-1 to comply with the FINRA rule corresponding to NASD Rule 2520 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

(c) The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with this Rule by complying with NASD Rule 2520 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under this Rule are being performed by FINRA on behalf of the Exchange.

(d) Pursuant to Rule 9600 Series, the Exchange may exempt any member from the requirements contained in paragraph (e)(3) of NASD Rule 2520, as applied to Exchange members through this Rule, if the account referenced in paragraph (e)(3) of NASD Rule 2520 is confined exclusively to transactions and positions in exempted securities.

### **Section 39. Fidelity Bonds**

(a) Each member required to join the Securities Investor Protection Corporation who has employees and who is a member in good standing of another self-regulatory organization shall follow the applicable fidelity bond rule of the self-regulatory organization to which it is designated by the Commission for financial responsibility pursuant to Section 17 of the Act and SEC Rule 17d-1 thereunder.

(b) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4360 as if such Rule were part of the Rules of the Exchange. The Exchange and FINRA are parties to the FINRA Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange members are complying with General 9, Section 39 by complying with FINRA Rule 4360 as written, including, for example, filing requirements and notifications. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under General 9, Section 39 are being performed by FINRA on behalf of the Exchange.

(c) For purposes of this Rule:

(1) references to an "Association member" shall be construed as references to an "Exchange member", and

(2) references to Article I, paragraph (q) of the By-Laws shall be construed as references to General 1.

(d) Pursuant to the Rule 9600 Series, any member subject to paragraph (c) of FINRA Rule 4360, through the application of General 9, Section 39(b), may apply to the

Exchange for an exemption from such requirements. The exemption may be granted upon a showing of good cause, including a substantial change in the circumstances or nature of the member's business that results in a lower net capital requirement. The Exchange may issue an exemption subject to any condition or limitation upon a member's bonding coverage that is deemed necessary to protect the public and serve the purposes of this Rule.

#### **Section 40. Capital Compliance**

(a) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4110 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 9557 shall be construed as references to Equity Rule 9557.

#### **Section 41. Regulatory Notification and Business Curtailment**

(a) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4120 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 9557 shall be construed as references to Equity Rule 9557.

#### **Section 42. Audit**

(a) A member designated to the Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4140 as if such Rule were part of the Rules of the Exchange.

(b) For purposes of this Rule, references to Rule 9557 shall be construed as references to Equity Rule 9557.

#### **Section 43. Reserved**

#### **Section 44. Reserved**

#### **Section 45. Reserved**

#### **Section 46. Reserved**

#### **Section 47. Reserved**

#### **Section 48. Notifications, Questionnaires and Reports**

A member designated to Exchange for oversight pursuant to SEC Rule 17d-1 shall comply with FINRA Rule 4521 as if such Rule were part of the Rules of the Exchange.

#### **Section 49. Payments Involving Publications that Influence the Market Price of a Security**

(a) Except as provided in paragraph (b), no member shall, directly or indirectly, give, permit to be given, or offer to give, anything of value to any person for the purpose of

influencing or rewarding the action of such person in connection with the publication or circulation in any electronic or other public media, including any investment service or similar publication, Web site, newspaper, magazine or other periodical, radio, or television program of any matter that has, or is intended to have, an effect upon the market price of any security.

(b) The prohibitions in paragraph (a) shall not apply to compensation paid to a person in connection with the publication or circulation of:

(1) a communication that is clearly distinguishable as paid advertising;

(2) a communication that discloses the receipt of compensation and the amount thereof in accordance with Section 17(b) of the Securities Act; or

(3) a research report, as that term is defined in NASD Rule 2711.

FINRA is in the process of consolidating certain NASD rules into a new FINRA rulebook. If the provisions of NASD Rule 2711 are transferred into the FINRA rulebook, then Rule 2711 shall be construed to require Exchange members to comply with the FINRA rule corresponding to NASD Rule 2711 (regardless of whether such rule is renumbered or amended) as if such rule were part of the Rules of the Exchange.

#### **Section 50. Foreign Members**

A member which does not maintain an office in the United States responsible for preparing and maintaining financial and other reports required to be filed with the Commission and the Exchange must:

(a) prepare all such reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars;

(b) reimburse the Exchange for any expenses incurred in connection with examinations of the member to the extent that such expenses exceed the cost of examining a member located within the continental United States in the geographic location most distant from the Exchange;

(c) ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations; and

(d) utilize, either directly or indirectly, the services of a broker/dealer registered with the Commission, a bank or a clearing agency registered with the Commission located in the United States in clearing all transactions involving members of the Exchange, except where both parties to a transaction agree otherwise.

### **Section 51. Research Analysts**

An Exchange member that employs a research analyst or publishes or otherwise distributes a research report shall also be a member of FINRA or the New York Stock Exchange and shall comply with FINRA Rules 1120, 1250 and 2241 (and any other FINRA rules that apply to research analysts or research reports), as amended. For purposes of this General 9, Section 50, (i) "research analyst" shall mean an associated person who is primarily responsible for, and any associated person who reports directly or indirectly to such research analyst in connection with, the preparation of the substance of a research report, whether or not any such person has the job title of "research analyst," and (ii) "research report" shall mean a written or electronic communication that includes an analysis of equity securities of individual companies or industries, and that provides information reasonably sufficient upon which to base an investment decision.

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## **Equity Rules**

### **Equity 1 Equity Definitions**

When used in the Equity Rules, unless the context otherwise requires:

- (1) "**Customer**" The term "customer" shall not include a broker or dealer.
- (2) "**Delegation Agreement**" The term "Delegation Agreement" shall mean the Delegation Agreement dated \_\_, 2008, between the Exchange and BX Equities LLC, as such Delegation Agreement may from time to time be amended with the approval of the Commission pursuant to Section 19 of the Act and the rules promulgated thereunder.
- (3) "**Equity Rules**" The term "Equity Rules" means the rules, as adopted by the Exchange Board of Directors pursuant to the By-Laws of the Exchange, as hereafter amended or supplemented, and also includes the General Equity and Options Rules, Certificate of Incorporation and the By-Laws of the Exchange, the Operating Agreement of NASDAQ OMX BX Equities LLC, and the Delegation Agreement between the Exchange and NASDAQ OMX BX Equities LLC.
- (4) "**Grandfathered Rules**" The term "Grandfathered Rules" means the Rules of Board of Governors of the Boston Stock Exchange as in effect on the date of the closing of the acquisition of the Exchange by Nasdaq, Inc. and as such rules may be subsequently amended, including the Grandfathered BOX Trading Rules, to the extent that such rules are applicable to BOX and to former BOX Options Participants and associated persons for activities that occurred during the time that

BOX was a facility of the Exchange. The Grandfathered Rules shall also apply to activities of members, members organizations, persons associated with members, and other persons subject to the jurisdiction of the Exchange that occurred prior to the adoption of the Equity Rules.

(5) "Nasdaq BX Equities LLC" or "BX Equities LLC" The terms "Nasdaq BX Equities LLC" or "BX Equities LLC" means Nasdaq BX Equities LLC, a subsidiary of the Exchange which operates the Nasdaq BX Equities Market pursuant to the Operating Agreement of Nasdaq BX Equities LLC and the Delegation Agreement.

(6) "Nasdaq BX Equities Market" or "System" The terms "Nasdaq BX Equities Market" or "System" shall mean the automated system for order execution and trade reporting owned and operated by the Exchange through BX Equities LLC as a facility of the Exchange, and which is described fully in the Equity Rule 4750 Series.

(7) "Security" Unless the context requires otherwise, the term "security" shall mean a security listed on the Exchange or traded on the Exchange pursuant to unlisted trading privileges.

**Equity 2 [Equity Trading Rules] Equity Market Participants**

**Equity 3 [Equity Market Participants] Equity Trading Rules**

**Equity 4 [Reserved] Limit Up-Limit Down**

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**Equity 6 [Limit Up-Limit Down] Reserved**

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**Equity 10 [Reserved] BX Venture Market Listing Rules**

**[Equity 11 BX Venture Market Listing Rules]**

**OPTIONS RULES**

**Options 1 [Options Definitions]General Provisions**

**Section 1. Definitions**

(a) With respect to these BX Options Rules, the following terms shall have the meanings specified in this Rule. A term defined elsewhere in the Rules of the Exchange shall have the same meaning with respect to this Rule, unless otherwise defined below.

(1) The term "account number" means a number assigned to a Participant. Participants may have more than one account number.

(2) The term "aggregate exercise price" means the exercise price of an options contract multiplied by the number of units of the underlying security covered by the options contract.

(3) The term "American-style option" means an options contract that, subject to the provisions of Options 6B, Section 1 of these BX Options Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, may be exercised at any time from its commencement time until its expiration.

(4) The term "associated person" or "person associated with a Participant" mean any partner, officer, director, or branch manager of an Options Participant (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with a Participant or any employee of a Participant.

(5) The term "badge" means an account number, which may contain letters and/or numbers, assigned to BX Market Makers. A BX Market Maker account may be associated with multiple badges.

(6) The term "bid" means a limit order to buy one or more options contracts.

(7) The term "BX Options" means the BX Options Market, an options trading facility of the Exchange under Section 3(a)(2) of the Exchange Act.

(8) The term "BX Options Book" means the electronic book of orders maintained by the BX Options Trading System.

(9) The term "BX Options Market Maker" or "Options Market Maker" mean an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Options 2 of these Rules.

(10) The terms "BX Options Order Entry Firm" or "Order Entry Firm" or "OEF" mean those Options Participants representing as agent Customer Orders on BX Options and those non-Market Maker Participants conducting proprietary trading.

(11) The term "BX Options Rules" or "Rules of BX Options" mean the Rules of the BX Options Market.

(12) The term "BX Options Transaction" means a transaction involving an options contract that is effected on or through BX Options or its facilities or systems.

(13) The term "call" means an options 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 number of shares of the underlying security covered by the options contract.

(14) The term "class" means, when applied to options, all option contracts of the same type and style covering the same underlying interest; provided, however, that OTC options and listed options that would otherwise constitute a single class of options shall constitute separate classes. When applied to futures, the term "class" means all futures covering the same underlying interest.

(15) The term "Clearing Corporation" means The Options Clearing Corporation.

(16) The term "Clearing Participant" means a Participant that is self-clearing or a Participant that clears BX Options Transactions for other Participants of BX Options.

(17) The term "closing index value" in respect of a particular index means the current index value calculated at the close of business on the day of exercise, or, if the day of exercise is not a trading day, on the last trading day before exercise (P.M.-settled), unless the settlement value of the index is based on the opening price of each component issue on the primary market (A.M.- settled).

(18) The term "closing purchase transaction" means a BX Options Transaction that reduces or eliminates a short position in an options contract.

(19) The term "closing writing transaction" means a BX Options Transaction that reduces or eliminates a long position in an options contract.

(20) The term "covered short position" means (i) an options position where the obligation of the writer of a call option is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Rules 610(f) or 610(g), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or less than the exercise price of the options contract in such short position; and (ii) an options position where the writer of a put option holds in the same account as the short position, on a share-for-share basis, a long position in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or greater than the exercise price of the options contract in such short position.

(21) The term "Customer" means a Public Customer or a broker-dealer.

(22) The term "Customer Order" means an agency order for the account of a Public Customer, as defined herein or a broker-dealer.

(23) The term "discretion" means the authority of a broker or dealer to determine for a Customer the type of option, the class or series of options, the number of contracts, or whether options are to be bought or sold.

(24) The term "European-style option" means an options contract that, subject to the provisions of Options 6B, Section 1 of these Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on the business day of expiration, or, in the case of option contracts expiring on a day that is not a business day, the last business day prior to its expiration date.

(25) The term "exercise price" means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an options contract.

(26) The term "foreign currency" means the standard unit of the official medium of exchange of a sovereign government or the Euro including the United States Government (e.g., the British pound, the Swiss franc, the Canadian dollar, the Australian dollar, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, the Swedish krona, or the United States dollar).

(27) The term "in-the-money" means the following: for call options, all strike prices at or below the offer in the underlying security on the primary listing market; for put options, all strike prices at or above the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of Market Maker quoting obligations in Options 2, Section 5.

(28) The term "index option" means an options contract that is an option on a broad-based, narrow-based or micro narrow-based index of equity securities prices.

(29) The term "individual equity option" means an options contract which is an option on an equity security.

(30) The term "long position" means a person's interest as the holder of one or more options contracts.

- (31) The term "mnemonic" means an acronym comprised of letters and/or numbers assigned to Participants. A Participant account may be associated with multiple mnemonics.
- (32) The term "NBBO" means the national best bid or offer as calculated by BX Options based on market information received by BX Options from OPRA.
- (33) The term "offer" means a limit order to sell one or more options contracts.
- (34) The term "opening purchase transaction" means a BX Options Transaction that creates or increases a long position in an options contract.
- (35) The term "opening writing transaction" means a BX Options Transaction that creates or increases a short position in an options contract.
- (36) The term "options contract" means a put or a call issued, or subject to issuance by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.
- (37) The term "options market close" or "market close" mean the time specified by BX Options for the cessation of trading in contracts on BX Options for options on that market day.
- (38) The term "options market open" or "market open" mean the time specified by BX Options for the commencement of trading in contracts on BX Options for options on that market day.
- (39) The term "Options Participant" or "Participant" mean a firm, or organization that is registered with the Exchange pursuant to Options 2A of these Rules for purposes of participating in options trading on BX Options as a "BX Options Order Entry Firm" or "BX Options Market Maker."
- (40) The term "Options Principal" means a person engaged in the management and supervision of the Options Participant's business pertaining to options contracts that has responsibility for the overall oversight of the Options Participant's options related activities on the Exchange.
- (41) The term "Options Participation Agreement" means the agreement to be executed by Options Participants to qualify to participate on BX Options.
- (42) The term "OPRA" means the Options Price Reporting Authority.
- (43) The term "order" means a firm commitment to buy or sell options contracts as defined in Section 7 of Options 3.

(44) The term "out-of-the-money" means the following: for call options, all strike prices above the offer in the underlying security on the primary listing market; for put options, all strike prices below the bid in the underlying security on the primary listing market. This definition shall only apply for purposes of Market Maker quoting obligations in Options 2, Section 5. This definition shall only apply for purposes of Market Maker quoting obligations in Options 2, Section 5.

(45) The term "outstanding" means an options contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.

(46) The term "pre-opening" means the period prior to the market open on BX Options, beginning at a time specified by BX Options, during which Participants may log on to the Trading System and submit, amend and withdraw orders, but no trading can occur.

(47) The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.

(i) Calculation of Professional Orders. With respect to computing the number of orders in listed options per day on average during a calendar month for its own beneficial account(s), the following shall apply:

(a) Each order is counted toward the number of orders, regardless of the options exchange to which the order was routed in determining Professional orders.

(b) A cancel and replace order which replaces a prior order shall be counted as a second order, or multiple new orders in the case of "single-strike algorithms" which track the NBBO. A cancel message is not an order.

(c) An order that converts into multiple subordinate orders to achieve an execution strategy shall be counted as one order per side and series, even if the order is routed away. An order that cancels and replaces the resulting subordinate order and results in multiple sides/series shall be counted as a new order per side and series. An order that cancels and replaces the subordinate order on the same side and series will count as one order. For purposes of counting Public Customer orders, if one Public Customer order on the same side and series is subsequently broken-up by a broker into multiple orders for purposes of execution or routed away, this order will count as one order.

(48) The term "Public Customer" means a person that is not a broker or dealer in securities.

(49) The term "Public Customer Order" means an order for the account of a Public Customer.

(50) The term "put" means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option and the Rules of the OCC, to sell to the Clearing Corporation the number of units of the underlying security covered by the options contract, at a price per unit equal to the exercise price, upon the timely exercise of such option.

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

(52) The term "quote" or "quotation" mean a bid or offer entered by a Market Maker as a firm order that updates the Market Maker's previous bid or offer, if any.

(53) The term "Responsible Person" means a United States-based officer, director or management-level employee of an Options Participant, who is registered with the Exchange as an Options Principal, responsible for the direct supervision and control of associated persons of that Options Participant.

(54) The term "Rules of the Clearing Corporation" or "Rules of the OCC" mean the Certificate of Incorporation, the By-Laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as may be in effect from time to time.

(55) The term "series," when used in respect of options, means all option contracts of the same class and having otherwise identical terms including exercise price (or, in the case of delayed start option contracts that do not yet have a set exercise price, the same exercise price setting formula and exercise price setting date), expiration date, unit of trading and, in the case of futures options or commodity options, series marker if any; and when used in respect of futures, means all futures of the same class having identical terms, including the same maturity date and series marker, if any.

(56) The term "short position" means a person's interest as the writer of one or more options contracts.

(57) The term "Short Term Option Series" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Monday, Tuesday, Wednesday, Thursday or Friday that is a

business day and that expires on the Monday, Wednesday or Friday of the next business week, or, in the case of a series that is listed on a Friday and expires on a Monday, is listed one business week and one business day prior to that expiration. If a Tuesday, Wednesday, Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Tuesday, Wednesday, Thursday or Friday, respectively. For a series listed pursuant to this Rule for Monday expiration, if a Monday is not a business day, the series shall expire on the first business day immediately following that Monday.

(58) The term "System" or "Trading System" mean the automated system for order execution and trade reporting owned and operated by BX as the BX Options market. The BX Options market comprises:

(A) an order execution service that enables Participants to automatically execute transactions in System Securities; and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment;

(B) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment; and

(C) the data feeds described in Options 3, Section 23.

(59) The term "System Book Feed" means a data feed for System securities.

(60) The term "System Securities" means all options that are currently trading on BX Options pursuant to Options 4. All other options shall be "Non System Securities."

(61) The term "type of option" means the classification of an options contract as either a put or a call.

(62) The term "uncovered" means a short position in an options contract that is not covered.

(63) The term "underlying security" when used in respect of any contract other than a cash-settled contract means the security or other asset which the Corporation is obligated to sell or purchase upon exercise or maturity of the contract. When used in respect of a cash-settled contract, the term means the index or other underlying interest on which the exercise settlement amount or final settlement price is based.

**Section 2. Applicability**

(a) These are the BX Rules applicable to the trading of options contracts issued by The Options Clearing Corporation through BX Options, BX's options trading facility, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading on BX Options.

(b) Except to the extent that specific BX Options Rules govern or unless the context otherwise requires, the provisions of the BX General Equity and Options Rules shall be applicable to Options Participants and to the trading of option contracts on BX Options and, for purposes of their application with respect to Options Participants and options trading, shall be interpreted in light of the nature of options trading and the BX Options market, and the fact that options on BX Options shall be traded electronically through the Trading System. To the extent that the provisions of the BX Options Rules are inconsistent with any other provisions of the BX Rules, the BX Options Rules shall control.

(c) For the purposes of cross-referencing, interpreting and applying BX Rules to the BX Options Rules: a reference to "members" of BX shall be functionally equivalent to "Participants" in BX Options, whether BX Options Market Makers, Order Entry Firms or both.

(d) For marketing and other purposes, the BX Options Market may be referred to as the "BX Options Market" or "BX Options."

(e) These Rules generally require Options Participants conducting business with the public to comply with applicable requirements of the United States federal securities laws and regulations promulgated thereunder by the Securities and Exchange Commission. To the extent that certain aspects of the federal securities laws and regulations promulgated thereunder do not apply to non-U.S. firms conducting business with non-U.S. customers, these Rules shall be interpreted accordingly, so long as such interpretation is consistent with the maintenance of a fair and orderly options market. In such case, however, such non-U.S. Options Participants must comply with all reasonably comparable laws and regulations of their home countries or of the home countries of their customers, as applicable.

**Section 3. Regulation of BX and its Members**

(a) BX and the Financial Industry Regulatory Authority ("FINRA") are parties to the Regulatory Services Agreement dated as of August 29, 2008, as amended ("Regulatory Contract"). Pursuant thereto, FINRA has agreed to perform certain functions described in these Rules on behalf of BX. BX Options Rules that refer to BX Regulation, BX Regulation staff, BX Options staff, and BX Options departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of BX pursuant to the Regulatory Contract.

(b) Notwithstanding the fact that BX has entered into the Regulatory Contract with FINRA Regulation to perform some of BX's functions, BX shall retain ultimate legal responsibility for, and control of, such functions.

(c) In addition, BX has incorporated by reference certain FINRA, Chicago Board Options Exchange ("CBOE"), and New York Stock Exchange ("NYSE") rules. BX members shall comply with these rules and interpretations as if such rules and interpretations were part of BX's rules.

## **Options 2 Options [Trading Rules]Market Participants**

### **Section 1. Registration of Market Makers**

Options Participants registered as Market Makers have certain rights and bear certain responsibilities beyond those of other Options Participants. All Market Makers are designated as specialists on BX Options for all purposes under the Exchange Act or Rules thereunder.

(a) To register as a Market Maker, a Participant must file an application in writing on such forms as BX Regulation may prescribe. BX Regulation reviews applications and considers an applicant's market making ability and such other factors as BX Regulation deems appropriate in determining whether to approve an applicant's registration as a Market Maker.

(b) The registration of any Participant as a Market Maker may be suspended or terminated by BX Regulation upon a determination that such Participant has failed to properly perform as a Market Maker.

(c) These Rules place no limit on the number of qualifying entities that may become Market Makers. However, based on system constraints, capacity restrictions or other factors relevant to protecting the integrity of the BX Options Trading System, the Board or its designee may limit access to the Trading System, for a period to be determined in the Board's discretion, pending any action required to address the issue of concern to the Board. To the extent that the Board places limitations on access to the Trading System on any Participant(s), such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Act.

(d) An Options Participant that has qualified as an Options Market Maker may register to make markets in individual options.

(e) An Options Market Maker may become registered in an option by entering a registration request via a BX approved electronic interface with BX's systems. Registration shall become effective on the day the registration request is entered.

(f) An Options Market Maker's registration in an option shall be terminated if the Market Maker fails to enter quotations in the option within five (5) business days after the Market Maker's registration in the option becomes effective.

## **Section 2. Reserved**

### **Section 3. Lead Market Maker Allocations**

#### **A. LMM Appointment**

(a) Approved BX Options Market Makers may become LMMs. Only one LMM may be allocated to an options class.

(b) Initial application(s) to become an LMM shall be in a form and/or format prescribed by the Exchange and shall include the following: (1) background information on the prospective LMM including experience in trading options; (2) the LMM's clearing arrangements; (3) adequacy of capital; and (4) adherence to Exchange rules and ability to meet obligations of an LMM.

(c) Subsequent applications shall be in a form and/or format prescribed by the Exchange and shall include the information requested therein, including, but not limited to, an account of the abilities and background of the applicant as well as any other special requirements that the Exchange may require.

(d) Once an applicant is approved by the Exchange as an LMM, any material change in capital shall be reported in writing to the Exchange and in no circumstances shall be reported more than two business days after the change.

#### **B. LMM Allocation Application**

(a) When an options class is to be allocated or reallocated by the Exchange, the Exchange will solicit applications from all eligible LMMs. If the Exchange determines that special qualifications should be sought in the successful applicant, it shall indicate such desired qualifications in the notice.

(b) An allocation application shall be submitted in writing to the Exchange's designated staff and shall include, at a minimum, the name and background of the LMM, the LMM's experience and capitalization demonstrating an ability to trade the particular options class sought, and any other reasons why the LMM believes it should be assigned or allocated the security. In addition, the Exchange may also require that the application include other information such as system acceptance/execution levels and guarantees. The Exchange may re-solicit applications for any reason, including if it determines that its initial solicitation resulted in an insufficient number of applicants.

(c) Allocation decisions and automatic allocations, as noted in subsection (g) below, shall be communicated in writing to Exchange members.

(d) Once the LMM is allocated an issue, such LMM shall immediately notify the Exchange in writing any change to the respective system acceptance/execution levels or any other material change in the application for any assigned issue.

(e) If an LMM seeks to withdraw from allocation in a security, it should so notify the Exchange at least one business day prior to the desired effective date of such withdrawal.

(f) Definition of Related Securities. For purposes of this Rule, the term "Related Securities" means, but is not limited to: securities of a partially or wholly owned subsidiary; securities that are convertible into the securities of the issuer; warrants on securities of the issuer; securities issued in connection with a name change; securities issued in a reverse stock split; contingent value rights; "tracking" securities designed to track the performance of the underlying security or corporate affiliate thereof; securities created in connection with the merger or acquisition of one or more companies; securities created in connection with a "spinoff" transaction; convertible on non-convertible senior securities; and securities into which a listed security is convertible, where such Related Securities emanate from or are related to securities underlying options that are currently allocated to an LMM on the Exchange ("Currently Allocated Options"). The term Related Securities does not include Exchange Traded Funds.

(g) Allocation of Options on Related Securities. Options on Related Securities ("Related Options") shall be automatically allocated to the LMM that is already the LMM in Currently Allocated Options.

### C. LMM Allocation

(a) Allocations. The Exchange shall allocate new options classes, or reallocate existing options classes to applicants based on the results of such factors as the Exchange deems appropriate. Among the factors that the Exchange may consider in making such decisions are: the number and type of securities in which applicants are currently registered; the capital and other resources of the applicant; recent allocation decisions within the past eighteen months; the desirability of encouraging the entry of new LMMs into the Exchange's market; order flow commitments; any prior transfers of LMM privileges by the applicant and the reasons therefore and such policies as the Board instructs the Exchange to follow in allocating or reallocating securities. The Exchange may also consider: quality of markets data; and observance of ethical standards and administrative responsibilities. Solely with respect to options class allocations or reallocations, past or contemplated voluntary delisting of options classes by LMMs, done in the best interest of the Exchange, will not be viewed negatively by the Exchange in making allocation and reallocation decisions. The Exchange is empowered to allocate option classes for a limited period of time or subject to such other terms and conditions as it deems appropriate.

### D. LMM Allocation, Reallocation and Transfer of Issues

(a) Requests to allocate or transfer allocation or transfer of an options class request must be made in writing to the Exchange and such transfer may only be made to an approved LMM. The LMM shall be assigned LMM to an options class

for a period defined by the Exchange. The Exchange will communicate such period in solicitation applications (notices) pursuant to Section B (LMM Allocation Application) herein. The Exchange may re-allocate an options class after the defined period has expired.

#### **Section 4. Obligations of Market Makers and Lead Market Makers**

(a) In registering as a Market Maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Ordinarily, Market Makers are expected to:

(1) During trading hours, a Market Maker must maintain a two-sided market, pursuant to Section 5(d)(1) of Options 2, in those options in which the Market Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.

(2) Engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.

(3) Compete with other Market Makers in all options in which the Market Maker is registered to trade.

(4) Make markets that will be honored for the number of contracts entered into BX Options' System in all options in which the Market Maker is registered to trade.

(5) Update quotations in response to changed market conditions in all options in which the Market Maker is registered to trade.

(6) Maintain active markets in all options in which the Market Maker is registered.

(7) Honor all orders that the Trading System routes to away markets pursuant to Options 5 of these Rules.

(b) Options Market Makers should not effect purchases or sales on BX Options except in a reasonable and orderly manner.

(c) If BX Regulation finds any substantial or continued failure by an Options Market Maker to engage in a course of dealings as specified in paragraph (a) of this Rule, such Options Market Maker will be subject to disciplinary action or suspension or revocation

of registration in one or more of the securities in which the Market Maker is registered. Nothing in this Rule will limit any other power of the Board under these Rules, or procedures of BX Options with respect to the registration of a Market Maker or in respect of any violation by a Market Maker of the provisions of this Rule.

**(d) Market Maker Orders.** Market Makers may enter all order types defined in Options 3, Section 7 in the options classes to which they are appointed and non-appointed.

(e) Transactions of an LMM should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no LMM should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

(f) *Obligations in Appointed Classes.* With respect to each class of options in his or her appointment, an LMM is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, an LMM is expected to perform the following activities in the course of maintaining a fair and orderly market.

(1) To compete with other LMMs and Market Makers to improve the market in all series of options classes to which the LMM is appointed.

(2) To make markets that will be honored for the number of contracts entered into the Trading System in all series of options classes within the LMM's appointment.

(3) To update market quotations in response to changed market conditions in all series of options classes within the LMM's appointment.

(4) Options traded on the Trading System may be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid.

(5) BX Regulation may establish quote width differences other than as provided in subparagraph (iv) for one or more options series.

(6) In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsections (f)(4) and (5), the permissible price differential for any in-the-money option series may be identical to those in the underlying security market. In the case of the at-the-money and out-of-the-money series, BX Regulation may waive the requirements of subsections (f)(4) and (5) on a case-by-case basis when the bid/ask differential for the underlying security is greater than .50. In such instances, the bid/ask differentials for the at-the-money series and the out-of-the-money series may be half as wide as the bid/ask differential in the underlying security in the primary market. Exemptions from

subsections (f)(4) and (5) are subject to Exchange review. BX Regulation must file a report with BX operations setting forth the time and duration of such exemptive relief and the reasons therefore.

(g) Unusual Conditions - Opening Auction. If the interest of maintaining a fair and orderly market so requires, BX Regulation may declare that unusual market conditions exist in a particular issue and allow LMMs in that issue to make auction bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under this Rule. In making such determinations to allow wider markets, BX Regulation should consider the following factors: (A) whether there is pending news, a news announcement or other special events; (B) whether the underlying security is trading outside of the bid or offer in such security then being disseminated; (C) whether Options Participants receive no response to orders placed to buy or sell the underlying security; and (D) whether a vendor quote feed is clearly stale or unreliable.

(1) In the event that BX Regulation determines that unusual market conditions exist in any option, it will be the responsibility of BX Regulation to file a report with Exchange Operations setting forth the relief granted for the unusual market conditions, the time and duration of such relief and the reasons therefore.

(h) In Classes of Option Contracts Other Than Those to Which Appointed. With respect to classes of option contracts outside of their appointment, LMMs should not engage in transactions for an account in which they have an interest that are disproportionate in relation to, or in derogation of, the performance of their obligations as specified in this Rule with respect to the classes in their appointment. Furthermore, LMMs should not:

(1) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; and

(2) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

(i) Prohibited Practices and Procedures.

(1) Any practice or procedure whereby LMMs trading any particular option issue determine by agreement the spreads or option prices at which they will trade that issue is prohibited.

(2) Any practice or procedure whereby LMMs trading any particular option issue determine by agreement the allocation of orders that may be executed in that issue is prohibited.

(j) LMM Quotations. An LMM must enter two-sided quotations. An LMM that enters a bid (offer) in a series of an option in which he is registered on BX must enter an offer (bid), except in an assigned options series listed intra-day on BX. These quotations must meet the legal quote width requirements specified in Options 2, Section 4 subsection

(f)(4)-(6). A Market Maker who is also the Lead Market Maker, pursuant to Options 2, Section 4, will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will be held to Market Maker obligations in all other options series where assigned pursuant to Options 2, Section 5(d).

(1) LMMs, associated with the same Options Participant, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Option Participant's assigned options series are open for trading. An LMM shall not be required to make two-sided markets in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater. However, an LMM may still receive a participation entitlement in such series if it elects to quote in such series and otherwise satisfies the requirements of Options 3, Section 10.

(a) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(2) Specifically, the Exchange will calculate subparagraph (1) above by (i) taking the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.

(3) BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant compliance with this Rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.

(4) If a technical failure or limitation of a System of the Exchange prevents an LMM from maintaining, or prevents an LMM from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the LMM has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this intra-day electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(k) Required Submission of Quotations. An LMM may be called upon by BX Regulation to submit a single quote or maintain intra-day quotes in one or more series of an option issue within its appointment whenever, in the judgment of BX Regulation, it is necessary to do so in the interest of maintaining fair and orderly markets.

(l) Firm Quotes. An LMM shall be compelled to buy/sell a specified quantity of option contracts at the disseminated bid/offer pursuant to his obligations with respect to firm quotes.

(1) All quotes and orders entered into the System by Options Participants are firm under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("SEC Rule 602") for the number of contracts specified and according to the size requirements set forth herein.

(2) Market Maker bids and offers are not firm under this Rule and SEC Rule 602:

(a) for the period prior to the Opening Cross; or

(b) if any of the circumstances provided in paragraph (b)(3) or (c)(4) of SEC Rule 602 exist.

## **Section 5. Market Maker Quotations**

(a) Size Associated with Quotes. A Market Maker's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the Market Maker is willing to buy or sell. The best bid and best offer entered by a Market Maker must have a size of at least one (1) contract.

(b) Two-Sided Quotes. A Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX Options must enter an offer (bid).

(c) Firm Quotes.

(1) All quotes and orders entered into the System by Options Participants are firm under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602") for the number of contracts specified and according to the requirements of paragraph (a) above.

(2) Market Maker bids and offers are not firm under this Rule and Rule 602:

(i) for the period prior to the Opening Cross; or

(ii) if any of the circumstances provided in paragraph (b)(3) or (c)(4) of Rule 602 exist.

(d) Intra-day Quotes. A Market Maker must enter bids and offers for the options to which it is registered, as follows:

(1) A Market Maker must enter bids and offers for the options to which it is registered, except in an assigned options series listed intra-day on the Exchange. On a daily basis, a Market Maker must make markets consistent with the applicable quoting requirements specified below. An Options Participant will be required to meet each market making obligation separately. A Market Maker who is also the Lead Market Maker, pursuant to Options 2, Section 4, will be held to the Lead Market Maker obligations in options series in which the Lead Market Maker is assigned and will be held to Market Maker obligations in all other options series where assigned. A Market Maker who receives a Directed Order, as described in Options 3, Section 10, shall be held to the standard of a Directed Market Maker as described in Options 2, Section 10.

(A) Market Makers, associated with the same Options Participant, are collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Options Participant's assigned options series are open for trading. Notwithstanding the foregoing, a Market Maker shall not be required to make two-sided markets pursuant to this subparagraph in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater.

(i) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(B) Specifically, the Exchange will calculate subparagraph (A) above by (i) taking the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater for Market Makers; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.

(C) BX Regulation may consider exceptions to the requirement to quote 60% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant's compliance with this Rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to

provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.

(D) If a technical failure or limitation of a System of BX prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to BX Options timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (D) with respect to the affected quotes.

(2) Bid/ask Differentials (Quote Spread Parameters). Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security. The Exchange may establish differences other than the above for one or more series or classes of options.

(3) A Market Maker may be called upon by BX Regulation to submit a single bid or offer or maintain continuous bids and offers in one or more of the series in options to which the Market Maker is registered whenever, in the judgment of BX Regulation, it is necessary to do so in the interest of fair and orderly markets.

(e) Options Classes Other Than Those in Which Registered. A Market Maker shall be considered an OEF under the Rules in all classes of options listed on BX Options. The total number of contracts executed by a Market Maker in options in which it is not registered as a Market Maker shall not exceed 25 percent of the total number of all contracts executed by the Market Maker in any calendar quarter.

## **Section 6. Reserved**

## **Section 7. Securities Accounts and Orders of Market Makers**

(a) Identification of Accounts. In a manner prescribed by BX Regulation, each Market Maker shall file with BX Regulation and keep current a list identifying all accounts for stock, options and related securities trading in which the Market Maker may, directly or indirectly, engage in trading activities or over which it exercises investment discretion. No Market Maker shall engage in stock, options or related securities trading in an account which has not been reported pursuant to this Rule.

(b) Reports of Orders. Each Market Maker shall, upon request and in the prescribed form, report to BX Regulation every order entered by the Market Maker for the purchase or sale of (i) a security underlying options traded on BX Options, or (ii) a security convertible into or exchangeable for such underlying security, as well as opening and closing positions in all such securities held in each account reported pursuant to paragraph (a) of this Rule. The report pertaining to orders must include the terms of each

order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times report of execution were received and, if all or part of the order was executed, the quantity and execution price.

(c) *Joint Accounts.* No Market Maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any options contract unless each participant in such joint account is an Options Participant and unless such account is reported to, and not disapproved by, BX Regulation. Such reports in a form prescribed by BX Regulation shall be filed with BX Regulation before any transaction is effected on BX Options for such joint account. A participant in a joint account must:

(1) Be either a Market Maker or a Clearing Participant that carries the joint account.

(2) File and keep current a completed application on such form as is prescribed by BX Regulation.

(3) Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.

(4) Not be a Market Maker registered to the same options classes to which the joint account holder is also registered as a Market Maker.

(d) Reports of accounts and transactions required to be filed with BX Options pursuant to this Rule relate only to accounts in which a Market Maker, as an individual, directly or indirectly controls trading activities or has a direct interest in the profits or losses of such account. Such reports would be required for accounts over which a Market Maker exercises investment discretion as well as a Market Maker's proprietary accounts.

### **Section 8. Financial Requirements for Market Makers**

(a) Each Market Maker shall maintain (i) net liquidating equity in its Market Maker account of not less than \$200,000, and in conformity with such guidelines as the Board may establish from time to time, and (ii) net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each Market Maker which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation. This equity requirement, as well as all other provisions of the section (including capital maintenance requirements), applies to each Market Maker account, without regard to the number of Market Maker accounts per firm. The term "net liquidating equity" means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

(b) Each Market Maker that makes an arrangement to finance his transactions as a Market Maker must identify in writing to BX Regulation the source of the financing and its terms. BX Regulation must be informed immediately of the intention of any party to terminate or change any such arrangement.

### **Section 9. Good Standing for Market Makers**

(a) To remain in good standing as a Market Maker, the Market Maker must:

(1) continue to meet the requirements established in SEC Rule 15c3-1(a)(6)(i), and the general membership requirements set forth in the Rule 1010 Series of the BX Rules and the requirements for Market Makers as set forth in BX Rule 4611.

(2) continue to satisfy the Market Maker qualification requirements specified by BX, as amended from time to time by BX;

(3) comply with the Rules of the Exchange as well as the Rules of the OCC and the Federal Reserve Board; and

(4) pay on a timely basis such Participation, transaction and other fees as the Exchange and BX Options shall prescribe.

(b) The good standing of a Market Maker may be suspended, terminated or otherwise withdrawn, as provided in the Rules, if any of said conditions for approval cease to be maintained or the Market Maker violates any of its agreements with the Exchange or any of the provisions of the Rules.

### **Section 10. Directed Market Makers**

(a) Market Makers may receive Directed Orders in their appointed classes in accordance with the provisions of this Rule, Directed Market Makers provided they indicated to the Exchange, in a form specified, that they will receive Directed Orders.

(1) When the Exchange's disseminated price is the NBBO at the time of receipt of the Directed Order, and the Directed Market Maker is quoting at or improving the Exchange's disseminated price, the Directed Order shall be automatically executed and allocated in accordance with Options 3, Section 10 such that the Directed Market Maker shall receive a Directed Market Maker participation entitlement provided for therein.

(2) When (a) the Exchange's disseminated price is the NBBO, and the quotation disseminated by the Directed Market Maker on the opposite side of the market from the Directed Order is inferior to the NBBO at the time of receipt of the Directed Order, or (b) the Exchange's disseminated price is not the NBBO at the time of receipt of the Directed Order, the Directed Order shall be processed as though it were not a Directed Order.

(3) A Directed Market Maker must enter two-sided quotations. A Directed Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX must enter an offer (bid), except in an assigned options series listed intra-day on BX. These quotations must meet the legal quote width requirements specified in Options 2, Section 5(d)(2). A Market Maker who receives a Directed Order, as

described in Options 3, Section 10, shall be held to the standard of a Directed Market Maker as described in this Rule.

(A) Directed Market Makers, associated with the same Options Participant, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as BX may announce in advance, for which that Options Participant's assigned options series are open for trading. An Options Participant shall be considered directed in all assigned options once the Options Participant receives a Directed Order in any option in which they are assigned and shall be considered a Directed Market Maker until such time as an Options Participant notifies the Exchange that they are no longer directed. Notwithstanding the foregoing, an Options Participant shall not be required to make two-sided markets in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater. Notwithstanding the obligations specified in subparagraph (iii) above, a Directed Market Maker may still receive a participation entitlement in such series if it elects to quote in any Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater series and otherwise satisfies the requirements of Options 3, Section 10.

(i) An adjusted option series is defined as an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares ("Adjusted Options Series").

(B) Specifically, the Exchange will calculate subparagraph (A) above by (i) taking the total number of seconds the Options Participant disseminates quotes in each assigned options series, excluding Quarterly Option Series, any Adjusted Option Series, and any option series with an expiration of nine months or greater; and (ii) dividing that time by the eligible total number of seconds each assigned option series is open for trading that day. Quoting is not required in every assigned options series. Compliance with this requirement is determined by reviewing the aggregate of quoting in assigned options series for the Options Participant.

(C) BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of an Options Participant compliance with this Rule, the Exchange may determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve an Options Participant of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against an Options Participant for failing to meet the quoting obligation each trading day.

(D) If a technical failure or limitation of a System of the Exchange prevents a Directed Market Maker from maintaining, or prevents a Directed Market Maker

from communicating to the Exchange, timely and accurate electronic quotes in an issue, the duration of such failure shall not be considered in determining whether the Directed Market Maker has satisfied the 90% quoting standard with respect to that option issue. The Exchange may consider other exceptions to this intra-day electronic quote obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

## **Options 2A Options Participation**

### **Section 1. Options Participation**

(a) These Rules establish a new category of BX member participation called "Options Participant." Only Options Participants may transact business on BX Options via the Trading System. Options Participants may trade options for their own proprietary accounts or, if authorized to do so under applicable law, and consistent with these BX Options Rules and with applicable law and SEC rules and regulations, may conduct business on behalf of Customers.

(b) A prospective Options Participant must:

(1) complete an Options Participant Application in the form prescribed by the Exchange;

(2) provide such other information as required by the Exchange;

(3) be an existing member or become a member of the Exchange, pursuant to the 1000 rules series, and continue to abide by the requirements of the 1000 Series with respect to participation in BX Options; and

(4) enter into an Options Participant Agreement in the form specified by the Exchange, agree to abide by the same as it has been or shall be from time to time amended, and pledge to abide by the Rules of the Exchange as amended from time to time, and by all circulars, notices, directives or decisions adopted pursuant to or made in accordance with the Rules of the Exchange; and

(5) be under the supervision and control of a Responsible Person.

(c) Upon completion of the application, the Exchange, or person(s) designated by the Exchange ("designee") shall consider whether to approve the application, unless there is just cause for delay. In its consideration process, the Exchange may conduct such investigation as it deems appropriate and may take such steps as it deems necessary to confirm the information provided by the applicant. Within 30 days after the Exchange or its designee has completed its consideration of an application, it shall provide written notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefore.

(d) These BX Options Rules place no limit on the number of qualifying entities that may become Options Participants. However, based on system constraints or capacity restrictions, approval of qualifying applications for Options Participants may, in limited circumstances, be temporarily deferred. To the extent that the Board places limitations on otherwise qualified applicants to act as Options Participants, such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

(e) Options Participant status cannot be leased or transferred except in the event of a change in control or corporate reorganization involving an Options Participant. In such a case, Options Participant status may be transferred to a qualified affiliate or successor upon written notice to the Exchange or its designee.

(f) Every Options Participant shall file with BX Options and keep current an address where notices may be served, including current addresses of each Responsible Person, as specified in paragraph (b)(5) of this Rule.

## **Section 2. Requirements for Options Participation**

(a) Options Participants may be corporations, partnerships, limited liability companies or sole proprietorships organized under the laws of a jurisdiction of the United States, or such other jurisdictions as the Exchange may approve.

(b) Options Participants must be Options Clearing Participants or establish a clearing arrangement with a Clearing Participant.

(c) Options Participants must have demonstrated ability to adhere to all applicable Exchange, SEC, Clearing Corporation and Federal Reserve Board policies, rules and regulations related to the trading of options, including those concerning record-keeping, reporting, finance and trading procedures and be able to satisfactorily demonstrate reasonably adequate systems capability and capacity.

(d) All associated persons of Options Participants who are not themselves Responsible Persons must be under the supervision of a U.S.-based Responsible Person.

(e) Every Options Participant shall have as the principal purpose of being a Participant the conduct of a securities business. Such a purpose shall be deemed to exist if and so long as:

(1) the Participant has qualified and acts in respect of its business on BX Options as either an OEF or a Options Market Maker, or both; and

(2) all transactions effected by the Participant are in compliance with Section 11(a) of the Exchange Act and the rules and regulations adopted thereunder.

(f) Every Options Participant shall at all times maintain membership in another registered options exchange that is not registered solely under Section 6(g) of the Securities Exchange Act of 1934, or in FINRA. Options Participants that transact business with customers shall at all times be members of FINRA.

### **Section 3. Persons Associated with Options Participants**

(a) Persons associated with Options Participants shall be bound by the Rules of the Exchange and the Rules of the Clearing Corporation.

(b) Each Options Participant shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Options Participant who are its executive officers, directors, principal shareholders, and general partners. Such persons shall file with the Exchange a Uniform application for Securities Industry Registration or Transfer (Form U- 4).

### **Section 4. Good Standing for Options Participants**

(a) To remain in good standing, all Options Participants must:

(1) continue to satisfy the qualification requirements specified by the Exchange, as amended from time to time by the Exchange;

(2) comply with the Rules of the Exchange; and

(3) pay on a timely basis such participation, transaction and other fees as the Exchange and/or BX Options shall prescribe.

(b) The good standing of an Options Participant may be suspended, terminated or otherwise withdrawn, as provided in the BX 9550 Rules, if any of the conditions of Options 2A, Section 2 or 3 are not met or the Options Participant violates any of its agreements with the Exchange and/or BX Options or any of the provisions of the Exchange Rules.

(c) Unless an Options Participant is in good standing, the Participant shall have no rights or privileges of options participation except as otherwise provided by law or the Rules, shall not hold himself or itself out for any purpose as a Participant, and shall not deal with the Exchange and/or BX Options on any basis except as a non-Participant.

### **Section 5. Reserved**

### **Section 6. Reserved**

### **Section 7. Reserved**

## **Options 3 Options [Market Participants]Trading Rules**

### **Section 1. Days and Hours of Business**

(a) The System operates and shall be available to accept bids and offers and orders from the time prior to market open specified by the Exchange on its website to market close on each business day, unless modified by BX Options. Orders and bids and offers shall be open and available for execution as of 9:30 a.m. Eastern Time and shall close as of 4:00 p.m. Eastern Time except for option contracts on certain fund shares or broad-based indexes which will close as of 4:15 p.m. Eastern Time.

(b) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on individual stocks may be made on BX Options shall correspond to the normal business days and hours for business set forth in the rules of the primary market trading the securities underlying BX Options. Notwithstanding the foregoing, transactions may be effected in options contracts on Exchange-Traded Fund Shares, as defined in Options 4, Section 3(i); and in options contracts on exchange-traded notes including Index-Linked Securities, as defined in Options 4, Section 3(l), on BX Options until 4:15 p.m.

(c) BX Options shall not be open for business on any holiday observed by BX.

### **Section 2. Units of Trading and Meaning of Premium Quotes and Orders**

(a) *Units of Trading.* The unit of trading in each series of options traded on BX Options shall be the unit of trading established for that series by the Clearing Corporation pursuant to the Rules of the Clearing Corporation and the agreements of BX with the Clearing Corporation.

(b) *Meaning of Premium Quotes and Orders.* Except as provided in paragraph (c), orders shall be expressed in terms of dollars per unit of the underlying security. For example, a bid of "5" shall represent a bid of \$500 for an options contract having a unit of trading consisting of 100 shares of an underlying security, or a bid of \$550 for an options contract having a unit of trading consisting of 110 shares of an underlying security.

(1) *Mini Options.* Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of ".50" shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares.

(c) *Special Cases.* Orders for an options contract for which BX Options has established an adjusted unit of trading in accordance with Options 3, Section 2 shall be expressed in terms of dollars per 1/100 part of the total securities and/or other property constituting such adjusted unit of trading. For example, an offer of "3" shall represent an offer of \$300 for an options contract having a unit of trading consisting of 100 shares of an underlying security plus ten (10) rights.

(d) All options on foreign currencies where the underlying foreign currency is not the U.S. dollar shall have a minimum increment of \$.01.

(e) In the case of options on foreign currencies, all bids or offers shall be expressed in terms of U.S. dollars per unit of the underlying foreign currency. E.g., a bid of "3.25" for a premium on a \$170 strike price option on the British pound shall represent a bid to pay \$325 per option contract.

### **Section 3. Minimum Increments**

(a) The Board may establish minimum quoting increments for options contracts traded on BX Options. Such minimum increments established by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Rule within the meaning of Section 19 of the Exchange Act and will be filed with the SEC as a rule change for effectiveness upon filing. Until such time as the Board makes a change in the increments, the following principles shall apply:

(1) If the options series is trading at less than \$3.00, five (5) cents;

(2) If the options series is trading at \$3.00 or higher, ten (10) cents; and

(3) For a pilot period scheduled to expire on December 31, 2019 or the date of permanent approval, if earlier, if the options series is trading pursuant to the Penny Pilot program one (1) cent if the options series is trading at less than \$3.00, five (5) cents if the options series is trading at \$3.00 or higher, unless for QQQs, SPY and IWM where the minimum quoting increment will be one cent for all series regardless of price. A list of such options shall be communicated to membership via an Options Trader Alert ("OTA") posted on the Exchange's web site.

The Exchange may replace any pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the pilot, based on trading activity in the previous six months. The replacement issues may be added to the pilot on the second trading day in the first month of each quarter.

(4) All Mini Options contracts shall have a minimum price variation as set forth in Options 4, Supplementary Material .15 to Section 6.

(b) The minimum trading increment for options contracts traded on BX Options will be one (1) cent for all series.

### **Section 4. Entry and Display of Quotes**

(a) All bids or offers made and accepted on BX Options in accordance with the BX Options Rules shall constitute binding contracts, subject to applicable requirements of the Rules of the Exchange and the Rules of the Clearing Corporation.

(b) Quotes are subject to the following requirements and conditions:

(1) Market Makers may generate and submit option quotations.

(2) The System shall time-stamp a quote which shall determine the time ranking of the quote for purposes of processing the quote.

(3) Market Makers may enter bids and/or offers in the form of a two-sided quote. Only one quote may be submitted at a time for an option series.

(4) The System accepts quotes beginning at a time specified by the Exchange and communicated on the Exchange's web site.

(5) **Firm Quote.** When quotes in options on another market or markets are subject to relief from the firm quote requirement set forth in the SEC Quote Rule, orders and quotes will receive an automatic execution at or better than the NBBO based on the best bid or offer in markets whose quotes are not subject to such relief. Such determination may be made by way of notification from another market that its quotes are not firm or are unreliable; administrative message from the Option Price Reporting Authority ("OPRA"); quotes received from another market designated as "not firm" using the appropriate indicator; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are not firm. The Exchange shall maintain a record of each instance in which another exchange's quotes are excluded from the Exchange's calculation of NBBO, and shall notify such other exchange that its quotes have been so excluded. Where quotes in options on another market or markets previously subject to relief from the firm quote requirement set forth in the Quote Rule are no longer subject to such relief, such quotations will be included in the calculation of NBBO for such options. Such determination may be made by way of notification from another market that its quotes are firm; administrative message from OPRA; and/or telephonic or electronic inquiry to, and verification from, another market that its quotes are firm.

(6) **Trade-Through Compliance and Locked or Crossed Markets.** A quote will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. If, at the time of entry, a quote would cause a locked or crossed market violation or would cause a trade-through, violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(7) Quotes submitted to the System are subject to the following: minimum increments provided for in Options 3, Section 3 and risk protections provided for in Options 3, Section 18.

(c) Quotes will be displayed in the System as described in Options 3, Section 23.

### **Section 5. Entry and Display of Orders**

(a) Participants can enter orders into the System, subject to the following requirements and conditions:

(1) Participants shall be permitted to transmit to the System multiple orders at single as well as multiple price levels.

(2) The System accepts orders beginning at a time specified by the Exchange and communicated on the Exchange's web site.

(3) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.

(4) Orders submitted to the System are subject to minimum increments provided for in Options 3, Section 3, risk protections within Options 3, Section 15 and the restrictions of order types within Options 3, Section 7. Orders may execute at multiple prices.

(5) Nullification by Mutual Agreement. Trades may be nullified if all parties participating in the trade agree to the nullification. In such case, one party must notify the Exchange and the Exchange promptly will disseminate the nullification to OPRA. It is considered conduct inconsistent with just and equitable principles of trade for a party to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

(b) **NBBO Price Protection.** Orders, other than Intermarket Sweep Orders (as defined in Rule Options 5, Section 1(9)) will not be automatically executed by the System at prices inferior to the NBBO (as defined in Options 5, Section 1(11)). There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Options 5, Section 1(12)).

(c) The System automatically executes eligible orders using the Exchange's displayed best bid an offer ("BBO").

(d) **Trade-Through Compliance and Locked or Crossed Markets.** An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and

Crossed Markets restrictions. If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

(e) Orders will be displayed in the System as described in Options 3, Section 23.

### **Section 6. Unusual Market Conditions**

(a) BX Options staff may determine that the level of trading activities or the existence of unusual market conditions is such that BX Options is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on BX Options. Upon making such a determination, BX Regulation shall designate the market in such option to be "fast." When a market for an option is declared fast, BX Regulation will provide notice that BX Options quotations are not firm by appending an appropriate indicator to the BX Options quotations.

(b) If a market is declared fast, BX Regulation shall have the power to do one or more of the following with respect to the class or classes involved:

(1) Suspend the minimum size requirement as permitted under Options 2, Section 5 (Market Maker Quotations) of these Rules.

(2) Take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(c) BX Regulation will monitor the activity or conditions that caused a fast market to be declared, and shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed when BX Options determines that the conditions supporting a fast market declaration no longer exist. BX Regulation will provide notice that its quotations are once again firm by removing the indicator from the BX Options quotations.

(d) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures contained in this Rule, then BX Regulation, shall instruct BX operations to halt trading in the class or classes so affected.

(e) BX Regulation shall instruct BX operations to halt trading in all options whenever a market-wide trading halt is initiated on the New York Stock Exchange (commonly known as a "circuit breaker") in response to extraordinary market conditions.

### **Section 7. Types of Orders and Quote Protocols**

(a) The term "Order" shall mean a single order submitted to the System by a Participant that is eligible to submit such orders. The term "Order Type" shall mean the unique

processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) Cancel-Replacement Order shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety, the replacement order is automatically canceled or reduced by the number of contracts that were executed. The replacement order will not retain the priority of the cancelled order except when the replacement order reduces the size of the order and all other terms and conditions are retained.

(2) Directed Order. The term "Directed Order" means an order to buy or sell which has been directed, provided it is properly marked as such, to a particular Market Maker ("Directed Market Maker"). Directed Orders are handled within the System pursuant to Options 3, Section 10. Directed Orders may be available only in certain options.

(3) "Limit Orders" are orders to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

(4) "Minimum Quantity Orders" are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel. Minimum Quantity Orders received prior to the opening cross or after market close will be rejected.

(5) "Market Orders" are orders to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant.

(6) "Intermarket Sweep Order" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by BX and are executed within the System by Participants at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Options 5, Section 1. ISOs may have any time-in-force designation except WAIT, are handled within the System pursuant to Options 3, Section 10 and shall not be eligible for routing as set out in Options 3, Section 19. ISOs with a time-in-force designation of GTC are treated as having a time-in-force designation of Day.

(1) Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to

execute against the full displayed size of any protected bid or offer (as defined in Options 5, Section 1) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an intermarket sweep order (as defined in Options 5, Section 1). These additional routed orders must be identified as ISOs.

(7) "One-Cancels-the-Other Order" shall mean an order entered by a Market Maker that consists of a buy order and a sell order treated as a unit; the full execution of one of the orders causes the other to be canceled.

(8) "All-or-None Order" shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-None Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-None Orders received prior to the opening cross or after market close will be rejected.

(9) The term "On the Open Order" shall mean an order with a designated time-in-force of "OPG". An On the Open Order will be executable only during the Opening Cross. If such order is not executed in its entirety during the Opening Cross, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant.

(b) The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) "On the Open Order" or "OPG" shall mean for orders so designated, that if after entry into the System, the order is not fully executed in its entirety during the Opening Cross, the order, or any unexecuted portion of such order, will be cancelled back to the entering participant.

(2) "Immediate Or Cancel" or "IOC" shall mean for orders so designated, that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable.

(3) "DAY" shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(4) "Good Til Cancelled" or "GTC" shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(5) "WAIT" shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering party.

(c) The term "Order Size" shall mean the number of contracts up to 999,999 associated with the Order.

(d) Entry and Display of Orders and Quotes. Participants may enter orders and quotes into the System as specified below.

(1) The Exchange offers Participants the following protocols for entering orders and quotes respectively:

(A) "**Financial Information eXchange**" or "**FIX**" is an interface that allows Participants and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders and responses to and from the Exchange. Features include the following: (1) execution messages; (2) order messages; and (3) risk protection triggers and cancel notifications.

(B) "**Specialized Quote Feed**" or "**SQF**" is an interface that allows Market Makers to connect, send, and receive messages related to quotes, Immediate-or-Cancel Orders, and auction responses into and from the Exchange. Features include the following: (1) options symbol directory messages (e.g. underlying instruments); (2) system event messages (e.g., start of trading hours messages and start of opening); (3) trading action messages (e.g., halts and resumes); (4) execution messages; (5) quote messages; (6) Immediate-or-Cancel Order messages; (7) risk protection triggers and purge notifications; (8) opening imbalance messages; (9) auction notifications; and (10) auction responses. The SQF Purge Interface only receives and notifies of purge request from the Market Maker. Market Makers may only enter interest into SQF in their assigned options series.

## **Section 8. Opening and Halt Cross**

(a) Definitions. For the purposes of this Rule the term:

(1) "Imbalance" shall mean the number of contracts of Eligible Interest that may not be matched with other order contracts at a particular price at any given time.

(2) "Order Imbalance Indicator" shall mean a message disseminated by electronic means containing information about Eligible Interest and the price in penny increments at which such interest would execute at the time of dissemination. The Order Imbalance Indicator shall disseminate the following information:

(A) "Current Reference Price" shall mean an indication of what the opening cross price would be at a particular point in time.

(B) the number of contracts of Eligible Interest that are paired at the Current Reference Price;

(C) the size of any Imbalance; and

(D) the buy/sell direction of any Imbalance.

(3) "BX Opening Cross" shall mean the process for opening or resuming trading pursuant to this Rule and shall include the process for determining the price at which Eligible Interest shall be executed at the open of trading for the day, or the open of trading for a halted option, and the process for executing that Eligible Interest.

(4) "Eligible Interest" shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of IOC (immediate-or-cancel), DAY (day order), GTC (good-till-cancelled), and OPG (On the Open Order). However, orders received via FIX protocol prior to the BX Opening Cross designated with a time-in-force of IOC will be rejected and shall not be considered eligible interest. Orders received via SQF prior to the BX Opening Cross designated with a time-in-force of IOC will remain in-force through the opening and shall be cancelled immediately after the opening.

(5) "Market for the Underlying Security" shall mean either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis and announced to the membership on the Exchange's web site.

(6) "Valid Width National Best Bid or Offer" or "Valid Width NBBO" shall mean the combination of all away market quotes and any combination of BX Options-registered Market Maker orders and quotes received over the SQF Protocols within a specified bid/ask differential as established and published by the Exchange. The Valid Width NBBO will be configurable by underlying, and tables with valid width differentials will be posted by BX on its website. Away markets that are crossed will void all Valid Width NBBO calculations. If any Market Maker orders or quotes on BX Options are crossed internally, then all such orders and quotes will be excluded from the Valid Width NBBO calculation.

(7) "Away Best Bid or Offer" or "ABBO" shall mean the displayed National Best Bid or Offer not including the Exchange's Best Bid or Offer.

(b) Processing of BX Opening Cross. For the opening of trading of System securities, the Opening Cross shall occur at or after 9:30, if the dissemination of a regular market hours quote or trade (as determined by the Exchange) by the Market for the Underlying Security has occurred (or, in the case of index options, the Exchange has received the opening price of the underlying index). Or, in the case of a trading halt, the Opening Cross shall occur when trading resumes pursuant to Options 3, Section 9. Market hours trading shall commence or, in the case of a halted option, resume when the BX Opening Cross concludes.

In each case, the opening of trading or resumption of trading after a halt of System securities will be dependent on the following criteria, provided the ABBO is not crossed:

(1) If there is a possible trade on BX, a Valid Width NBBO must be present.

(2) If no trade is possible on BX, then BX will open dependent upon one of the following:

(A) A Valid Width NBBO is present;

(B) A certain number of other options exchanges (as determined by the Exchange) have disseminated a firm quote on OPRA; or

(C) A certain period of time (as determined by the Exchange) has elapsed.

(3) BX shall disseminate by electronic means an Order Imbalance Indicator every 5 seconds beginning between 9:20 and 9:28, or a shorter dissemination interval as established by the Exchange, with the default being set at 9:25 a.m. The start of dissemination, and a dissemination interval, shall be posted by BX on its website.

(4)

(A) The BX Opening Cross shall occur at the price that maximizes the number of contracts of Eligible Interest in BX Options to be executed at or within the ABBO and within a defined range, as established and published by the Exchange, of the Valid Width NBBO.

(B) If more than one price exists under subparagraph (A), and there are no contracts that would remain unexecuted in the cross, the BX Opening Cross shall occur at the midpoint price, rounded to the penny closest to the price of the last execution in that series (and in the absence of a previous execution price, the price will round up, if necessary) of (1) the National Best Bid or the last offer on BX Options against which contracts will be traded

whichever is higher, and (2) the National Best Offer or the last bid on BX Options against which contracts will be traded whichever is lower.

(C) If more than one price exists under subparagraph (A), and contracts would remain unexecuted in the cross, then the opening price will be the highest/lowest price, in the case of a buy/sell imbalance, at which the maximum number of contracts can trade which is equal to or within a defined range, as established and published by the Exchange, of the Valid Width NBBO on the contra side of the imbalance that would not trade through the ABBO.

Regarding unexecuted contracts:

(i) If unexecuted contracts remain with a limit price that is equal to the opening price, then the remaining unexecuted contracts will be posted at the opening price, displayed one minimum price variation (MPV) away if displaying at the opening price would lock or cross the ABBO, with the contra-side BX Options BBO reflected as firm;

(ii) If unexecuted contracts remain with a limit price that is through the opening price, and there is a contra side ABBO at the opening price, then the remaining unexecuted contracts will be posted at the opening price, displayed one minimum price variation (MPV) away, with the contra side BX Options BBO reflected as firm and order handling of any remaining interest will be done in accordance with the routing and time-in-force instructions of such interest with the opening price representing the reference price set forth in Options 3, Section 10;

(iii) If unexecuted contracts remain with a limit price that is through the opening price, and there is no contra side ABBO at the opening price, then the remaining contracts will be posted at the opening price, with the contra-side BX Options BBO reflected as non-firm; and

(iv) Order handling of any residual unexecuted contracts will be done in accordance with Options 3, Section 8(b)(7), with the opening price representing the reference price.

(5) If the BX Opening Cross price is selected and fewer than all contracts of Eligible Interest that are available in BX Options would be executed, all Eligible Interest shall be executed at the BX Opening Cross price in accordance with the execution algorithm assigned to the associated underlying option.

(6) All Eligible Interest executed in the BX Opening Cross shall be executed at the BX Opening Cross price, trade reported anonymously, and disseminated via a national market system plan. The BX Opening Cross price shall be the BX Official Opening Price for options that participate in the BX Opening Cross.

(7) If the conditions specified in (b) above have occurred, but there is an imbalance containing marketable routable interest, then one additional Order Imbalance Indicator will be disseminated, after which the cross will occur, executing the maximum number of contracts at the price provided for in subsection (b)(4) of this Rule. Any remaining Imbalance will be canceled, posted, or routed as per the directions on the customer's order.

(c) Absence of Opening Cross. If an Opening Cross in a symbol is not initiated before the conclusion of the Opening Order Cancel Timer, a firm may elect to have orders returned by providing written notification to the Exchange. These orders include all non GTC orders received over the FIX protocol. The Opening Order Cancel Timer represents a period of time since the underlying market has opened, and shall be established and disseminated by BX on its website.

### **Section 9. Trading Halts**

(a) Halts. BX Regulation may halt trading in any option contract in the interests of a fair and orderly market. The following are among the factors that shall be considered in determining whether the trading in an option contract should be halted:

(1) trading in the underlying security has been halted or suspended in the primary market.

(2) the opening of such underlying security has been delayed because of unusual circumstances.

(3) occurrence of an act of God or other event outside BX Options 's control;

(4) a Trading System technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of Options Participant trading applications, or the electrical power supply to the system itself or any related system; or;

(5) other unusual conditions or circumstances are present.

(6) Trading Pauses. Trading on the Exchange in any option contract shall be halted whenever trading in the underlying security has been paused by the primary listing market.

(A) Trading in such options contracts may be resumed upon a determination by the Exchange that the conditions that led to the pause are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading, which in no circumstances will be before the Exchange has received notification that the underlying security has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary listing market for the underlying security after ten minutes have passed since the underlying security was paused by

the primary listing market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.

(B) During the halt, the Exchange will maintain existing orders on the book, accept orders, and process cancels, except that Market Maker interest entered pursuant to the obligations contained in Options 2, Section 4 is not maintained. Auction orders and responses are rejected during a halt.

(b) In the event BX Regulation determines to halt trading, all trading in the effected classes of options shall be halted. BX Options shall disseminate through its trading facilities and over OPRA a symbol with respect to classes of options indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

(c) No Options Participant or person associated with a Participant shall effect a trade on BX Options in any options class in which trading has been halted under the provisions of this Rule during the time in which the halt remains in effect.

(d) Capitalized terms used in this paragraph shall have the same meaning as provided for in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"). During a Limit State and Straddle State in the Underlying NMS stock:

(1) The System will not open an affected option.

(2) After the opening, the Exchange shall reject Market Orders, as defined in Options 3, Section 7, and shall notify Participants of the reason for such rejection.

(3) When evaluating whether a Market Maker has met the intra-day quoting obligations of Options 2, Section 5(d) in options overlying NMS stocks, the Exchange will not consider as part of the trading day the time that an NMS stock underlying an option was in a Limit State or Straddle State.

(4) Trades are not subject to an obvious error or catastrophic error review pursuant to Options 3, Sections 20(c) or (d). Nothing in this provision shall prevent trades from review on Exchange motion pursuant to Options 3, Section 20(c)(3), or subject to nullification or adjustment pursuant to Options 3, Section 20(e) - (j).

(e) The Exchange shall halt trading in all options whenever the equities markets initiate a market-wide trading halt commonly known as a circuit breaker in response to extraordinary market conditions.

(f) Resumption of Trading After a Halt. Trading in an option that has been the subject of a halt under this Rule shall be resumed upon the determination by BX Regulation, that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Trading shall resume according to the process set forth in Options 3, Section 8 of these rules.

### **Section 10. Order Book Allocation**

(a) System Orders shall be executed through the BX Book Process set forth below:

(1) Execution Algorithm - The Exchange will determine to apply, for each option, one of the following execution algorithms described in paragraphs (A) or (B). The Exchange will issue an Options Alert specifying which execution algorithm will govern which options any time it is modified.

(A) Price/Time - The System shall execute trading interest within the System in price/time priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed in time priority.

(B) Size Pro-Rata - The System shall execute trading interest within the System in price priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, if there are two or more quotes or orders at the best price, trading interest will be executed based on the size of each Participant's quote or order as a percentage of the total size of all orders and quotes resting at that price. If the result is not a whole number, it will be rounded down to the nearest whole number. If there are residual contracts remaining after rounding, such contracts will be distributed one contract at a time to the remaining Participants in time priority.

### **(C) Priority Overlays**

(1) Priority Overlays Applicable to Price/Time Execution Algorithm: the Exchange may apply the following designated Participant priority overlays, when the Price/Time execution algorithm is in effect:

(a) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when the Price/Time execution algorithm is in effect.

(b) Lead Market Maker ("LMM") Priority: An LMM may be assigned by the Exchange in each option class in accordance with Options 2, Section 3. LMM participant entitlements shall only be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves on the Exchange's disseminated price, the LMM will be afforded a participation entitlement. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the opening process. The LMM participation entitlement is as follows:

(1) A BX Options LMM shall receive the greater of:

(a) contracts the LMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) above with Public Customer priority;

(b) 50% of remaining interest if there is one or no other Market Maker at that price;

(c) 40% of remaining interest if there is two other Market Makers at that price;

(d) 30% of remaining interest if there are more than two other Market Makers at that price; or

(e) the Directed Market Maker ("DMM") participation entitlement, if any, set forth in subsection (C)(1)(c) below (if the order is a Directed Order and the LMM is also the DMM).

If rounding would result in an allocation of less than one contract, a BX Options LMM shall receive one contract. Rounding will be up or down to the nearest integer.

Notwithstanding the foregoing, when a Directed Order is received and the DMM's bid/offer is at or improves on the NBBO and the LMM is at the same price level and is not the DMM, the LMM participation entitlement set forth in this subsection (C)(1)(b)(1) will not apply with respect to such Directed Order.

(2) Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if

the order of 5 contracts or fewer is directed to a DMM who is quoting at or better than the NBBO.

(c) DMM Priority: A Market Maker which receives a Directed Order is a DMM with respect to that Directed Order. DMM participant entitlements shall only be in effect when the Public Customer Priority Overlay is also in effect. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves on the NBBO, the DMM will be afforded a participation entitlement. The DMM shall not be entitled to receive a number of contracts that is greater than the size at a given price point associated with such DMM. DMM participation entitlements will be considered after the opening process. Pursuant to the DMM participation entitlement, the DMM shall receive, with respect to a Directed Order, the greater of:

(1) contracts the DMM would receive if the allocation was based on time priority pursuant to subparagraph (C)(1)(a) above with Public Customer priority;

(2) 40% of remaining interest; or

(3) the LMM participation entitlement (if the DMM is also the LMM).

If there are multiple DMM quotes at the same price which are at or improve the NBBO when the Directed Order is received, the DMM participation entitlement shall apply only once to the DMM quote which has the highest time priority at the last price executed upon receipt of the Directed Order which is equal to or better than the NBBO. If rounding would result in an allocation of less than one contract, the DMM shall receive one contract. Rounding will be up or down to the nearest integer.

(d) If there are contracts remaining, after LMM or DMM participation entitlements have been applied, such contracts shall be executed based on the Price/Time execution algorithm.

(e) Only one participation entitlement, LMM or DMM, may be applied on a given order.

(2) Priority Overlays Applicable to Size Pro-Rata Execution Algorithm: the Exchange may apply the following designated Participant priority overlays, when the Size Pro-Rata execution algorithm is in effect.

(i) Public Customer Priority: the highest bid and lowest offer shall have priority except that Public Customer orders shall have priority over non-

Public Customer orders at the same price. If there are two or more Public Customer orders for the same options series at the same price, priority shall be afforded to such Public Customer orders in the sequence in which they are received by the System. For purposes of this Rule, a Public Customer order does not include a Professional Order. Public Customer Priority is always in effect when Size Pro-Rata execution algorithm is in effect.

(ii) LMM Priority: An LMM may be assigned by the Exchange in each option class in accordance with Options 2, Section 3. After all Public Customer orders have been fully executed, upon receipt of an order, provided the LMM's bid/offer is at or improves on the Exchange's disseminated price, the LMM will be afforded a participation entitlement. The LMM shall not be entitled to receive a number of contracts that is greater than the displayed size associated with such LMM. LMM participation entitlements will be considered after the opening process. The LMM participation entitlement is as follows:

(1) A BX Options LMM shall receive the greater of:

(a) the LMM's Size Pro-Rata share under (1)(C)(2)(iv) below;

(b) 50% of remaining interest if there is one or no other Market Maker at that price;

(c) 40% of remaining interest if there are two other Market Makers at that price;

(d) 30% of remaining interest if there are more than two other Market Makers at that price; or

(e) the DMM participation entitlement, if any, set forth in subsection (C)(2)(iii) below (if the LMM is also the DMM).

If rounding would result in an allocation of less than one contract, a BX Options LMM shall receive one contract. Rounding will be up or down to the nearest integer.

Notwithstanding the foregoing, when a Directed Order is received and the DMM's bid/offer is at or improves on the NBBO and the LMM is at the same price level and is not the DMM, the LMM participation entitlement set forth in this subsection (C)(2)(ii)(1) will not apply with respect to such Directed Order.

(2) Orders for 5 contracts or fewer shall be allocated to the LMM. The Exchange will review this provision quarterly and will maintain the

small order size at a level that will not allow orders of 5 contracts or less executed by the LMM to account for more than 40% of the volume executed on the Exchange. This provision shall not apply if the order of 5 contracts or fewer is directed to a DMM who is quoting at or better than the NBBO.

If there are contracts remaining, such contracts shall be executed based on the Size Pro-Rata execution algorithm.

(iii) DMM Priority: A Market Maker which receives a Directed Order is a DMM with respect to that Directed Order. After all Public Customer orders have been fully executed, upon receipt of a Directed Order, provided the DMM's bid/offer is at or improves the NBBO, the DMM will be afforded a participation entitlement. The DMM shall not be entitled to receive a number of contracts that is greater than the displayed size at a given price point associated with such DMM. DMM participation entitlements will be considered after the opening process. Pursuant to the DMM participation entitlement, the DMM shall receive, with respect to a Directed Order, the greater of:

(1) the DMM's Size Pro-Rata share under (1)(C)(2)(iv) below;

(2) 40% of remaining interest; or

(3) the LMM participation entitlement (if the DMM is also the LMM).

If there are multiple DMM quotes at the same price which are at or improve on the NBBO when the Directed Order is received, the DMM participation entitlement shall apply only to the DMM quote which has the highest time priority at the last price executed upon receipt of the Directed Order which is equal to or better than the NBBO; additional DMM quotes at such price will receive no further allocation of the Directed Order. If rounding would result in an allocation of less than one contract, the DMM shall receive one contract. Rounding will be up or down to the nearest integer.

(iv) Market Maker Priority: After all Public Customer orders have been fully executed and LMM or DMM participation entitlements applied, if applicable, BX Options Market Makers shall have priority over all other Participant orders at the same price. If there are two or more BX Options Market Maker quotes and orders for the same options series at the same price, those shall be executed based on the Size Pro-Rata execution algorithm. If there are contracts remaining after all Market Maker interest has been fully executed, such contracts shall be executed based on the Size Pro-Rata execution algorithm.

(v) Only one participation entitlement, LMM or DMM, may be applied on a given order.

(2) Decrementation - Upon execution, an order shall be reduced by an amount equal to the size of that execution.

(3) Price Improvement - any potential price improvement resulting from an execution in the System shall accrue to the party that is removing liquidity previously posted to the Book.

(4) BX-listed options that are the subject of a trading halt initiated pursuant to Options 3, Section 9, shall open for trading at the time specified by BX pursuant to Options 3, Section 9. When the System opens, orders shall be added to the book in time priority and executed as described above in subsection (1).

(5) Zero-Bid Option Series. In the case where the bid price for any options contract is \$0.00, a market order accepted into the System to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Options 3, Section 3. Orders will be placed on the limit order book in the order in which they were received by the System. With respect to market orders to sell which are submitted prior to the Opening and persist after the Opening, those orders are posted at a price equal to the minimum trading increment as defined in Options 3, Section 3.

(6) Routing - All System Orders entered by Participants directing or permitting routing to other market centers shall be routed for potential display and/or execution as set forth in Options 5, Section 4.

(7) Market Access. In addition to the Exchange Rules regarding routing to away trading centers, Nasdaq Execution Services, LLC, as defined in Options 5, Section 4(a)(ii)(A) has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by Nasdaq Execution Services to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel the order if it has been routed.

### **Section 11. Reserved**

### **Section 12. Reserved**

### **Section 13. Price Improvement Auction ("PRISM")**

A Participant may electronically submit for execution an order it represents as agent on behalf of a Public Customer, broker dealer, or any other entity ("PRISM Order") against principal interest or against any other order (except as provided in sub-paragraph (i)(F) below) it represents as agent (an "Initiating Order") provided it submits the PRISM Order

for electronic execution into the PRISM Auction ("Auction") pursuant to this Rule. For purposes of this Rule, a Public Customer order does not include a Professional order.

(i) Auction Eligibility Requirements. All options traded on the Exchange are eligible for PRISM. A Participant (the "Initiating Participant") may initiate an Auction provided all of the following are met:

(A) if the PRISM Order is for less than 50 option contracts, and if the difference between the National Best Bid and National Best Offer ("NBBO") is \$0.01, the Initiating Participant must stop the entire PRISM Order at one minimum price improvement increment better than the NBBO on the opposite side of the market from the PRISM Order, and better than any limit order on the limit order book on the same side of the market as the PRISM Order.

(B) the PRISM Order is for the account of a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Participant must stop the entire PRISM Order at a price that is equal to or better than the NBBO on the opposite side of the market from the PRISM Order, provided that such price must be at least one minimum trading increment specified in Options 3, Section 3 ("Minimum Increment") better than any limit order on the limit order book on the same side of the market as the PRISM Order.

(C) If the PRISM Order is for the account of a broker dealer or any other person or entity that is not a Public Customer and such order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, the Initiating Participant must stop the entire PRISM Order at a price that is the better of: (i) the BX BBO price improved by at least the Minimum Increment on the same side of the market as the PRISM Order, or (ii) the PRISM Order's limit price (if the order is a limit order), provided in either case that such price is at or better than the NBBO.

(D) PRISM Orders that do not comply with the requirements of subparagraphs (A), (B), and (C) above are not eligible to initiate an Auction and will be immediately cancelled.

(E) PRISM Orders submitted at or before the opening of trading are not eligible to initiate an Auction and will be rejected.

(F) PRISM Orders submitted during the final two seconds of the trading session in the affected series are not eligible to initiate an Auction and will be immediately cancelled.

(G) An Initiating Order may not be a solicited order for the account of any BX Options Market Maker assigned in the affected series.

If any of the above criteria are not met, the PRISM Order will be rejected. Pursuant to subparagraph (vi) below, the Exchange will allow a Public Customer PRISM Order to trade on either the bid or offer, if the NBBO is \$0.01 wide, provided (1) the execution price is equal to or within the NBBO, (2) there is no resting customer at the execution price, and (3) \$0.01 is the Minimum Price Variation (MPV) of the option. The Exchange will continue to reject a PRISM Order to buy (sell) if the NBBO is only \$0.01 wide and the Agency order is stopped on the bid (offer) if there is a resting order on the bid (offer).

(ii) Auction Process. Only one Auction may be conducted at a time in any given series. Once commenced, an Auction may not be cancelled and shall proceed as follows:

(A) Auction Period and PRISM Auction Notification ("PAN").

(1) To initiate the Auction, the Initiating Participant must mark the PRISM Order for Auction processing, and specify either: (a) a single price at which it seeks to execute the PRISM Order (a "stop price"); (b) that it is willing to automatically match as principal or as agent on behalf of an Initiating Order the price and size of all PAN responses, and trading interest ("auto-match") in which case the PRISM Order will be stopped at the NBBO on the Initiating Order side; or (c) that it is willing to either: (i) stop the entire order at a single stop price and auto-match PAN responses and trading interest at a price or prices that improve the stop price to a specified price (a "No Worse Than" or "NWT" price); (ii) stop the entire order at a single stop price and auto-match all PAN responses and trading interest at or better than the stop price; or (iii) stop the entire order at the NBBO on the Initiating Order side, and auto-match PAN responses and trading interest at a price or prices that improve the stop price up to the NWT price. In all cases, if the BX BBO on the same side of the market as the PRISM Order represents a limit order on the book, the stop price must be at least one Minimum Increment or better than the booked limit order's limit price. Once the Initiating Participant has submitted a PRISM Order for processing pursuant to this subparagraph, such PRISM Order may not be modified or cancelled. Under any of the circumstances described in subparagraphs (a)-(c) above, the stop price or NWT price may be improved to the benefit of the PRISM Order during the Auction, but may not be cancelled. Under no circumstances will the Initiating Participant receive an allocation percentage, at the final price point, of more than 50% with one competing quote, order or PAN response or 40% with multiple competing quotes, orders or PAN responses, except for rounding, when competing quotes, orders or PAN responses have contracts available for execution.

When starting an Auction, the Initiating Participant may submit the Initiating Order with a designation of "surrender" to the other PRISM Participants ("Surrender") which will result in the Initiating Participant forfeiting the priority and trade allocation privileges which he is otherwise entitled to as per Section 13(ii)(E)(2)(a) and Section 13(ii)(F)(2)(a). If Surrender is specified the

Initiating Order will only trade if there is not enough interest available to fully execute the PRISM Order at prices which are equal to or improve upon the stop price. The Surrender function will never result in more than the maximum allowable allocation percentage to the Initiating Participant than that which the Initiating Participant would have otherwise received in accordance with the allocation procedures set forth in this Rule. Surrender will not be applied if both the Initiating Order and PRISM Order are Public Customer orders. Surrender information will not be available to other market participants and may not be modified.

(2) When the Exchange receives a PRISM Order for Auction processing, a PAN detailing the side, size, and options series of the PRISM Order will be sent over the BX Depth feed and the Exchange's Specialized Quote Feed.

(3) The Auction will last for a period of time, as determined by the Exchange and announced on the Nasdaq Trader website. The Auction period will be no less than one hundred milliseconds and no more than one second.

(4) Any person or entity may submit responses to the PAN, provided such response is properly marked specifying price, size and side of the market.

(5) PAN responses will not be visible to Auction participants, and will not be disseminated to OPRA.

(6) The minimum price increment for PAN responses and for an Initiating Participant's stop price and/or NWT price shall be the minimum price improvement increment established pursuant to subparagraph (i)(A) above.

(7) A PAN response size at any given price point may not exceed the size of the PRISM Order. A PAN response with a size greater than the size of the PRISM Order will be immediately cancelled.

(8) A PAN response must be equal to or better than the displayed NBBO at the time of receipt of the PAN response. PAN responses may be modified or cancelled during the Auction. A PAN response submitted with a price that is outside the NBBO will be immediately cancelled.

(9) PAN responses on the same side of the market as the PRISM Order are considered invalid and will be immediately cancelled.

(10) Multiple PAN responses from the same Participant may be submitted during the Auction. Multiple orders at a particular price point submitted by a Participant in response to a PAN may not exceed, in the aggregate, the size of the PRISM Order.

(B) Conclusion of Auction. The PRISM Auction shall conclude at the earlier to occur of (1) through (3) below, with the PRISM Order executing pursuant to paragraph (C)(1) or (C)(2) below if it concludes pursuant to (2) or (3) of this paragraph.

(1) The end of the Auction period;

(2) For a PRISM Auction any time the BX BBO crosses the PRISM Order stop price on the same side of the market as the PRISM Order;

(3) Any time there is a trading halt on the Exchange in the affected series.

(C) If the situations described in sub-paragraphs (B)(2) or (3) above occur, the entire PRISM Order will be executed at: (1) in the case of the BX BBO crossing the PRISM Order stop price, the best response price(s) or, if the stop price is the best price in the Auction, at the stop price, unless the best response price is equal to or better than the price of a limit order resting on the Order Book on the same side of the market as the PRISM Order, in which case the PRISM Order will be executed against that response, but at a price that is at least the Minimum Increment better than the price of such limit order at the time of the conclusion of the Auction; or (2) in the case of a trading halt on the Exchange in the affected series, the stop price, in which case the PRISM Order will be executed solely against the Initiating Order. Any unexecuted PAN responses will be cancelled.

(D) An unrelated market or marketable limit order (against the BX BBO) on the opposite side of the market from the PRISM Order received during the Auction will not cause the Auction to end early and will execute against interest outside of the Auction. If contracts remain from such unrelated order at the time the auction ends, they will be considered for participation in the order allocation process described in sub-paragraphs (E) and (F) below.

(E) Order Allocation - Size Pro-Rata. At the conclusion of the Auction, the PRISM Order will be allocated at the best price(s) as follows for underlying symbols which are designated as Size Pro-Rata, as described in Options 3, Section 10(a)(1)(C)(2) with the following priority:

(1) Public Customer orders shall have time priority at each price level. For purposes of this Rule, a Public Customer order does not include a Professional order.

(2) The Initiating Participant shall be allocated after Public Customer orders as follows:

(a) If the Initiating Participant selected the single stop price option of the PRISM Auction, PRISM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining

contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated, pursuant to Options 3, Section 13(ii)(E)(3) through (5) below, among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Participant. The allocation will account for Surrender, if applicable.

(b) If the Initiating Participant selected the auto-match option of the PRISM Auction the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price) after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Options 3, Section 13(ii)(E)(3) through (5) below. Any remaining contracts shall be allocated to the Initiating Participant.

(c) If the Initiating Participant selected the "stop and NWT" option of the PRISM Auction, contracts shall be allocated as follows:

(i) first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to Options 3, Section 13(ii)(E)(3) through (5) below, at each price point;

(ii) next, to quotes, orders and PAN responses at prices at the Initiating Participant's NWT price and better than the Initiating Participant's stop price, beginning with the NWT price. The Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50%

(one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Options 3, Section 13(ii)(E)(3) through (5) below. Any remaining contracts shall be allocated to the Initiating Participant.

(3) BX Options Market Makers that were at a price that is equal to the NBBO on the opposite side of the market from the PRISM Order at the time of initiation of the PRISM Auction ("Priority Market Makers") shall have priority up to their quote size in the NBBO which was present when the PRISM Auction was initiated ("Initial NBBO") at each price level at or better than such Initial NBBO after Public Customers and the Initiating Participant have received allocations. Priority Market Maker quotes and PAN responses will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Options 3, Section 10(a)(1)(B). Priority Market Maker status is only valid for the duration of the particular PRISM auction.

(4) Non-Priority Market Makers and Priority Market Maker interest which exceeded their size in the Initial NBBO shall have priority at each price level at or better than the Initial NBBO after Public Customer, the Initiating Participant and Priority Market Makers have received allocations. Non-Priority Market Maker and Priority Market Maker interest which exceeded their size in the Initial NBBO will be allocated pursuant to the Size Pro-Rata algorithm set forth in Options 3, Section 10(a)(1)(B).

(5) All other interest will be allocated, after subparagraph (ii)(E)(1) through (4) have been satisfied. Such interest will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Options 3, Section 10(a)(1)(B).

(F) Order Allocation - Price/Time. At the conclusion of the Auction, the PRISM Order will be allocated at the best price(s) as indicated below for underlying symbols designated as Price/Time as described in Options 3, Section 10(a)(1)(C)(1).

(1) Public Customer orders shall have time priority at each price level. For purposes of this Rule, a Public Customer order does not include a Professional order.

(2) Initiating Participant shall be allocated after Public Customer orders as follows:

(a) If the Initiating Participant selected the single stop price option of the PRISM Auction, PRISM executions will occur at prices that improve the stop price, and then at the stop price with up to 40% of the remaining

contracts after Public Customer interest is satisfied being allocated to the Initiating Participant at the stop price. However, if only one other quote, order or PAN response matches the stop price, then the Initiating Participant may be allocated up to 50% of the contracts executed at such price. Remaining contracts shall be allocated pursuant to Options 3, Section 13(ii)(F)(3) through (4) below, among remaining quotes, orders and PAN responses at the stop price. Thereafter, remaining contracts, if any, shall be allocated to the Initiating Participant. The allocation will account for Surrender, if applicable.

(b) If the Initiating Participant selected the auto-match option of the PRISM Auction the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point until a price point is reached where the balance of the order can be fully executed, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the stop price is the final price), after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Options 3, Section 13(ii)(F)(3) through (4) below. Any remaining contracts shall be allocated to the Initiating Participant.

(c) If the Initiating Participant selected the "stop and NWT" option of the PRISM Auction, contracts shall be allocated as follows:

(i) first to quotes, orders and PAN responses at prices better than the NWT price (if any), beginning with the best price, pursuant to Options 3, Section 13(ii)(F)(3) through (4) below, at each price point;

(ii) next, to quotes, orders and PAN responses at prices at the Initiating Participant's NWT price and better than the Initiating Participant's stop price, beginning with the NWT price. The Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at each price point, except that the Initiating Participant shall be entitled to receive up to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest. In the case of an Initiating Order with a NWT price at the market, the Initiating Participant shall be allocated an equal number of contracts as the aggregate size of all other quotes, orders and PAN responses at all price points, except that the Initiating Participant shall be entitled to receive up

to 40% (multiple competing quotes, orders or PAN responses) or 50% (one competing quote, order or PAN response) of the contracts remaining at the final price point (including situations where the final price is the stop price), after Public Customer interest has been satisfied but before remaining interest. If there are other quotes, orders and PAN responses at the final price point the contracts will be allocated to such interest pursuant to Options 3, Section 13(ii)(F)(3) through (4) below. Any remaining contracts shall be allocated to the Initiating Participant.

(3) Priority Market Makers that were at a price that is equal to the NBBO on the opposite side of the market from the PRISM Order at the time of initiation of PRISM Auction shall have priority up to their quote size in the Initial NBBO at each price level better than the Initial NBBO, after Public Customers and the Initiating Participant have received allocations. Priority Market Maker interest at prices better than the Initial NBBO will be allocated pursuant to the Size Pro-Rata algorithm set forth in Exchange Rules at Options 3, Section 10(a)(1)(B). Priority Market Maker interest at a price equal to or inferior to the Initial NBBO will not have priority over other participants and will be allocated pursuant to the Price/Time algorithm set forth in Exchange Rules at Options 3, Section 10(a)(1)(A).

(4) All other interest will be allocated, after Options 3, Section 13(ii)(F)(1) through (3) have been satisfied. Such interest will be allocated pursuant to the Price/Time algorithm set forth in Exchange Rules at Options 3, Section 10(a)(1)(A).

(G) A single quote, order or PAN response shall not be allocated a number of contracts that is greater than its size. Residual odd lots will be allocated in time priority among interest with the highest priority. Rounding of the Initiating Participant will be up or down to the nearest integer, all other rounding is down to the nearest integer. If rounding would result in an allocation of less than one contract, then one contract will be allocated to the Initiating Participant only if the Initiating Participant did not otherwise receive an allocation.

(H) If there are PAN responses that cross the then-existing NBBO (provided such NBBO is not crossed), such PAN responses will be executed, if possible, at their limit price(s).

(I) If the price of the PRISM Auction is the same as that of an order on the limit order book on the same side of the market as the PRISM Order, the PRISM Order may only be executed at a price that is at least one minimum trading increment better than the resting order's limit price or, if such resting order's limit price is equal to or crosses the stop price, then the entire PRISM Order will trade at the stop price with all better priced interest being considered for execution at the stop price.

(J) Any unexecuted PAN responses will be cancelled.

(K) ISO Orders. If a PRISM Auction is initiated for an order designated as an ISO Order, all executions which are at a price inferior to the Initial NBBO shall be allocated pursuant to the Size Pro-Rata execution algorithm, as described in Options 3, Section 10(a)(1)(B), or Price/Time execution algorithm, as described in Options 3, Section 10(a)(1)(A), and the aforementioned priority in Options 3, Section 13(ii)(E) and (F) shall not apply, with the exception of allocating to the Initiating Participant which will be allocated in accordance with the priority as specified in Options 3, Section 13(ii)(E) and (F).

(iii) The PRISM Auction may be used only where there is a genuine intention to execute a bona fide transaction. It will be considered a violation of this Rule and will be deemed conduct inconsistent with just and equitable principles of trade and a violation of General 9, Section 1 if an Initiating Participant submits a PRISM Order (initiating an Auction) and also submits its own PAN response in the same Auction.

(iv) A pattern or practice of submitting multiple orders in response to a PAN at a particular price point that exceed, in the aggregate, the size of the PRISM Order, will be deemed conduct inconsistent with just and equitable principles of trade and a violation of General 9, Section 1.

(v) A pattern or practice of submitting unrelated orders or quotes that cross the stop price, causing a PRISM Auction to conclude before the end of the PRISM Auction period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of General 9, Section 1. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of General 9, Section 1 to engage in a pattern of conduct where the Initiating Participant breaks up a PRISM Order into separate orders for the purpose of gaining a higher allocation percentage than the Initiating Participant would have otherwise received in accordance with the allocation procedures contained in subparagraph (ii)(E) and (ii)(F) above.

(vi) In lieu of the procedures in paragraphs (i) - (ii) above, an Initiating Participant may enter a PRISM Order for the account of a Public Customer paired with an order for the account of a Public Customer and such paired orders will be automatically executed without a PRISM Auction, provided there is not currently another auction in progress in the same series, in which case the orders will be cancelled. The execution price for such a PRISM Order must be expressed in the quoting increment applicable to the affected series. Such an execution may not trade through the NBBO or trade at the same price as any resting Public Customer order.

(A) Options 3, Section 22 prevents a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book. However, the

Exchange recognizes that it may be possible for a Participant to establish a relationship with a Public Customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Options 3, Section 22 for a Participant to circumvent Options 3, Section 22 by providing an opportunity for (i) a Public Customer affiliated with the Participant, or (ii) a Public Customer with whom the Participant has an arrangement that allows the Participant to realize similar economic benefits from the transaction as the Participant would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as PRISM Public Customer-to-Public Customer immediate crosses.

(vii) There will be no minimum size requirement for orders to be eligible for the Auction.

#### **Section 14. Reserved**

#### **Section 15. Risk Protections**

(a) The following are order risk protections on BX:

(1) **Order Price Protection ("OPP").** OPP is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to market orders or Intermarket Sweep Orders.

(A) OPP is operational each trading day after the opening until the close of trading, except during trading halts.

(B) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

(i) If the better of the NBBO or the internal market BBO (the "Reference BBO") on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side Reference BBO will be rejected by the System upon receipt.

(ii) If the Reference BBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side Reference BBO will be rejected by the System upon receipt.

(2) **Market Order Spread Protection.** System Orders that are Market Orders will be rejected if the best of the NBBO and the internal market BBO (the "Reference BBO") is wider than a preset threshold at the time the order is received by the System. Market Order Spread Protection shall not apply to the Opening Process or

during a trading halt. The Exchange may establish different thresholds for one or more series or classes of options.

(b) The following are order and quote risk protections on BX:

(1) **Acceptable Trade Range.** The system will calculate an Acceptable Trade Range to limit the range of prices at which an order will be allowed to execute. The Acceptable Trade Range is calculated by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders). Upon receipt of a new order, the reference price is the NBB for sell orders and the NBO for buy orders or the last price at which the order is posted whichever is higher for a buy order or lower for a sell order.

(A) If an order reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the reference price for calculating a new Acceptable Trade Range. If the order remains unexecuted, a New Acceptable Trade Range will be calculated and the order will execute, route, or post up to the new Acceptable Trade Range Threshold Price. This process will repeat until either i) the order/quote is executed, cancelled, or posted at its limit price or ii) the order has been subject to a configurable number of instances of the Acceptable Trade Range as determined by the Exchange (in which case it will be returned).

(B) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

(c) The following are quote risk protections on BX:

(1) **Anti-Internalization.** Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution. This functionality shall not apply in any auction.

(2) **Quotation Adjustments.**

(A) A BX Market Maker may provide a specified time period and a specified percentage (as these terms are defined below) by which the Exchange's System will automatically remove a BX Market Maker's quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during a specified time period established by the BX Market Maker not to exceed 15 seconds ("Percentage-Based Specified Time Period"). For each series in an option, the System will determine: (i) the percentage that the number of contracts executed in that series represents relative to the number of contracts available at the time of execution plus the number of contracts executed in unexpired prior executions of each side in that series ("Series Percentage"); and (ii) the sum of the Series Percentage in the option issue ("Issue Percentage"). The System tracks and calculates the net impact of positions in the same option issue; long call percentages are offset by short call percentages, and long put percentages are offset by short put percentages in the Issue Percentage. If the Issue Percentage, rounded to the nearest integer, equals or exceeds a percentage established by a BX Market Maker, not less than 1% ("Specified Percentage"), the System will automatically remove a BX Market Maker's quotes in all series of the underlying security submitted through designated BX protocols, as specified by the Exchange, during the Percentage-Based Specified Time Period ("Percentage-Based Threshold"). A Percentage-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (iv) or (v) or the Percentage-Based Specified Time Period expires. A Percentage -Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Percentage-Based Specified Time Periods occurring simultaneously and such Percentage-Based Specified Time periods may overlap.

(B) A BX Market Maker may provide a specified time period and a volume threshold by which the Exchange's System will automatically remove a BX Market Maker's quotes in all series of an underlying security submitted through designated BX protocols, as specified by the Exchange, during a specified time period established by the BX Market Maker not to exceed 15 seconds ("Volume-Based Specified Time Period") when the BX Market Maker executes a number of contracts which equals or exceeds the designated number of contracts in all options series in an underlying security ("Volume-Based Threshold"). The BX Market Maker's Volume-Based Specified Time Period must be the same length of time as designated for purposes of the Percentage-Based Threshold. A Volume-Based Specified Time Period will commence for an option every time an execution occurs in any series in such option and will continue until the System removes quotes as described in (f)(iv) or (f)(v) or the Volume-Based Specified Time Period expires. The Volume-Based Specified Time Period operates on a rolling basis among all series in an option in that there may be multiple Volume-Based Specified Time Periods occurring simultaneously and such Volume-Based Specified Time periods may overlap.

(C) A BX Market Maker or BX Market Maker Group (multiple affiliated BX Market Makers is a "Group" as defined by a BX Participant and provided by such Participant to the Exchange) may provide a specified time period and number of allowable triggers by which the Exchange will automatically remove quotes in all options series in all underlying issues submitted through designated BX protocols as specified by the Exchange ("Multi-Trigger Threshold"). During a specified time period established by the BX Market Maker not to exceed 15 seconds ("Multi- Trigger Specified Time Period"), the number of times the System automatically removes the BX Market Maker's or Group's quotes in all options series will be based on the number of triggers of the Percentage-Based Threshold, described in (f)(i) above, as well as the Volume-Based Threshold described in (f)(ii) above. Once the System determines that the number of triggers equals or exceeds a number established by either the BX Market Maker or Group, during a Multi-Trigger Specified Time Period, the System will automatically remove all quotes in all options series in all underlying issues for that BX Market Maker or Group. A trigger is defined as the event which causes the System to automatically remove quotes in all options series in an underlying issue. A Multi-Trigger Specified Time Period will commence after every trigger of either the Percentage-Based Threshold or the Volume-Based Threshold and will continue until the System removes quotes as described in (f)(iv) or the Multi-Trigger Specified Time Period expires. The System counts triggers within the Multi-Trigger Specified Time Period across all triggers for the BX Market Maker or Group. A Multi-Trigger Specified Time Period operates on a rolling basis in that there may be multiple Multi-Trigger Specified Time Periods occurring simultaneously and such Multi-Trigger Specified Time Periods may overlap.

(D) The System will automatically remove quotes in all options in an underlying security when the Percentage-Based Threshold or Volume-Based Threshold has been reached. The System will automatically remove quotes in all options in all underlying securities when the Multi-Trigger Threshold has been reached. The System will send a Purge Notification Message to the BX Market Maker for all affected options when the above thresholds have been reached.

(i) The Percentage-Based Threshold or Volume-Based Threshold and Multi-Trigger Threshold, are considered independently of each other.

(ii) Quotes will be automatically executed up to the BX Market Maker's size regardless of whether the execution exceeds the Percentage-Based Threshold or Volume-Based Threshold.

(E) If a BX Market Maker requests the System to remove quotes in all options series in an underlying issue, the System will automatically reset the Percentage-Based Threshold or Volume-Based Specified Time Period(s). The Multi-Trigger Specified Time Period(s) will not automatically reset for the Multi-Trigger Threshold.

(F) When the System removes quotes as a result of the Percentage-Based Threshold or Volume-Based Threshold, the BX Market Maker must send a reentry indicator to re-enter the System. When the System removes quotes as a result of the Multi-Trigger Threshold, the System will not accept quotes through designated protocols until the BX Market Maker manually requests re-entry. After quotes are removed as a result of the Multi-Trigger Threshold, Exchange staff must set a re-entry indicator in this case to enable re-entry, which will cause the System to send a Reentry Notification Message to the BX Market Maker for all options series in all underlying issues. The Market Maker's Clearing Firm will be notified regarding the trigger and re-entry into the System after quotes are removed as a result of the Multi-Trigger Threshold, provided the Market Maker's Clearing Firm has requested to receive such notification.

(G) The Exchange will require BX Market Makers to utilize either the Percentage-Based Threshold or the Volume-Based Threshold. The Multi-Trigger Threshold is optional.

## **Section 16. Reserved**

### **Section 17. Kill Switch**

(a) BX Options Kill Switch is an optional tool that enables BX Participants to initiate a message(s) to the System to: (i) promptly remove quotes; and/or (ii) promptly cancel orders. Participants may submit a request to the System to remove/cancel quotes and/or orders based on certain identifier(s) on either a user or group level ("Identifier"). Permissible groups must reside within a single broker-dealer. The System will send an automated message to the BX Participant when a Kill Switch request has been processed by the Exchange's System.

(i) If quotes are cancelled by the BX Participant utilizing the Kill Switch, it will result in the removal of all quotes requested for the Identifier(s). The BX Participant will be unable to enter any additional quotes for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(iii).

(ii) If orders are cancelled by the BX Participant utilizing the Kill Switch, it will result in the cancellation of all orders requested for the Identifier(s). The BX Participant will be unable to enter additional orders for the affected Identifier(s) until re-entry has been enabled pursuant to section (a)(iii).

(iii) After quotes and/or orders are removed/cancelled by the BX Participant utilizing the Kill Switch, the BX Participant will be unable to enter additional quotes and/or orders for the affected Identifier(s) until the BX Participant has made a verbal request to the Exchange and Exchange staff has set a re-entry indicator to enable re-entry. Once enabled for re-entry, the System will send a Re-entry Notification Message to the BX Participant. The applicable Clearing Participant also will be notified of the re-entry into the System after quotes and/or

orders are removed/cancelled as a result of the Kill Switch, provided the Clearing Participant has requested to receive such notification.

### **Section 18. Detection of Loss of Communication**

(a) When the SQF Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and automatically cancel all of the Participant's open quotes. Quotes will be cancelled across all Client Applications that are associated with the same BX Options Market Maker ID and underlying issues.

(1) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF, FIX or OTTO Port and the Client Application. The Heartbeat message sent by the Participant and subsequently received by the Exchange allows the SQF, FIX or OTTO Port to continually monitor its connection with the Participant.

(2) SQF Port is the Exchange's System component through which Participants communicate their quotes from the Client Application.

(3) FIX and OTTO Ports are the Exchange's System components through which Participants communicate their orders from the Client Application.

(4) Client Application is the System component of the Participant through which the Exchange Participant communicates its quotes and orders to the Exchange.

(b) When the FIX Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to subparagraph (e) automatically cancel all open orders posted.

(c) When the OTTO Port detects the loss of communication with a Participant's Client Application because the Exchange's server does not receive a Heartbeat message for a certain time period ("nn" seconds), the Exchange will automatically logoff the Participant's affected Client Application and if the Participant has elected to have its orders cancelled pursuant to subparagraph (f) automatically cancel all open orders posted.

(d) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (a) above, to trigger the disconnect and must communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for SQF Ports prior to each session of connectivity to the Exchange. This feature is enabled for each Participant and may not be disabled.

(1) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(2) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(e) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (b) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one (1) second and thirty (30) seconds for FIX Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(1) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to thirty seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(2) If the time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(f) The default time period ("nn" seconds) for OTTO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. If the Participant elects to have its orders removed, in addition to the disconnect, the Participant may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (c) above, to trigger the disconnect and removal of orders and communicate that time to the Exchange. The period of "nn" seconds may be modified to a number between one hundred (100) milliseconds and 99,999 milliseconds for OTTO Ports prior to each session of connectivity to the Exchange. This feature may be disabled for the removal of orders, however the Participant will be disconnected.

(1) If the Participant systemically changes the default number of "nn" seconds, that new setting shall be in effect throughout the current session of connectivity and will then default back to fifteen seconds. The Participant may change the default setting systemically prior to each session of connectivity.

(2) If a time period is communicated to the Exchange by calling Exchange operations, the number of "nn" seconds selected by the Participant shall persist for each subsequent session of connectivity until the Participant either contacts Exchange operations and changes the setting or the Participant systemically selects another time period prior to the next session of connectivity.

(g) The trigger for the SQF, FIX and OTTO Ports is event and Client Application specific. The automatic cancellation of the BX Options Market Maker's quotes for SQF Ports and open orders for FIX and OTTO Ports entered into the respective SQF, FIX or OTTO Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other BX Options Market Makers entered into SQF Ports or orders of the same or other Participants entered into the FIX or OTTO Ports via a separate and distinct Client Application.

### **Section 19. Mass Cancellation of Trading Interest**

An Options Participant may simultaneously cancel all its bids, offers, and orders in all series of options by requesting BX Options operations staff to effect such cancellation.

### **Section 20. Nullification and Adjustment of Options Transactions including Obvious Errors**

The Exchange may nullify a transaction or adjust the execution price of a transaction in accordance with this Rule. However, the determination as to whether a trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree, provided, however, that such agreement to nullify or adjust must be conveyed to the Exchange in a manner prescribed by the Exchange prior to 8:30 a.m. Eastern Time on the first trading day following the execution. It is considered conduct inconsistent with just and equitable principles of trade for any Participant to use the mutual adjustment process to circumvent any applicable Exchange rule, the Act or any of the rules and regulations thereunder.

#### (a) Definitions.

(1) Customer. For purposes of this Rule, a Customer shall not include any broker-dealer or Professional.

(2) Erroneous Sell/Buy Transaction. For purposes of this Rule, an "erroneous sell transaction" is one in which the price received by the person selling the option is erroneously low, and an "erroneous buy transaction" is one in which the price paid by the person purchasing the option is erroneously high.

(3) Official. For purposes of this Rule, the term "Official" shall mean an Exchange staff member or contract employee designated as such by the Chief Regulatory Officer. A list of individual Officials shall be displayed on the Exchange website. The Chief Regulatory Officer shall maintain the list of Officials and update the website each time a name is added to, or deleted from,

the list of Officials. In the event no Official is available to rule on a particular matter, the Chief Regulatory Officer or his/her designee shall rule on such matter.

(4) *Size Adjustment Modifier.* For purposes of this Rule, the Size Adjustment Modifier will be applied to individual transactions as follows:

<u>Number of Contracts per Execution</u>	<u>Adjustment - Theoretical Price (TP) Plus/Minus</u>
<u>1-50</u>	<u>N/A</u>
<u>51-250</u>	<u>2 times adjustment amount</u>
<u>251-1000</u>	<u>2.5 times adjustment amount</u>
<u>1001 or more</u>	<u>3 times adjustment amount</u>

(b) *Theoretical Price.* Upon receipt of a request for review and prior to any review of a transaction execution price, the "Theoretical Price" for the option must be determined. For purposes of this Rule, if the applicable option series is traded on at least one other options exchange, then the Theoretical Price of an option series is the last NBB just prior to the trade in question with respect to an erroneous sell transaction or the last NBO just prior to the trade in question with respect to an erroneous buy transaction unless one of the exceptions in sub-paragraphs (b)(1) through (3) below exists. For purposes of this provision, when a single order received by the Exchange is executed at multiple price levels, the last NBB and last NBO just prior to the trade in question would be the last NBB and last NBO just prior to Exchange's receipt of the order. The Exchange will rely on this paragraph (b) and Supplementary Material .03 of this Rule when determining Theoretical Price.

(1) *Transactions at the Open.* For a transaction occurring as part of the Opening Process (as defined in Options 3, Section 8) the Exchange will determine the Theoretical Price if there is no NBB or NBO for the affected series just prior to the erroneous transaction or if the bid/ask differential of the NBB and NBO just prior to the erroneous transaction is equal to or greater than the Minimum Amount set forth in the chart contained in sub-paragraph (b)(3) below. If the bid/ask differential is less than the Minimum Amount, the Theoretical Price is the NBB or NBO just prior to the erroneous transaction.

(2) *No Valid Quotes.* The Exchange will determine the Theoretical Price if there are no quotes or no valid quotes for comparison purposes. Quotes that are not valid are:

(A) all quotes in the applicable option series published at a time where the last NBB is higher than the last NBO in such series (a "crossed market");

(B) quotes published by the Exchange that were submitted by either party to the transaction in question;

(C) quotes published by another options exchange if either party to the transaction in question submitted the quotes in the series representing such options exchange's best bid or offer, provided that the Exchange will only consider quotes invalid on other options exchanges in up to twenty-five (25) total options series that the party identifies to the Exchange the quotes which were submitted by such party and published by other options exchanges; and

(D) quotes published by another options exchange against which the Exchange has declared self-help.

(3) Wide Quotes. The Exchange will determine the Theoretical Price if the bid/ask differential of the NBB and NBO for the affected series just prior to the erroneous transaction was equal to or greater than the Minimum Amount set forth below and there was a bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction. If there was no bid/ask differential less than the Minimum Amount during the 10 seconds prior to the transaction then the Theoretical Price of an option series is the last NBB or NBO just prior to the transaction in question, as set forth in paragraph (b) above.

<u>Bid Price at Time of Trade</u>	<u>Minimum Amount</u>
<u>Below \$2.00</u>	<u>\$0.75</u>
<u>\$2.00 to \$5.00</u>	<u>\$1.25</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$1.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$2.50</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$3.00</u>
<u>Above \$50.00 to \$100.00</u>	<u>\$4.50</u>
<u>Above \$100.00</u>	<u>\$6.00</u>

(c) Obvious Errors.

(1) Definition. For purposes of this Rule, an Obvious Error will be deemed to have occurred when the Exchange receives a properly submitted filing where the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<u>Theoretical Price</u>	<u>Minimum Amount</u>
<u>Below \$2.00</u>	<u>\$0.25</u>
<u>\$2.00 to \$5.00</u>	<u>\$0.40</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$0.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$0.80</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$1.00</u>
<u>Above \$50.00 to \$100.00</u>	<u>\$1.50</u>
<u>Above \$100.00</u>	<u>\$2.00</u>

(2) Time Deadline. A party that believes that it participated in a transaction that was the result of an Obvious Error must notify the Exchange's Official in the manner specified from time to time by the Exchange in a notice distributed to Participants. Such notification must be received by the Exchange's Officials within the timeframes specified below:

(A) Customer Orders. For an execution of a Customer order, a filing must be received by the Exchange within thirty (30) minutes of the execution, subject to sub-paragraph (C) below; and

(B) "Non-Customer" Orders. For an execution of any order other than a Customer order, a filing must be received by the Exchange within fifteen (15) minutes of the execution, subject to sub-paragraph (C) below.

(C) Linkage Trades. Any other options exchange will have a total of forty-five (45) minutes for Customer orders and thirty (30) minutes for non-Customer orders, measured from the time of execution on the Exchange, to file with the Exchange for review of transactions routed to the Exchange from that options exchange and executed on the Exchange ("linkage trades"). This includes filings on behalf of another options exchange filed by a third-party routing broker if such third-party broker identifies the affected transactions as linkage trades. In order to facilitate timely reviews of linkage trades the Exchange will accept filings from either the other options exchange or, if applicable, the third-party routing broker that routed the applicable order(s). The additional fifteen (15) minutes provided with respect to linkage trades shall only apply to the extent the options exchange that originally received and routed the order to the Exchange itself received a timely filing from the entering participant (i.e., within 30 minutes if a Customer order or 15 minutes if a non- Customer order).

(3) Acting on Own Motion. The President or designee thereof, who is an officer of the Exchange (collectively "Exchange officer") may review a transaction believed to be erroneous on his/her own motion in the interest of maintaining a fair and orderly market and for the protection of investors. A transaction reviewed pursuant to this paragraph may be nullified or adjusted only if it is determined by the Exchange officer that the transaction is erroneous in accordance with the provisions of this Rule, provided that the time deadlines of sub-paragraph (c)(2) above shall not apply. The Exchange officer shall act as soon as possible after becoming aware of the transaction, and ordinarily would be expected to act on the same day that the transaction occurred. In no event shall the Exchange officer act later than 8:30 a.m. Eastern Time on the next trading day following the date of the transaction in question. A party affected by a determination to nullify or adjust a transaction pursuant to this provision may appeal such determination in accordance with paragraph (k) below; however, a determination by an Exchange officer not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Exchange officer's own motion is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of this Rule, no additional relief may be granted under this provision.

(4) Adjust or Bust. If it is determined that an Obvious Error has occurred, the Exchange shall take one of the actions listed below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) Non-Customer Transactions. Where neither party to the transaction is a Customer, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any non-Customer Obvious Error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in sub-paragraph (a)(4) above.

<u>Theoretical Price (TP)</u>	<u>Buy Transaction Adjustment - TP Plus</u>	<u>Sell Transaction Adjustment - TP Minus</u>
<u>Below \$3.00</u>	<u>\$0.15</u>	<u>\$0.15</u>
<u>At or above \$3.00</u>	<u>\$0.30</u>	<u>\$0.30</u>

(B) Customer Transactions. Where at least one party to the Obvious Error is a Customer, the trade will be nullified, subject to subparagraph (C) below.

(C) If any Participant submits requests to the Exchange for review of transactions pursuant to this Rule, and in aggregate that Participant has 200 or more Customer transactions under review concurrently and the orders resulting in such transactions were submitted during the course of 2 minutes or less, where at least one party to the Obvious Error is a non-Customer, the Exchange

will apply the non- Customer adjustment criteria set forth in sub-paragraph (A) above to such transactions.

(d) Catastrophic Errors.

(1) Definition. For purposes of this Rule, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<u>Theoretical Price</u>	<u>Minimum Amount</u>
<u>Below \$2.00</u>	<u>\$0.50</u>
<u>\$2.00 to \$5.00</u>	<u>\$1.00</u>
<u>Above \$5.00 to \$10.00</u>	<u>\$1.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$2.00</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$2.50</u>
<u>Above \$50.00 to \$100.00</u>	<u>\$3.00</u>
<u>Above \$100.00</u>	<u>\$4.00</u>

(2) Time Deadline. A party that believes that it participated in a transaction that was the result of a Catastrophic Error must notify the Exchange's Officials in the manner specified from time to time by the Exchange on its website. Such notification must be received by the Exchange's Officials by 8:30 a.m. Eastern Time on the first trading day following the execution. For transactions in an expiring options series that take place on an expiration day, a party must notify the Exchange's Officials within 45 minutes after the close of trading that same day.

(3) Adjust or Bust. If it is determined that a Catastrophic Error has occurred, the Exchange shall take action as set forth below. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone. In the event of a Catastrophic Error, the execution price of the transaction will be adjusted by the Official pursuant to the table below. Any Customer order subject to this sub-paragraph will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

<u>Theoretical Price (TP)</u>	<u>Buy Transaction Adjustment - TP Plus</u>	<u>Sell Transaction Adjustment - TP Minus</u>
<u>Below \$2.00</u>	<u>\$0.50</u>	<u>\$0.50</u>
<u>\$2.00 to \$5.00</u>	<u>\$1.00</u>	<u>\$1.00</u>
<u>\$5.00 to \$10.00</u>	<u>\$1.50</u>	<u>\$1.50</u>
<u>\$10.00 to \$20.00</u>	<u>\$2.00</u>	<u>\$2.00</u>
<u>\$20.00 to \$50.00</u>	<u>\$2.50</u>	<u>\$2.50</u>
<u>\$50.00 to \$100.00</u>	<u>\$3.00</u>	<u>\$3.00</u>
<u>Above \$100.00</u>	<u>\$4.00</u>	<u>\$4.00</u>

(e) Significant Market Events.

(1) Definition. For purposes of this Rule, a Significant Market Event will be deemed to have occurred when: criterion (A) below is met or exceeded or the sum of all applicable event statistics, where each is expressed as a percentage of the relevant threshold in criteria (A) through (D) below, is greater than or equal to 150% and 75% or more of at least one category is reached, provided that no single category can contribute more than 100% to the sum and any category contributing more than 100% will be rounded down to 100%. All criteria set forth below will be measured in aggregate across all exchanges.

(A) Transactions that are potentially erroneous would result in a total Worst-Case Adjustment Penalty of \$30,000,000, where the Worst- Case Adjustment Penalty is computed as the sum, across all potentially erroneous trades, of:

(i) \$0.30 (i.e., the largest Transaction Adjustment value listed in sub-paragraph (e)(3)(A) below); times

(ii) the contract multiplier for each traded contract; times

(iii) the number of contracts for each trade; times

(iv) the appropriate Size Adjustment Modifier for each trade, if any, as defined in sub-paragraph (e)(3)(A) below.

(B) Transactions involving 500,000 options contracts are potentially erroneous;

(C) Transactions with a notional value (i.e., number of contracts traded multiplied by the option premium multiplied by the contract multiplier) of \$100,000,000 are potentially erroneous;

(D) 10,000 transactions are potentially erroneous.

(2) Coordination with Other Options Exchanges. To ensure consistent application across options exchanges, in the event of a suspected Significant Market Event, the Exchange shall initiate a coordinated review of potentially erroneous transactions with all other affected options exchanges to determine the full scope of the event. When this paragraph is invoked, the Exchange will promptly coordinate with the other options exchanges to determine the appropriate review period as well as select one or more specific points in time prior to the transactions in question and use one or more specific points in time to determine Theoretical Price. Other than the selected points in time, if applicable, the Exchange will determine Theoretical Price in accordance with paragraph (b) above.

(3) Adjust or Bust. If it is determined that a Significant Market Event has occurred then, using the parameters agreed as set forth in sub-paragraph (e)(2) above, if applicable, an Official will determine whether any or all transactions under review qualify as Obvious Errors. The Exchange shall take one of the actions listed below with respect to all transactions that qualify as Obvious Errors pursuant to sub-paragraph (c)(1) above. Upon taking final action, the Exchange shall promptly notify both parties to the trade electronically or via telephone.

(A) The execution price of each affected transaction will be adjusted by an Official to the price provided below unless both parties agree to adjust the transaction to a different price or agree to bust the trade. In the context of a Significant Market Event, any error exceeding 50 contracts will be subject to the Size Adjustment Modifier defined in subparagraph (a)(4) above.

<u>Theoretical Price (TP)</u>	<u>Buy Transaction Adjustment - TP Plus</u>	<u>Sell Transaction Adjustment - TP Minus</u>
<u>Below \$3.00</u>	<u>\$0.15</u>	<u>\$0.15</u>
<u>At or above \$3.00</u>	<u>\$0.30</u>	<u>\$0.30</u>

(B) Where at least one party to the transaction is a Customer, the trade will be nullified if the adjustment would result in an execution price higher (for buy transactions) or lower (for sell transactions) than the Customer's limit price.

(4) Nullification of Transactions. If the Exchange, in consultation with other options exchanges, determines that timely adjustment is not feasible due to the extraordinary nature of the situation, then the Exchange will nullify some or all

transactions arising out of the Significant Market Event during the review period selected by the Exchange and other options exchanges consistent with this paragraph. To the extent the Exchange, in consultation with other options exchanges, determines to nullify less than all transactions arising out of the Significant Market Event, those transactions subject to nullification will be selected based upon objective criteria with a view toward maintaining a fair and orderly market and the protection of investors and the public interest.

(5) Final Rulings. With respect to rulings made pursuant to this paragraph, the number of affected transactions is such that immediate finality is necessary to maintain a fair and orderly market and to protect investors and the public interest. Accordingly, rulings by the Exchange pursuant to this paragraph are non-appealable.

(f) Trading Halts. The Exchange shall nullify any transaction that occurs during a trading halt in the affected option on the Exchange pursuant to Supplementary Material .02 of this Rule.

(g) Erroneous Print in Underlying. A trade resulting from an erroneous print(s) disseminated by the underlying market that is later nullified by that underlying market shall be adjusted or busted as set forth in sub-paragraph (c)(4) of this Rule, provided a party notifies the Exchange's Officials in a timely manner as set forth below. For purposes of this paragraph, a trade resulting from an erroneous print(s) shall mean any options trade executed during a period of time for which one or more executions in the underlying security are nullified and for one second thereafter. If a party believes that it participated in an erroneous transaction resulting from an erroneous print(s) pursuant to this paragraph it must notify the Exchange's Officials within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification by the underlying market(s) of nullification of transactions in the underlying security. If multiple underlying markets nullify trades in the underlying security, the allowed notification timeframe will commence at the time of the first market's notification.

(h) Erroneous Quote in Underlying. A trade resulting from an erroneous quote(s) in the underlying security shall be adjusted or busted as set forth in subparagraph (c)(4) this Rule, provided a party notifies the Exchange's Officials in a timely manner as set forth below. An erroneous quote occurs when the underlying security has a width of at least \$1.00 and has a width at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For purposes of this paragraph, the average quote width shall be determined by adding the quote widths of sample quotations at regular 15-second intervals during the four-minute time period referenced above (excluding the quote(s) in question) and dividing by the number of quotes during such time period (excluding the quote(s) in question). If a party believes that it participated in an erroneous transaction resulting from an erroneous quote(s) pursuant to this paragraph it must notify the Exchange's Officials in accordance with sub-paragraph (c)(2) above.

(i) Linkage Trades. If the Exchange routes an order pursuant to the Plan (as defined in Options 5, Section 1(16)) that results in a transaction on another options exchange (a "Linkage Trade") and such options exchange subsequently nullifies or adjusts the Linkage Trade pursuant to its rules, the Exchange will perform all actions necessary to complete the nullification or adjustment of the Linkage Trade.

(j) Verifiable Disruption or Malfunction of Exchange Systems. Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of Exchange execution, dissemination, or communication systems that caused a quote/order to trade in excess of its disseminated size (e.g. a quote/order that is frozen, because of an Exchange system error, and repeatedly traded). Parties to a trade may have a trade nullified or its price adjusted if it resulted from a verifiable disruption or malfunction of an Exchange dissemination or communication system that prevented a Member from updating or canceling a quote/order for which the Member is responsible where there is Exchange documentation providing that the Member sought to update or cancel the quote/order.

(k) Appeals. A party to a transaction affected by a decision made under this section may appeal that decision to the Exchange Review Council. An appeal must be made in writing, and must be received by BX within thirty (30) minutes after the person making the appeal is given the notification of the determination being appealed. The Exchange Review Council may review any decision appealed, including whether a complaint was timely, whether an Obvious Error or Catastrophic Error occurred, whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price.

(1) A Exchange Review Council panel will be comprised minimally of representatives of one (1) member engaged in Market Making and two (2) industry representatives not engaged in Market Making. At no time should a review panel have more than 50% members engaged in Market Making.

(2) The Exchange Review Council, pursuant to the standards set forth in this Rule, shall affirm, modify, or reverse the determination.

(3) The decision of the Exchange Review Council pursuant to an appeal, or a determination by a BX Official that is not appealed, shall be final and binding upon all parties and shall constitute final BX action on the matter in issue. Any determination by a BX Official or the Exchange Review Council shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.

(4) The party initiating the appeal shall be assessed a \$500.00 fee if the Exchange Review Council upholds the decision of the BX Official. In addition, in instances where BX, on behalf of an Options Participant, requests a determination by another market center that a transaction is clearly erroneous, BX will pass any resulting charges through to the relevant Options Participant.

**Supplementary Material to Options 3, Section 20**

**.01** For the purposes of this Rule, to the extent the provisions of this Rule would result in the Exchange applying an adjustment of an erroneous sell transaction to a price lower than the execution price or an erroneous buy transaction to a price higher than the execution price, the Exchange will not adjust or nullify the transaction, but rather, the execution price will stand.

**.02** Trading Halts. Trades on the Exchange will be nullified when:

(A) The trade occurred during a trading halt in the affected option on the Exchange;

(B) Respecting equity options (including options overlying ETFs), the trade occurred during a regulatory halt as declared by the primary market for the underlying security; or

(C) Respecting index options, the trade occurred during a trading halt on the primary market in underlying securities representing more than 10 percent of the current index value for stock index options.

**.03** Exchange Determining Theoretical Price. For purposes of this Rule, when the Exchange must determine Theoretical Price pursuant to sub-paragraphs (b)(1)-(3) of this Rule (i.e., at the open, when there are no valid quotes or when there is a wide quote), then the Exchange will determine Theoretical Price as follows.

(A) The Exchange will request Theoretical Price from the third party vendor defined in paragraph (d) below ("TP Provider") to which the Exchange and all other options exchanges have subscribed. The Exchange will apply the Theoretical Price provided by the TP Provider, except as otherwise described below.

(B) To the extent an Official of the Exchange believes that the Theoretical Price provided by the TP Provider is fundamentally incorrect and cannot be used consistent with the maintenance of a fair and orderly market, the Official shall contact the TP Provider to notify the TP Provider of the reason the Official believes such Theoretical Price is inaccurate and to request a review and correction of the calculated Theoretical Price. The Exchange shall also promptly provide electronic notice to other options exchanges that the TP Provider has been contacted consistent with this paragraph and include a brief explanation of the reason for the request.

(C) An Official of the Exchange may determine the Theoretical Price if the TP Provider has experienced a systems issue that has rendered its services unavailable to accurately calculate Theoretical Price and such issue cannot be corrected in a timely manner.

(D) The current TP Provider to which the Exchange and all other options exchanges have subscribed is: CBOE Livevol, LLC. Neither the Exchange, the TP Provider, nor any affiliate of the TP Provider (the TP Provider and its affiliates are referred to collectively as the "TP Provider"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of the TP Provider pursuant to this Supplementary Material .03. The TP Provider does not guarantee the accuracy or completeness of the calculated Theoretical Price. The TP Provider disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such Theoretical Price. Neither the Exchange nor the TP Provider shall have any liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the use of such Theoretical Price or arising out of any errors or delays in calculating such Theoretical Price.

### **Section 21. Access to and Conduct on BX Options**

(a) Access to Exchange. Unless otherwise provided in the Rules, no one but a Participant or a person associated with a Participant shall effect any BX Options Transactions. The Exchange may share any Participant-designated risk settings in the Trading System with the Clearing Participant that clears transactions on behalf of the Participant.

(b) Exchange Conduct. Participants and persons employed by or associated with any Participant, while using the facilities of Exchange, shall not engage in conduct: (i) inconsistent with the maintenance of a fair and orderly market; (ii) apt to impair public confidence in the operations of the Exchange; or (iii) inconsistent with the ordinary and efficient conduct of business. Activities that shall violate the provisions of this paragraph (b) include, but are not limited to, the following:

(1) failure of a Market Maker to provide quotations in accordance with Options 2, Section 5 of these Rules;

(2) failure of a Market Maker to bid or offer within the ranges specified by Options 2, Section 4 of these Rules;

(3) failure of a Participant to supervise a person employed by or associated with such Participant adequately to ensure that person's compliance with this paragraph (b).

(4) failure to maintain adequate procedures and controls that permit the Options Participant to effectively monitor and supervise the entry of orders by users to prevent the prohibited practices set forth in this paragraph (b) and Options 9, Section 2 of these Rules;

(5) failure to abide by a determination of BX Regulation;

(6) effecting transactions that are manipulative as provided in General 9, Section 1 or any other rule of the Exchange;

(7) refusal to provide information requested by BX Regulation; and

(8) failure to abide by the provisions of the sections of this Options 3, Section 22 related to limitations on orders.

(c) Subject to the Rules, BX Options will provide access to the Trading System to Options Participants in good standing that wish to conduct business on BX Options.

(d) Pursuant to the Rules and the arrangements referred to in this Rule, BX Regulation may:

(1) suspend an Options Participant's access to the Trading System following a warning which may be made in writing or verbally (and subsequently confirmed in writing); or

(2) terminate an Options Participant's access to the Trading System by notice in writing.

### **Section 22. Limitations on Order Entry**

**(a) Limitations on Principal Transactions.** With respect to orders routed to BX Options, Options Participants may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on BX Options for at least one (1) second or (ii) the Options Participant has been bidding or offering on BX Options for at least one (1) second prior to receiving an agency order that is executable against such bid or offer or (iii) orders entered into BX PRISM pursuant to Options 3, Section 13.

(1) This Rule prevents Options Participants from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on BX Options an opportunity to either trade with the agency order or to trade at the execution price when the Options Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Participant to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on BX Options and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of this Rule for an Options Participant to be a party to any arrangement designed to circumvent this Rule by providing an opportunity for a customer to regularly execute against agency orders handled by the Options Participant immediately upon their entry into BX Options.

**(b) Limit Orders.** Options Participants shall not enter Public Customer limit orders into the System in the same options series, for the account or accounts of the same or related beneficial owners, in such a manner that the beneficial owner(s) effectively is operating

as a market maker by holding itself out as willing to buy and sell such options contract on a regular or continuous basis. In determining whether a beneficial owner effectively is operating as a market maker, the Exchange will consider, among other things: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same options contract and the entry of multiple limit orders at different prices in the same options series.

(c) **Limitations on Solicitation Orders.** An Options Participant may not execute an order it represents as agent on BX Options against orders solicited from members and non-member broker-dealers, whether such solicited orders are entered into BX Options directly by the Options Participant or by the solicited party (either directly or through another Options Participant), if the Options Participant fails to expose orders on BX Options as required by this Rule unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, or (ii) the Options Participant orders entered into BX PRISM pursuant to Options 3, Section 13.

(d) Prior to or after submitting an order to BX Options, an Options Participant cannot inform another Options Participant or any other third party of any of the terms of the order for purposes of violating this Rule.

### **Section 23. Data Feeds and Trade Information**

(a) The following data feeds are offered by BX:

(1) **BX Depth of Market (BX Depth)** is a data feed that provides full order and quote depth information for individual orders and quotes on the BX Options book, last sale information for trades executed on BX Options, and Order Imbalance Information as set forth in BX Options Rules Options 3, Section 8. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on BX and identifies if the series is available for closing transactions only.

(2) **BX Top of Market (BX Top)** is a data feed that provides the BX Options Best Bid and Offer and last sale information for trades executed on BX Options. The data provided for each options series includes the symbols (series and underlying security), put or call indicator, expiration date, the strike price of the series, and whether the option series is available for trading on BX and identifies if the series is available for closing transactions only.

(b) The following order and execution information is available to Participants:

(1) **Clearing Trade Interface ("CTI")** is a real-time clearing trade update message that is sent to a Participant after an execution has occurred and contains trade details specific to that Participant. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement or "CMTA" or The Options Clearing Corporation or "OCC" number; (ii) Exchange badge or house number; (iii)

the Exchange internal firm identifier; (iv) an indicator which will distinguish electronic and non-electronically delivered orders; (v) liquidity indicators and transaction type for billing purposes; and (vi) capacity.

(2) **TradeInfo**, a user interface, permits a Participant to: (i) search all orders submitted in a particular security or all orders of a particular type, regardless of their status (open, canceled, executed, etc.); (ii) cancellation of open orders at the order, port or firm mnemonic level; (iii) a view of orders and executions; and (iv) download of orders and executions for recordkeeping purposes.

(3) **FIX DROP** is a real-time order and execution update message that is sent to a Participant after an order been received/modified or an execution has occurred and contains trade details specific to that Participant. The information includes, among other things, the following: (i) executions; (ii) cancellations; (iii) modifications to an existing order and (iv) busts or post-trade corrections.

#### **Section 24. Transaction Price Binding**

The price at which an order is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report shall not be binding if an order was not actually executed but was reported to have been executed in error.

#### **Section 25. Anonymity**

(a) The transaction reports produced by the System will indicate the details of the transactions, and shall not reveal contra party identities.

(b) BX shall reveal a Participant's identity in the following circumstances:

(1) when a registered clearing agency ceases to act for a participant, or the Participant's clearing firm, and the registered clearing agency determines not to guarantee the settlement of the Participant's trades;

(2) for regulatory purposes or to comply with an order of an arbitrator or court;

(3) if both Participants to the transaction consent;

(4) Unless otherwise instructed by a Member, BX will reveal to a member, no later than the end of the day on the date an anonymous trade was executed, when the member's Order has been decremented by another Order submitted by that same member.

#### **Section 26. Message Traffic Mitigation**

For the purpose of message traffic mitigation, based on BX Options 's traffic with respect to target traffic levels and in accordance with BX Options 's overall objective of reducing both peak and overall traffic:

(a) BX Options will periodically delist options with an average daily volume ("ADV") of less than 100 contracts. BX will, on a monthly basis, determine the ADV for each series listed on BX Options and delist the current series and not list the next series after expiration where the ADV is less than 100 contracts. For options series traded solely on BX Options, BX will delay delisting until there is no open interest in that options series.

(b) BX Options will implement a process by which an outbound quote message that has not been sent, but is about to be sent, will not be sent if a more current quote message for the same series is available for sending. This replace on queue functionality will be applied to all options series listed on the BX Options Market in real time and will not delay the sending of any messages.

(c) When the size associated with a bid or offer increases by an amount less than or equal to a percentage (never to exceed 20%) of the size associated with the previously disseminated bid or offer, BX Options will not disseminate the new bid or offer.

(d) All message traffic mitigation mechanisms which are used on BX Options will be identical for the OPRA "top of the book" broadcast.

#### **Section 27. Limitation of Liability**

(a) Except as provided for in Rule 4626, BX Options and its affiliates shall not be liable for any losses, damages, or other claims arising out of the BX Options Trading System or its use. Any losses, damages, or other claims, related to a failure of the BX Options Trading System to deliver, display, transmit, execute, compare, submit for clearance and settlement, adjust, retain priority for, or otherwise correctly process an order, message, or other data entered into, or created by, the BX Options Trading System shall be absorbed by the Member, or the Member sponsoring the customer, that entered the order, message, or other data into the BX Options Trading System.

#### **Section 28. Reserved**

#### **Options 4 Options Listing Rules**

\* \* \* \* \*

[Section. 5. Reserved]

#### **Section. [6]5 Series of Options Contracts Open for Trading**

\* \* \* \* \*

(g) New series of equity options, options on Exchange Traded Funds, and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in Supplementary Material .01 to this [Section]Rule. [6.]

**Supplementary Material to Section [6]5****.01 \$1 Strike Price Interval Program**

\* \* \* \* \*

(b) Initial and Additional Series. To be eligible for inclusion into the \$1 Strike Price Interval Program, an underlying security must close below \$50 in the primary market on the previous trading day.

After a security is added to the \$1 Strike Price Interval Program, the Exchange may list \$1 strike price intervals from \$1 to \$50 according to the following parameters:

(i) If the price of the underlying stock is equal to or less than \$20, the Exchange may list series with an exercise price up to 100% above and 100% below the price of the underlying stock. However, the foregoing restriction shall not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class. For example, if the price of the underlying stock is \$2, the Exchange would be permitted to list the following series: \$1, \$2, \$3, \$4, \$5, \$6 and \$7.

(ii) If the price of the underlying stock is greater than \$20, the Exchange may list series with an exercise price up to 50% above and 50% below the price of the underlying security up to \$50.

(iii) For the purpose of adding strikes under the \$1 Strike Price Interval Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in .06(a) of Supplemental Material to [Section 6]this Rule.

\* \* \* \* \*

**.02 Select Provisions of Options Listing Procedures Plan.** Select provisions of the OLPP were adopted by the Exchange as a quote mitigation strategy and are codified in the OLPP.

(a) The exercise price of each options series listed by the Exchange shall be fixed at a price per share which is reasonably close to the price of the underlying equity security, Exchange Traded Fund ("ETF" and referred to as Exchange Traded Fund Shares in Rule 502(h)) or Trust Issued Receipt ("TIR") at or about the time the Exchange determines to list such series. Additionally, except as provided in subparagraphs (b) through (d) below, if the price of the underlying security is less than or equal to \$20, the Exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security. However, the foregoing restriction shall not prohibit the listing of at least three exercise prices per expiration month in an option class. Except as provided in Supplementary

Material to Section [6]5 at .07(d), if the price of the underlying security is greater than \$20, the Exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security.

\* \* \* \* \*

**.16 U.S. Dollar-Settled Foreign Currency Options (“FCOs”).** Within each class of approved U.S. Dollar- Settled Foreign Currency options, the Exchange may open for trading series of options expiring in consecutive calendar months ("consecutive month series"), as provided in subparagraph (A), and series of options expiring at three-month intervals ("cycle month series"), as provided in subparagraph (B) of this paragraph. Prior to the opening of trading in any series of U.S. Dollar- Settled FCOs, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series.

(A) Consecutive Month Series

With respect to each class of U.S. Dollar-Settled FCOs, series of options having up to four consecutive expiration months may be opened for trading simultaneously, with the shortest-term series initially having no more than two months to expiration. Additional consecutive month series of the same class may be opened for trading on the Exchange at or about the time a prior consecutive month series expires, and the expiration month of each such new series shall normally be the month immediately succeeding the expiration month of the then outstanding consecutive month series of the same class of options having the longest remaining time to expiration.

(B) Cycle Month Series

The Exchange may designate one expiration cycle for each class of U.S. Dollar-Settled FCOs. An expiration cycle shall consist of four calendar months ("cycle months") occurring at three-month intervals.

With respect to any particular class of U.S. Dollar-Settled FCOs, series of options expiring in the four cycle months designated by the Exchange for that class may be opened for trading simultaneously, with the shortest-term series initially having approximately three months to expiration. Additional cycle month series of the same class may be opened for trading on the Exchange at or about the time a prior cycle month series expires, and the expiration month of each such new series shall normally be approximately three months after the expiration month of the then outstanding cycle month series of the same class of options having the longest remaining time to expiration.

(C) Long-Term Series

The Exchange may list, with respect to any U.S. Dollar-Settled FCOs having up to three years from the time they are listed until expiration. There may be up to ten

options series, options having up to thirty-six months from the time they are listed until expiration. There may be up to six additional expiration months. Strike price interval and bid/ask differential rules shall not apply to such options series until the time to expiration is less than nine months.

(D) For each expiration month opened for trading of U.S. Dollar-Settled FCOs, in addition to the strike prices listed by the Exchange pursuant to the Supplementary Material at .16 to this [Section 6]Rule, the Exchange shall also list a single strike price of \$0.01.

\* \* \* \* \*

### **Section 6. Reserved**

\* \* \* \* \*

### **Section 10. Reserved**

### **Options 4A Options Index Rules**

#### **Section 1. Application of Index Rules**

The Sections in this Options 4A are applicable only to index options (options on indices of securities as defined below). The Options Rules are also applicable to the options provided for in this Options 4A, unless such Sections are specifically replaced or are supplemented by Sections in this Options 4A. Where the Sections in this Options 4A indicate that particular indices or requirements with respect to particular indices will be "Specified," BX Options shall file a proposed rule change with the Commission to specify such indices or requirements.

#### **Section 2. Definitions**

(a) The term "aggregate exercise price" means the exercise price of the options contract times the index multiplier.

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

(c) The term "A.M.-settled index option" means an index options contract for which the current index value at expiration shall be determined as provided in Section 12(a)(4) of this Options 4A.

(d) The term "call" means an options 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 current index value times the index multiplier.

(e) The term "current index value" with respect to a particular index options contract means the level of the underlying index reported by the reporting authority for the index.

or any multiple or fraction of such reported level specified by BX Options. The current index value with respect to a reduced-value long term options contract is one-tenth of the current index value of the related index option. The "closing index value" shall be the last index value reported on a business day.

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

(g) Unless separately defined elsewhere in these Rules, the term "expiration date" means (i) in the case of such an option expiring prior to February 1, 2015, the Saturday immediately following the third Friday of the expiration month of such option contract; and (ii) in the case of such an option expiring on or after February 1, 2015, the third Friday of the expiration month of such option contract, or if such Friday is a day on which the Exchange on which such option is listed is not open for business, the preceding day on which such Exchange is open for business. Notwithstanding the foregoing, in the case of certain options expiring on or after February 1, 2015 that the Clearing Corporation has designated as grandfathered, the term "expiration date" shall mean the Saturday immediately following the third Friday of the expiration month.

(h) The term "European-style index option" means an option on an industry or market index that can be exercised only on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day prior to the day it expires.

(i) The term "index multiplier" means the amount 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 contract.

(j) The term "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries.

(k) The term "market index" and "broad-based index" mean an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

(l) The term "put" means an options 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 current index value times the index multiplier.

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

(n) The term "reporting authority" with respect to a particular index means the institution or reporting service designated by BX as the official source for (1) calculating the level

of the index from the reported prices of the underlying securities that are the basis of the index and (2) reporting such level. The reporting authority for each index approved for options trading on BX Options shall be specified in Options 4A at Supplementary Material to Section 2.

(o) The term "Short Term Option Series" means a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively.

(p) The term "underlying security" or "underlying securities" with respect to an index options contract means any of the securities that are the basis for the calculation of the index.

## **Options 4A, Supplementary Material to Section 2**

**01. Index Reporting Authority. BX currently does not list index options and will update this section at such time as index options are listed.**

### **Section 3. Designation of a Broad-Based Index**

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Options 4, Section 3 (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) BX Options may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(k) of Options 4A of this Rule;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least \$75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least \$100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Options 4, Section 3 applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) 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 thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

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

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, or one or more major market data vendors during the time options on the index are traded on BX Options;

(12) BX Options reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of BX Options' current Independent System Capacity Advisor ("ISCA") allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an 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 an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) BX Options has written surveillance procedures in place with respect to surveillance of trading of options on the index.

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

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) 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 ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

#### **Section 4. Designation of Narrow-Based and Micro-Narrow-Based Index Options**

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Options 4, Section 3 (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index.* BX Options may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the Exchange Act, 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, equal dollar-weighted, or modified capitalization-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 or a modified 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 30% 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% (65% 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 Options 4, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(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.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(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 or a modified 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 BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless such failure is determined by BX Options 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.

(d) Notwithstanding paragraph (a) above, BX Options may trade options on a Micro Narrow-Based Index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than \$50,000,000 (or in the case of an index with 15 or more component securities, \$30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal-dollar weighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. BX Options reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based Index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this Rule, BX Options will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) BX Options may rebalance any Micro Narrow-Based Index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

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

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that 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 may have an average daily trading volume of only 22,750 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) 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 daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

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

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

(10) If the 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 in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Options 4, Section 3.

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

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

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

(7) If the 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 in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(8) 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;

(9) 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;

(10) In a capitalization-weighted index and a modified 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;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;

(12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. BX Options reserves the right to rebalance quarterly at its discretion;

(13) In a modified equal-dollar weighted index BX Options will rebalance the index quarterly;

(14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Rule BX Options will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and

(15) In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless such failure is determined by BX Options 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.

### **Section 5. Dissemination of Information**

(a) BX Options shall disseminate, or shall assure that the current index value is disseminated, after the close of business and from time-to-time on days on which transactions in index options are made on BX OPTIONS.

(b) BX Options shall maintain, or shall assure that the current index value is maintained 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 current index value.

### **Section 6. Position Limits for Broad-Based Index Options**

(a) Options Participants shall comply with the following applicable rules:

(1) of the Chicago Board Options Exchange with respect to position limits for broad-based index options or with the applicable rules of BX Options for broad-based index options traded on BX Options but not traded on the Chicago Board Options Exchange;

(2) of Nasdaq PHLX LLC ("PHLX") with respect to position limits for PHLX proprietary products;

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value indices. For such purposes, ten reduced-value contracts shall equal one contract.

### **Section 7. Position Limits for Industry and Micro-Narrow Based Index Options**

(a) Options Participants shall comply with the applicable following rules:

(1) of the Chicago Board Options Exchange with respect to position limits for Industry and Micro-Narrow Based Index Options traded on BX Options and also on the Chicago Board Options Exchange or with the applicable rules of BX Options for industry index options traded on BX Options but not traded on the Chicago Board Options Exchange;

(2) of Nasdaq PHLX LLC ("PHLX") with respect to position limits for PHLX proprietary products;

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value index options. For such purposes, ten (10) reduced-value options shall equal one (1) full-value contract.

### **Section 8. Reserved**

### **Section 9. Exemptions from Position Limits**

An Options Participant may rely upon any available exemptions from applicable position limits granted from time to time by another Options Exchange for any options contract traded on BX Options provided that such Options Participant (1) provides BX Regulation with a copy of any written exemption issued by another Options Exchange or a written description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for BX Regulation to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to its trading on BX Options.

### **Section 10. Exercise Limits**

(a) In determining compliance with Options 9, Section 15 (Exercise Limits), exercise limits for index options contracts shall be equivalent to the position limits prescribed for options contracts with the nearest expiration date in Section 6 or Section 7 of Options 4A.

(b) For a market-maker granted an exemption to position limits pursuant to Options 9, Section 14 (Exemptions from Position Limits), the number of contracts that can be exercised over a five business day period shall equal the market-maker's exempted position.

(c) In determining compliance with exercise limits applicable to stock index options, options contracts on a stock index group shall not be aggregated with options contracts on an underlying stock or stocks included in such group, options contracts on one stock index group shall not be aggregated with options contracts on any other stock index group.

(d) With respect to index options contracts for which an exemption has been granted in accordance with the provisions of Section 14 of Options 9, the exercise limit shall be equal to the amount of the exemption.

### **Section 11. Trading Sessions**

(a) Days and Hours of Business. Except as otherwise provided in this Rule or under unusual conditions as may be determined by BX Regulation, transactions in index options may be effected on BX Options between the hours of 9:30 a.m. and 4:15 p.m. Eastern time. With respect to options on foreign indexes, BX Regulation shall determine the days and hours of business.

(b) To begin trading at 9:30 am, an opening shall be held in each class of index options as provided in Options 3, Section 8 (Opening and Halt Cross).

(c) Instituting Halts and Suspensions. Trading on BX Options in any index option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than twenty percent (20%), in the case of a broad based index, and ten percent (10%) for all other indices, of the index value is halted or suspended. BX Regulation also may halt trading in an index option when, in his or her judgment, such action is appropriate in the interests of a fair and orderly market and to protect investors. Among the facts that may be considered are the following:

(1) whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;

(2) whether the current calculation of the index derived from the current market prices of the stocks is not available;

(3) the extent to which the opening has been completed or other factors regarding the status of the opening; and

(4) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present, including, but not limited to, the activation of price limits on futures exchanges.

(d) Resumption of Trading Following a Halt or Suspension. Trading in options of a class or series that has been the subject of a halt or suspension by BX Regulation may resume if BX Regulation determines that the interests of a fair and orderly market are served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions that led to the halt or suspension are no longer present, and the extent to which trading is occurring in stocks underlying the index. At the end of a halt, trading in each class of index options shall resume as provided in Options 3, Section 9 of these Rules (Trading Halts).

(e) Circuit Breakers. Options 3, Section 6 of these Rules (Unusual Market Conditions) applies to index options trading with respect to the initiation of a market-wide trading halt commonly known as a "circuit breaker."

(f) Special Provisions for Foreign Indices. When the hours of trading of the underlying primary securities market for an index option do not overlap or coincide with those of BX Options, all of the provisions as described in paragraphs (c), (d) and (e) above shall not apply except for (c)(4).

(g) Pricing When Primary Market Does Not Open. When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, which is an expiration day, for the purposes of calculating the settlement price at expiration, the last reported sale price of the security from the previous trading day shall be used. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation.

## **Section 12. Terms of Index Options Contracts**

### **(a) General.**

(1) Meaning of Premium Bids and Offers. Bids and offers shall be expressed in terms of dollars and cents per unit of the index.

(2) Exercise Prices. BX Options shall determine fixed-point intervals of exercise prices for call and put options.

(3) Expiration Months. Index options contracts may expire at three (3)-month intervals or in consecutive months. BX Options may list up to six (6) expiration months at any one time, but will not list index options that expire more than twelve (12) months out.

(4) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day prior to the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the second business day preceding the expiration date. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Clearing Corporation, on the business day

of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last business day before its expiration date, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(i) In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Section 11(g) of this Options 4A, unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation; and

(ii) In the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on BX Options:

**(b) Long-Term Index Options Series.**

(1) Notwithstanding the provisions of paragraph (a)(3), above, BX Options may list long-term index options series that expire from nine (9) to sixty (60) months from the date of issuance.

(i) Index long term options series may be based on either the full or reduced value of the underlying index. There may be up to ten (10) expiration months, none further out than sixty (60) months. Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than nine (9) months.

(ii) When a new Index long term options series is listed, such series will be opened for trading either when there is buying or selling interest, or forty (40) minutes prior to the close, whichever occurs first. No quotations will be posted for such options series until they are opened for trading.

**(2) Reduced-Value Long Term Options Series.**

(i) Reduced-value long term options series may be approved for trading on Specified (as provided in Section 1 of Options 4A) indices.

(ii) Expiration Months. Reduced-value long term options series may expire at six-month intervals. When a new expiration month is listed, series may be near or bracketing the current index value. Additional series may be added when the value of the underlying index increases or decreases by ten (10) to fifteen (15) percent.

(c) Procedures for Adding and Deleting Strike Prices. The procedures for adding and deleting strike prices for index options are provided in Options 4, Section 6 of these Rules (Series of Options Contracts Open for Trading), as amended by the following:

(1) The interval between strike prices will be no less than \$5.00.

(2) New series of index options contracts may be added up to the fourth business day prior to the business day of expiration, or, in the case of an index option contract expiring on a day that is not a business day, up to the fifth business day prior to expiration.

(3) When new series of index options with a new expiration date are opened for trading, or when additional series of index options in an existing expiration date are opened for trading as the current value of the underlying index to which such series relate moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading. In the case of all classes of index options, the term "reasonably related to the current value of the underlying index" shall have the meaning set forth in paragraph (c)(4) below.

(4) Notwithstanding any other provision of this paragraph (c), BX Options may open for trading additional series of the same class of index options as the current index value of the underlying index moves substantially from the exercise price of those index options that already have been opened for trading on BX Options. The exercise price of each series of index options opened for trading on BX Options shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on BX Options. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within thirty percent (30%) of the current index value. BX Options may also open for trading additional series of index options that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision.

(d) Index Level. The reported level of the underlying index that is calculated by the reporting authority for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

(e) Index Values for Settlement. The Rules of the Clearing Corporation specify that, unless the BX Options Rules provide otherwise, the current index value used to settle the exercise of an index options contract shall be the closing index for the day on which the

index options contract is exercised in accordance with the Rules of the Clearing Corporation or, if such day is not a business day, for the most recent business day.

(f) Index Level at Expiration . With respect to any securities index on which options are traded on BX Options, the source of the prices of component securities used to calculate the current index level at expiration is determined by the reporting authority for that index.

(g)

(1) Quarterly Options Series Program. The Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either index options or options on exchange traded funds ("ETF"). In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar program under their respective rules. The Exchange may list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year.

(i) The Exchange will not list a Short Term Option Series on an options class the expiration of which coincides with that of a Quarterly Options Series on that same options class.

(ii) Quarterly Options Series shall be P.M. settled.

(iii) The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but not more than five, strike prices above and two, but not more than five, strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange may open for trading additional Quarterly Options Series of the same class if the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current index value of the underlying index moves substantially from the exercise price of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term "reasonably related to the current index value of the underlying index" means that the exercise price is within thirty percent (30%) of the current index value. The Exchange may also open for trading additional Quarterly Options Series that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as

expressed by institutional, corporate, or individual customers or their brokers. Market-makers trading for their own account shall not be considered when determining customer interest under this provision. The Exchange may open additional strike prices of a Quarterly Options Series that are above the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater than five. The Exchange may open additional strike prices of a Quarterly Options Series that are below the value of the underlying index provided that the total number of strike prices below the value of the underlying index is no greater than five. The opening of any new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(iv) The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

Except as otherwise provided, all Exchange rules applicable to stock index options will also be applicable to quarterly expiring index options listed pursuant to this section.

(h)

(1) **Short Term Option Series Program.** After an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire on the Friday of the following business week that is a business day ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(i) The Exchange may select up to thirty (30) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the thirty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each index option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to twenty (20) Short Term Option Series on index options for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(ii) No Short Term Option Series on an index option class may expire in the same week during which any monthly option series on the same index class expire or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same index class.

(iii) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the calculated value of the underlying index at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security or calculated index value). Any strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index.

(iv) If the Exchange has opened less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the current value of the underlying index moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current value of the underlying index provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate or individual customers or their brokers. Market-Makers trading for their own account shall not be considered when determining customer interest under this provision. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(v) The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same index option class that expire in accordance with the normal monthly expiration cycle.

### **Section 13. Debit Put Spread Cash Account Transactions**

Debit put spread positions in European-style, broad-based index options traded on BX Options (hereinafter "debit put spreads") may be maintained in a cash account as defined by Federal Reserve Board Regulation T Section 220.8 by a Public Customer, provided that the following procedures and criteria are met:

(a) The customer has received BX Regulation approval to maintain debit put spreads in a cash account carried by an Options Participant. A customer so approved is hereinafter referred to as a "spread exemption customer."

(b) The spread exemption customer has provided all information required on BX Options approved forms and has kept such information current.

(c) The customer holds a net long position in each of the stocks of a portfolio that has been previously established or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio. The debit put spread position must be carried in an account with a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(d) The stock portfolio or its equivalent is composed of net long positions in common stocks in at least four industry groups and contains at least twenty (20) stocks, none of which accounts for more than fifteen percent (15%) of the value of the portfolio (hereinafter "qualified portfolio"). To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity in the stocks.

(e) The exemption applies to European-style broad-based index options dealt in on BX Options to the extent the underlying value of such options position does not exceed the unhedged value of the qualified portfolio. The unhedged value would 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) A debit put spread in BX Options -traded broad-based index options with European-style exercises is defined as 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) expires 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 will be permitted in the cash account as long as it is continuously associated with a qualified portfolio of securities with a current market value at least equal to the underlying aggregate index value of the long side of the debit put spread.

(g) The qualified portfolio must be maintained with either an Options Participant, another broker-dealer, a bank, or securities depository.

(h) The spread exemption customer shall agree promptly to provide BX Regulation any information requested concerning the dollar value and composition of the customer's stock portfolio, and the current debit put spread positions.

(1) The spread exemption customer shall agree to and any Options Participant carrying an account for the customer shall:

- (i) comply with all BX Options Rules and regulations;
- (ii) liquidate any debit put spreads prior to or contemporaneously with a decrease in the market value of the qualified portfolio, which debit put spreads would thereby be rendered excessive; and
- (iii) promptly notify BX Regulation of any change in the qualified portfolio or the debit put spread position which causes the debit put spreads maintained in the cash account to be rendered excessive.

(i) If any Options Participant carrying a cash account for a spread exemption customer with a debit put spread position dealt in on BX Options has a reason to believe that as a result of an opening options transaction the customer would violate this spread exemption, and such opening transaction occurs, then the Options Participant has violated this Rule.

(j) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the spread exemption and may form the basis for subsequent denial of an application for a spread exemption hereunder.

#### **Section 14. Disclaimers**

(a) Applicability of Disclaimers. The disclaimers in paragraph (b) below shall apply to the reporting authorities identified in Supplementary Material .01 to Options 4A, Section 2.

(b) Disclaimer. No reporting authority, and no affiliate of a reporting authority (each such reporting authority, its affiliates, and any other entity identified in this Rule are referred to collectively as a "Reporting Authority"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of an index it publishes, any opening, intra-day or closing value therefore, or any data included therein or relating thereto, in connection with the trading of any options contract based thereon or for any other purpose. The Reporting Authority shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the Reporting Authority does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefore, or any data included therein or related thereto. The Reporting Authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such index, any opening, intra-day, or closing value therefore, any data included therein or relating thereto, or any options contract based thereon. The Reporting Authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefore, any data included therein or relating thereto, or any options contract based thereon, or arising out of any errors or delays in calculating or disseminating such index.

**Section 15. Exercise of American-style Index Options**

No Options Participant may prepare, time stamp or submit an exercise instruction for an American-style index options series if the Options Participant knows or has reason to know that the exercise instruction calls for the exercise of more contracts than the then "net long position" of the account for which the exercise instruction is to be tendered. For purposes of this Rule: (i) the term "net long position" shall mean the net position of the account in such option at the opening of business of the day of such exercise instruction, plus the total number of such options purchased that day in opening purchase transactions up to the time of exercise, less the total number of such options sold that day in closing sale transactions up to the time of exercise; (ii) the "account" shall be the individual account of the particular customer, market-maker or "non-customer" (as that term is defined in the By-Laws of the Clearing Corporation) who wishes to exercise; and (iii) every transaction in an options series effected by a market-maker in a market-maker's account shall be deemed to be a closing transaction in respect of the market-maker's then positions in such options series. No Options Participant may adjust the designation of an "opening transaction" in any such option to a "closing transaction" except to remedy mistakes or errors made in good faith.

**Section 16. Reserved****Options 5 [Options Trade Administration] Order Protection and Locked and Crossed Markets****[Section 100 Exercises and Deliveries****Section 101 Exercise of Options Contracts**

(a) Subject to the restrictions set forth in Chapter III, Section 9 of these Rules (Exercise Limits) and to such restrictions as may be imposed pursuant to Chapter III, Section 12 of these Rules (Other Restrictions on Options Transactions and Exercises) or pursuant to the Rules of the Clearing Corporation, an outstanding options contract may be exercised during the time period specified in the Rules of the Clearing Corporation by the tender to the Clearing Corporation of an exercise notice in accordance with the Rules of the Clearing Corporation. An exercise notice may be tendered to the Clearing Corporation only by the Clearing Participant in the account of which such options contract is carried with the Clearing Corporation. Participants may establish fixed procedures as to the latest time they will accept exercise instructions from customers.

(b) Special procedures apply to the exercise of equity options on the business day of their expiration, or in the case of option contracts expiring on a day that is not a business day, on the last business day before their expiration ("expiring options"). Unless waived by The Options Clearing Corporation (also known in this Rule as the Clearing Corporation), expiring options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under Clearing Corporation Rule 805. This Rule provides that, unless contrary instructions are given, option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to the Rules of the Clearing Corporation, the following Exchange

requirements apply with respect to expiring options. Option holders desiring to exercise or not exercise expiring options must either:

- (1) take no action and allow exercise determinations to be made in accordance with the Clearing Corporation's Ex-by-Ex procedure where applicable; or
- (2) submit a "Contrary Exercise Advice" to the Exchange as specified in paragraph (d) below.

(c) Exercise cut-off time. Option holders have until 5:30 p.m. Eastern Time on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day immediately prior to the expiration date, to make a final decision to exercise or not exercise an expiring option. Participants may not accept exercise instructions for customer or non-customer accounts after 5:30 p.m. Eastern Time.

(d) Submission of Contrary Exercise Advices. A Contrary Exercise Advice is a communication either: (i) to not exercise an option that would be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure, or (ii) to exercise an option that would not be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure.

A Contrary Exercise Advice may be submitted by a Participant by using the Clearing Corporation's ENCORE system, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a Participant and where the option is listed, or such other method as the Exchange may prescribe. A Contrary Exercise Advice may be canceled by filing an Advice Cancel at any time up to the submission cut-off times specified below.

For customer accounts, Participants have until 7:30 p.m. Eastern Time to submit a Contrary Exercise Advice to the Exchange.

For noncustomer accounts, Participants have until 7:30 p.m. Eastern Time to submit a Contrary Exercise Advice to the Exchange if such Participant employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Participants are required to manually submit a Contrary Exercise Advice by 5:30 p.m. for non-customer accounts if such Participants do not employ an electronic submission procedure with time stamp for the submission of exercise instructions by option holders.

(e) If the Clearing Corporation has waived the Ex-by-Ex procedure for an options class, Participants must either:

- (1) submit to the Exchange, a Contrary Exercise Advice, in a manner specified by the Exchange, within the time limits specified in paragraph (d) above if the holder intends to exercise the option; or

(2) take no action and allow the option to expire without being exercised. In cases where the Ex-by-Ex procedure has been waived, the Rules of the Clearing Corporation require that Participants wishing to exercise such options must submit an affirmative Exercise Notice to the Clearing Corporation, whether or not a Contrary Exercise Advice has been filed with the Exchange.

(f) A Participant that has accepted the responsibility to indicate final exercise decisions on behalf of another Participant or non-Participant broker-dealer shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such Participant may establish a processing cut-off time prior to the Exchange's exercise cutoff time at which it will no longer accept final exercise decisions in expiring options from option holders for whom it indicates final exercise decisions. Each Participant that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are indicated in a timely manner to such brokerdealer.

(g) Notwithstanding the foregoing, Participants may make final exercise decisions after the exercise cutoff time but prior to expiration without having submitted a Contrary Exercise Advice in the circumstances listed below. A memorandum setting forth the circumstance giving rise to instructions after the exercise cutoff time shall be maintained by the Participant and a copy thereof shall be filed with the Exchange no later than 12:00 noon Eastern Time on the first business day following the respective expiration. An exercise decision after the exercise cut-off time may be made:

- (1) in order to remedy mistakes or errors made in good faith; or
- (2) where exceptional circumstances have restricted an option holder's ability to inform a Participant of a decision regarding exercise, or a Participant's ability to receive an option holder's decision by the cut-off time. The burden of establishing any of the above exceptions rests solely on the Participant seeking to rely on such exceptions.

(h) In the event the Exchange provides advance notice on or before 5:30 p.m. Eastern Time on the business day immediately prior to the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, the second business day immediately prior to the expiration date indicating that a modified time for the close of trading in equity options on such business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. Eastern Time deadline found in Paragraph (c) of this Section 101. However, Participants have until 7:30 Eastern Time to deliver a Contrary Exercise Advice or Advice Cancel to the Exchange for customer accounts and noncustomer accounts where such Participant employs an electronic submission procedure with time stamp for the submission of exercise instructions. For

non-customer accounts, Participants that do not employ an electronic procedure with time stamp for the submission of exercise instructions are required to deliver a Contrary Exercise Advice or Advice Cancel within 1 hour and 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. Eastern Time deadline found in Paragraph (d) of this Section 101.

(i) Modification of cut-off time.

- (1) The Exchange may establish extended cut-off times for decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances. For purposes of this subparagraph (i)(1), an "unusual circumstance" includes, but is not limited to, increased market volatility; significant order imbalances; significant volume surges and/or systems capacity constraints; significant spreads between the bid and offer in underlying securities; internal system malfunctions affecting the ability to disseminate or update market bids and offers and/or execute or route orders; or other similar occurrences.
- (2) The Exchange with at least one (1) business day prior advance notice, by 12:00 noon on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a Contrary Exercise Advice be before the close of trading. For purposes of this subparagraph (i) (2), an "unusual circumstance" includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day the option contract expires, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to expiration.

(j) Submitting or preparing an exercise instruction, contrary exercise advice or advice cancel after the applicable exercise cut-off time in any expiring options on the basis of material information released after the cut-off time is activity inconsistent with just and equitable principles of trade.

(k) The failure of any Participant to follow the procedures in this Section 101 may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.

(l) Clearing Participants must follow the procedures of the Clearing Corporation when exercising American-style cash-settled index options contracts issued or to be issued in any account at the Clearing Corporation. Options Participants must also follow the procedures set forth below with respect to American-style cash-settled index options:

- (1) For all contracts exercised by the Options Participant or by any customer of the Options Participant, an "exercise advice" must be delivered by the Options Participant in such form or manner prescribed by the Exchange no later than 4:20 p.m. Eastern Time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.
- (2) Subsequent to the delivery of an "exercise advice," should the Options Participant or a customer of the Options Participant determine not to exercise all or part of the advised contracts, the Options Participant must also deliver an "advice cancel" in such form or manner prescribed by the Exchange no later than 4:20 p.m. Eastern Time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.
- (3) The Exchange may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph (1) if unusual circumstances are present.
- (4) No Options Participant may prepare, time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the Options Participant knew or had reason to know that the contracts had not yet been purchased.
- (5) The failure of any Options Participant to follow the procedures in this paragraph (1) may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.
- (6) Preparing or submitting an "exercise advice" or "advice cancel" after the applicable deadline on the basis of material information released after such deadline, in addition to constituting a violation of this Rule, is activity inconsistent with just and equitable principles of trade.
- (7) The procedures set forth in subparagraphs (1)-(2) of this subparagraph (1) do not apply (A) on the business day prior to expiration in series expiring on a day other than a business day or (B) on the expiration day in series expiring on a business day.
- (8) Exercises of American-style, cash-settled index options (and the submission of corresponding "exercise advice" and "advice cancel" forms) shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:
  - (A) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by the Exchange, that

the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension.

- (B) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of index option contracts expiring on a day that is not a business day, the last business day prior to their expiration.
- (C) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern Time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern Time. In addition, if trading resumes following such a trading halt (pursuant to the procedure described in Section 8 of Chapter V of these Rules (Opening the Market)), exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph 3) are subject to the authority of the Exchange to impose restrictions on transactions and exercises pursuant to Section 14 of Chapter III of these Rules (Limit on Outstanding Uncovered Short Positions).
- (D) The Exchange may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

### ***Commentary***

**.01** For purposes of this Section 101, the terms "customer account" and "non-customer account" have the same meaning as defined in the Clearing Corporation By-Laws Article I(C)(28) and Article I(N)(2), respectively

**.02** Each Participant shall prepare a memorandum of every exercise instruction received showing the time when such instruction was so received. Such memoranda shall be subject to the requirements of SEC Rule 17a-4(b).

**.03** Reserved.

**.04** Each Participant shall establish fixed procedures to insure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

**.05** The filing of a Contrary Exercise Advice required by this Section 101 does not serve to substitute as the effective notice to the Clearing Corporation for the exercise or non-exercise of expiring options.

### **Section 102 Allocation of Exercise Notices**

(a) Each Options Participant shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in such Options Participant's customers'

accounts. The allocation shall be on a "first in, first out," or automated random selection basis that has been approved by the Exchange, or on a manual random selection basis that has been specified by the Exchange. Each Options Participant shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' account, explaining its manner of operation and the consequences of that system.

(b) Each Options Participant shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no Options Participant shall change its method of allocation unless the change has been reported to and approved by the Exchange. The requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another SRO having comparable standards pertaining to methods of allocation.

(c) Each Options Participant shall preserve for a three-year period sufficient work papers and other documentary materials relating to the allocation of exercise notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

### **Section 103 Delivery and Payment**

(a) Delivery of the underlying security upon the exercise of an options contract, and payment of the aggregate exercise price in respect thereof, shall be in accordance with the Rules of the Clearing Corporation.

(b) As promptly as possible after the exercise of an options contract by a customer, the Options Participant shall require the customer to make full cash payment of the aggregate exercise price in the case of a call options contract, or to deposit the underlying security in the case of a put options contract, or to make the required margin deposit in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, the provisions of Chapter XIII of these Rules, and the applicable regulations of the Federal Reserve Board.

(c) As promptly as practicable after the assignment to a customer of an exercise notice the Options Participant shall require the customer to deposit the underlying security in the case of a call options contract if the underlying security is not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put options contract, or in either case to deposit the required margin in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, the provisions of Chapter XIII of these Rules, and the applicable regulations of the Federal Reserve Board.

(d) In accordance with the applicable rules of The Options Clearing Corporation ("OCC"), upon exercise of an in-the-money U.S. Dollar-Settled Foreign Currency option structured as a call, the holder receives, from OCC, U.S. dollars representing the difference between the exercise strike price and the closing settlement value of the U.S. Dollar-Settled Foreign Currency options contract multiplied by the number of units of currency covered by the contract. For a U.S. Dollar-Settled Foreign Currency option structured as a put, the holder receives U.S. dollars representing the excess of the exercise

price over the closing settlement value of the U.S. Dollar- Settled Foreign Currency option contract multiplied by the number of units of foreign currency covered by the contract.]

### **Section 1. Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of this Options 5:

- (1) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.
- (2) "Bid" or "Offer" means the bid price or the offer price communicated by a member of an Eligible Exchange to any Broker/Dealer, or to any customer, at which it is willing to buy or sell, as either principal or agent, but shall not include indications of interest.
- (3) "Broker/Dealer" means an individual or organization registered with the SEC in accordance with Section 15(b)(1) of the Exchange Act or a foreign broker or dealer exempt from such registration pursuant to Rule 15a-6 under the Exchange Act.
- (4) "Complex Trade" means: (i) the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different option series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular investment strategy; or (ii) the execution of a stock-option order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.
- (5) "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.
- (6) "Customer" means an individual or organization that is not a Broker/Dealer.
- (7) "Eligible Exchange" means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

(8) "Intermarket Sweep Order (ISO)" means a limit order for an options series that meets the following requirements:

(a) When routed to an Eligible Exchange, the order is identified as an ISO;

(b) Simultaneously with the routing of the order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.

(9) "Locked Market" means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an Eligible Options Class.

(10) "NBBO" means the national best bid and offer in an option series as calculated by an Eligible Exchange.

(11) "Non-Firm" means, with respect to quotations, that Members of an Eligible Exchange are relieved of their obligation to be firm for their quotations pursuant to Rule 602 under the Exchange Act.

(12) "OCC" means The Options Clearing Corporation.

(13) "OPRA" means the Options Price Reporting Authority.

(14) "OPRA Plan" means the plan filed with the SEC pursuant to Section 11Aa(1)(C)(iii) of the Exchange Act, approved by the SEC and declared effective as of January 22, 1976, as from time to time amended.

(15) "Participant" means an Eligible Exchange whose participation in the Plan has become effective pursuant to Section 3(c) of the Plan.

(16) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.

(17) "Protected Bid" or "Protected Offer" means a Bid or Offer in an options series, respectively, that:

(a) Is disseminated pursuant to the OPRA Plan; and

(b) Is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.

(18) "Protected Quotation" means a Protected Bid or Protected Offer.

(19) "Quotation" means a Bid or Offer.

(20) "Trade-Through" means a transaction in an options series at a price that is lower than a Protected Bid or higher than a Protected Offer.

## **Section 2. Order Protection**

(a) Avoidance of Trade-Throughs. Except as provided in paragraphs (b) and (c) below, Members shall not effect Trade-Throughs.

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

(1) If an Eligible Exchange repeatedly fails to respond within one second to incoming orders attempting to access its Protected Quotations, the Exchange may bypass those Protected Quotations by:

(i) Notifying the non-responding Eligible Exchange immediately after (or at the same time as) electing self-help; and

(ii) Assessing whether the cause of the problem lies with its own systems and, if so, taking immediate steps to resolve the problem;

Any time a determination to bypass Protected Quotations of an Eligible Exchange is made pursuant to this sub-paragraph, the Exchange must promptly document the reasons supporting such determination.

(2) The transaction traded through a Protected Quotation being disseminated by an Eligible Exchange during a trading rotation;

(3) The transaction that constituted the Trade-Through occurred when there was a Crossed Market;

(4) The transaction that constitutes the Trade-Through is the execution of an order identified as an ISO;

(5) The transaction that constitutes the Trade-Through is effected by the Exchange while simultaneously routing an ISO to execute against the full displayed size of any better-priced Protected Quotation;

(6) The Eligible Exchange displaying the Protected Quotation that was traded through had displayed, within one second prior to execution of the Trade-Through, a Best bid or Best offer, as applicable, for the options series with a price that was equal or inferior to the price of the Trade-Through transaction;

(7) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;

(8) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;

(9) The transaction that constituted the Trade-Through was the execution of an order for which, at the time of receipt of the order, a Member had guaranteed an execution at no worse than a specified price (a "stopped order"), where:

(i) the stopped order was for the account of a Customer;

(ii) the Customer agreed to the specified price on an order-by-order basis; and

(iii) the price of the Trade-Through was, for a stopped buy order, lower than the national Best Bid in the options series at the time of execution, or, for a stopped sell order, higher than the national Best Offer in the options series at the time of execution;

(10) The transaction that constituted the Trade-Through was the execution of an order that was stopped at a price that did not Trade-Through an Eligible Exchange at the time of the stop; or

(11) The transaction that constituted the Trade-Through was the execution of an order at a price that was not based, directly or indirectly, on the quoted price of the options series at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

### **Section 3. Locked and Crossed Markets**

(a) Prohibition. Except for quotations that fall within the provisions of paragraph (b) of this Rule, Members shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying, any quotations that lock or cross a Protected Quotation.

(b) Exceptions.

(1) The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment;

(2) The locking or crossing quotation was displayed at a time when there is a Crossed Market; or

(3) The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

### **Section 4 Order Routing**

(a) BX offers two routing strategies, SEEK and SRCH. Each of these routing strategies will be explained in more detail below. An order may in the alternative be marked Do

Not Route or “DNR”. The Exchange notes that for purposes of this Rule the System will route SEEK and SRCH Orders with no other contingencies. Immediate or Cancel (“IOC”) Orders will be cancelled immediately if not executed, and will not be routed. The System checks the Order Book for available contracts for potential execution against the SEEK or SRCH Orders. After the System checks the Order Book for available contracts, orders are sent to other available market centers for potential execution. When checking the Order Book, the System will seek to execute at the price at which it would send the order to an away market. For purposes of this Rule, a Route Timer shall not exceed one second and shall begin at the time orders are accepted into the System, and the System will consider whether an order can be routed at the conclusion of each Route Timer. Finally, for purposes of this Rule, “exposure” or “exposing” an order shall mean a notification sent to participants with the price, size, and side of interest that is available for execution. Exposure notifications will be sent to participants in accordance with the routing procedures described in Options 5, Section 4(a)(iii) below except if an incoming order is joining an already established BBO price when the ABBO is locked or crossed with the BBO, in which case such order will join the established BBO price and no exposure notification will be sent. An order exposure will be sent if the order size is modified. For purposes of this Rule BX’s opening process is governed by Options 3, Section 8 and includes an opening after a trading halt (“Opening Process”). Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The term “System routing table” refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The order routing process shall be available to Participants from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Participants can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Options 5, Options Order Protection and Locked and Crossed Market Rules.

(i) **Priority of Routed Orders.** Orders sent to other markets do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.

(ii) Options Participants whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on the Exchange.

(A) BX Options shall route orders in options via Nasdaq Execution Services, LLC (“NES”), a broker-dealer that is a member of an unaffiliated SRO which is the designated examining authority for the broker-dealer. NES serves as the Routing Facility of BX Options. The sole function of the Routing Facility will be to route orders in options listed and open for trading on BX Options to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to BX Options rules on behalf of BX Options. The Exchange and NES may not use a routing broker for which the Exchange or any affiliate of the Exchange is the designated examining authority. The Routing Facility is subject to regulation as a facility of BX, including the requirement to file proposed rule changes under Section 19 of the Act.

(B) Use of NES to route orders to other market centers is optional. Parties that do not desire to use NES must designate orders as not available for routing (a DNR Order, as described in subparagraph(iii)(A) below).

(C) BX Options shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and its facilities (including the Routing Facility), and any other entity; or, where there is a routing broker, the Exchange, the Routing Facility and any routing broker, and any other entity, including any affiliate of the routing broker (and if the routing broker or any of its affiliates engages in any other business activities other than providing routing services to the Exchange, between the segment of the routing broker or affiliate that provides the other business activities and the segment of the routing broker that provides the routing services).

(D) The books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of the Exchange, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of the Exchange for purposes of and subject to oversight pursuant to the Exchange Act. The books and records of the Routing Facility, as a facility of the Exchange, shall be subject at all times to inspection and copying by the Exchange and the Commission.

(E) *Market Access.* In addition to the Exchange Rules regarding routing to away trading centers, NES has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by NES to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel the order if it has been routed.

(F) The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (f) below, the routing broker(s) cannot change the terms of an order or the routing instructions, nor does the routing broker have any discretion about where to route an order.

(iii) The following order types are available:

(A) **DNR Order.** A DNR Order will never be routed outside of BX regardless of the prices displayed by away markets. A DNR Order may execute on the Exchange at a price equal to or better than, but not inferior to, the best away market price but, if that best away market remains, the DNR Order will remain in the BX Order Book and be displayed at a price one minimum price variation (“MPV”) inferior to that away best bid/offer. If the DNR Order is locking or crossing the ABBO, the DNR Order shall be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. The Exchange shall immediately expose the order at the ABBO to participants, provided the option series has opened for trading. Any incoming order interacting with such a resting DNR Order will execute at the ABBO price, unless the ABBO is improved to a price which crosses the DNR’s displayed price, in which case the incoming order will execute at the previous ABBO price. Should the best away market change its price to an inferior price level, the DNR Order will automatically re-price from its one MPV inferior to the original away best bid/offer price to one minimum trading increment away from the new away best bid/offer price or its original limit price, and expose such orders at the ABBO to participants only if the re-priced order locks or crosses the ABBO. Once priced at its original limit price, it will remain at that price until executed or cancelled. Should the best away market improve its price such that it locks or crosses the DNR Order limit price, the Exchange will execute the resulting incoming order that is routed from the away market that locked or crossed the DNR Order limit price.

(B) **SEEK Order.** SEEK is a routing option pursuant to which an order will first check the System for available contracts for execution, and then is sent to other available market centers for potential execution. Orders initiate their own route timers and are routed in the order in which their route timers end.

(1) If a SEEK is received during an Opening Process it may route as part of the Opening Cross pursuant to Options 3, Section 8(b)(7).

(2) If a SEEK Order is received after an Opening Process and it is marketable against the ABBO when the ABBO is better than the displayed Exchange BBO, a Route Timer will initiate and expose the SEEK Order at the ABBO to allow market participants an opportunity to interact with the remainder of the SEEK Order. During the Route Timer, the SEEK Order will be included in the displayed Exchange BBO, unless the SEEK Order

locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO.

(3) If during the Route Timer in subparagraph (2) above any new interest arrives opposite the SEEK order that is equal to or better than the ABBO price, the SEEK Order will trade against such new interest at the ABBO price. If during the Route Timer, the ABBO moves and crosses the SEEK Order, any new interest arrives opposite the SEEK Order that is marketable against the SEEK Order will trade at the SEEK Order price. When checking the Order Book, the System will seek to execute at the price at which it would send the order to a destination market center. Eligible unexecuted orders will continue to be routed as described in subparagraph (B)(2).

(4) If contracts remain unexecuted after routing, they are posted on the Order Book at its limit price. While on the Order Book at the limit price, should the order subsequently be locked or crossed by another market center, the System will not re-expose or route the order to the locking or crossing market center.

(5) SEEK Orders will not be eligible for routing until the next time the option series is subject to a new Opening Process.

(C) **SRCH Order.** SRCH Order is a routing option pursuant to which an order will first check the System for available contracts for execution, and then is sent to other available market centers for potential execution. Orders initiate their own route timers and are routed in the order in which their route timers end.

(1) If a SRCH Order is received during an Opening Process it may route as part of the Opening Cross pursuant to Options 3, Section 8(b)(7). A SRCH Order received after the Opening Process that is marketable against the ABBO when the ABBO is better than the displayed Exchange BBO will initiate a Route Timer and expose the SRCH Order at the ABBO to allow market participants an opportunity to interact with the remainder of the SRCH Order.

(2) During the Route Timer described in subparagraph (1), the SRCH Order will be included in the displayed Exchange BBO, unless the SRCH Order locks or crosses the ABBO, in which case it will be entered into the Order Book at the ABBO price and displayed one MPV away from the ABBO. If there exists a locked market upon receipt of the SRCH Order, the SRCH Order may display at the locked ABBO price.

(3) If, during the Route Timer described in subparagraph (1), any new interest arrives opposite the SRCH Order that is equal to or better than the ABBO price, the SRCH order will trade against such new interest at the

ABBO price. If during the Route Timer, the ABBO moves and crosses the SRCH Order, any new interest arrives opposite the SRCH Order that is marketable against the SRCH Order will trade at the SRCH Order price. When checking the Order Book, the System will seek to execute at the price at which it would send the order to a destination market center. Eligible unexecuted orders will continue to be routed as described in subparagraph (C)(1).

(4) If contracts remain un-executed after routing, they are posted on the Order Book at its limit price. While on the Order Book at the limit price, should the order subsequently be locked or crossed by another market center, the order will not re-expose and may route at the end of route timer.

### **Section 5. Cancellation of Orders and Error Account.**

(a) The Exchange or NES may cancel orders as either deems to be necessary to maintain fair and orderly markets if a technical or systems issue occurs at the Exchange, NES, or a routing destination. The Exchange or NES shall provide notice of the cancellation to affected Members as soon as practicable.

(b) NES shall maintain an error account for the purpose of addressing positions that result from a technical or systems issue at NES, the Exchange, a routing destination, or a non-affiliate third-party Routing Broker that affects one or more orders ("error positions").

(1) For purposes of this Rule an error position shall not include any position that results from an order submitted by a Member to the Exchange that is executed on the Exchange and automatically processed for clearance and settlement on a locked-in basis.

(2) Except as provided in paragraph 3 below, NES shall not (i) accept any positions in its error account from an account of a Member, or (ii) permit any Member to transfer any positions from the Member's account to NES's error account.

(3) If a technical or systems issue results in the Exchange not having valid clearing instructions for a Member to a trade, NES may assume that Member's side of the trade so that the trade can be automatically processed for clearance and settlement on a locked-in basis.

(c) In connection with a particular technical or systems issue, NES or the Exchange shall either (i) assign all resulting error positions to Members in accordance with subparagraph (A) below, or (ii) have all resulting error positions liquidated in accordance with subparagraph (B) below. Any determination to assign or liquidate error positions, as well as any resulting assignments, shall be made in a nondiscriminatory fashion.

(A) NES or the Exchange shall assign all error positions resulting from a particular technical or systems issue to the Members affected by that technical or systems issue if NES or the Exchange:

(i) determines that it has accurate and sufficient information (including valid clearing information) to assign the positions to all of the Members affected by that technical or systems issue;

(ii) determines that it has sufficient time pursuant to normal clearance and settlement deadlines to evaluate the information necessary to assign the positions to all of the Members affected by that technical or systems issue; and

(iii) has not determined to cancel all orders affected by that technical or systems issue in accordance with paragraph (a) above.

(B) If NES or the Exchange is unable to assign all error positions resulting from a particular technical or systems issue to all of the affected Members in accordance with subparagraph (A) above, or if NES or the Exchange determines to cancel all orders affected by the technical or systems issue in accordance with subparagraph (a) above, then NES shall liquidate the error positions as soon as practicable. NES shall:

(i) provide complete time and price discretion for the trading to liquidate the error positions to a third-party broker-dealer and shall not attempt to exercise any influence or control over the timing or methods of such trading; and

(ii) establish and enforce policies and procedures that are reasonably designed to restrict the flow of confidential and proprietary information between the third-party broker-dealer and NES/the Exchange associated with the liquidation of the error positions.

(d) NES and the Exchange shall make and keep records to document all determinations to treat positions as error positions and all determinations for the assignment of error positions to Members or the liquidation of error positions, as well as records associated with the liquidation of error positions through the third-party broker-dealer.

## **Options 6 Options Trade Administration[Order Protection and Locked and Cross Markets]**

### **Section 1. Authorization to Give Up**

(a) General. All transactions will automatically clear through the Participant's guarantor at the time of the trade. For each transaction in which a Participant participates, the Participant may indicate, through post-trade allocation, any Options Clearing Corporation ("OCC") number of a Clearing Participant through which a transaction will be cleared ("Give Up"), provided the Clearing Participant has not elected to Opt In, as defined and described in paragraph (b) below, and restrict one or more of its OCC number(s)

(“Restricted OCC Number”). A Participant may Give Up a Restricted OCC Number provided the Participant has written authorization as described in paragraph (b)(ii) below (“Authorized Participant”).

(b) *Opt In.* Clearing Participants may request the Exchange restrict one or more of their OCC clearing numbers (“Opt In”) as described in subparagraph (i) below. If a Clearing Participant Opts In, the Exchange will require written authorization from the Clearing Participant permitting a Participant to Give Up a Clearing Participant’s Restricted OCC Number. An Opt In would remain in effect until the Clearing Participant terminates the Opt In as described in subparagraph (iii) below. If a Clearing Participant does not Opt In, that Clearing Participant’s OCC number would be subject to Give Up by any Participant.

(i) *Clearing Participant Process to Opt In.* A Clearing Participant may Opt In by sending a completed “Clearing Member Restriction Form” listing all Restricted OCC Numbers and Authorized Participants. A Clearing Participant may elect to restrict one or more OCC clearing numbers that are registered in its name at OCC. The Clearing Participant would be required to submit the Clearing Member Restriction Form to the Exchange’s Membership Department as described on the form. Once submitted, the Exchange requires ninety days before a Restricted OCC Number is effective within the System.

(ii) *Participant Give Up Process for Restricted OCC Numbers.* A Participant desiring to Give Up a Restricted OCC Number must become an Authorized Participant. The Clearing Participant will be required to authorize a Participant as described in subparagraph (i) or (iii), unless the Restricted OCC Number is already subject to a Letter of Guarantee that the Participant is a party to, as set forth in paragraph (d) below.

(iii) *Amendments to Authorized Participants or Restricted OCC Numbers.* A Clearing Participant may amend its Authorized Participants or Restricted OCC Numbers by submitting a new Clearing Member Restriction Form to the Exchange’s Membership Department indicating the amendment as described on the form. Once a Restricted OCC Number is effective within the System pursuant to paragraph (i) above, the Exchange may permit the Clearing Participant to authorize, or remove authorization for, a Participant to Give Up the Restricted OCC Number intra-day only in unusual circumstances, and on the next business day in all regular circumstances. The Exchange will promptly notify Participants if they are no longer authorized to Give Up a Clearing Participant’s Restricted OCC Number. If a Clearing Participant removes a Restricted OCC Number, any Participant may Give Up that OCC clearing number once the removal has become effective on or before the next business day.

(c) *System.* The System will not allow an unauthorized Give Up with a Restricted OCC Number to be submitted at the firm mnemonic level at the point of order entry.

(d) Letter of Guarantee. A clearing arrangement subject to a Letter of Guarantee would immediately permit the Give Up of a Restricted OCC Number by the Participant that is party to the arrangement.

(e) An intentional misuse of this rule is impermissible, and may be treated as a violation of General 9, Section 1 and Options 9, Section 2.

### **Section 2. Submission for Clearance**

(a) All options transactions effected on BX Options shall be submitted for clearance to the Clearing Corporation, and all such transactions shall be subject to the Rules of the Clearing Corporation. Every Clearing Participant shall be responsible for the clearance of BX Options Transactions of such Clearing Participant and of each Options Participant that gives up such Clearing Participant's name pursuant to a Letter of Guarantee, written authorization to become an Authorized Member under Options 6, Section 1, or other authorization given by such Clearing Participant to such Options Participant, which authorization must be submitted to BX.

(b) On each business day at or prior to such time as may be prescribed by the Clearing Corporation, BX Options shall furnish the Clearing Corporation a report of each Clearing Participant's matched trades.

### **Section 3. Reserved**

### **Section 4. Letters of Guarantee**

(a) Required of Each Options Participant. No Options Participant shall make any transactions on BX Options unless a Letter of Guarantee has been issued for such Participant by a Clearing Participant and filed with BX Regulation, and unless such Letter of Guarantee has not been revoked pursuant to paragraph (c) of this Rule.

(b) Terms of Letter of Guarantee. A Letter of Guarantee shall provide that the issuing Clearing Participant accepts financial responsibilities for all BX Options Transactions made by the guaranteed Participant.

(c) Revocation of Letter of Guarantee. A Letter of Guarantee filed with BX Regulation shall remain in effect until a written notice of revocation has been filed with BX Regulation by the Guarantor Clearing Participant. A revocation shall in no way relieve a Clearing Participant of responsibility for transactions guaranteed prior to the effective date of such revocation.

### **Options 6A Closing Transactions**

#### **Section 1. Contracts of Suspended Participants**

(a) When an Options Participant, other than a Clearing Participant, is suspended pursuant to Chapter X of these Rules (Summary Suspension), all open short positions of the suspended Options Participant in options contracts and all open positions resulting from exercise of options contracts, other than positions that are secured in full by a specific

deposit or escrow deposit in accordance with the Rules of the Clearing Corporation, shall be closed without unnecessary delay by all Participants carrying such positions for the account of the suspended Participant; provided that BX Regulation may cause the foregoing requirement to be temporarily waived for such period as it may determine if it shall deem such temporary waiver to be in the interest of the public or the other Participants of BX Options.

(b) No temporary waiver hereunder by BX Regulation shall relieve the suspended Options Participant of its obligations or of damages, nor shall it waive the close out requirements of any other Rules.

(c) When a Clearing Participant is suspended pursuant to Chapter X (Summary Suspension) of these Rules, the positions of such Clearing Participant shall be closed out in accordance with the Rules of the Clearing Corporation.

### **Section 2. Failure to Pay Premium**

(a) When the Clearing Corporation shall reject a BX Options Transaction because of the failure of the Clearing Participant acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Options Participant acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Participant or to enter into a closing writing transaction in respect of the same options contract that was the subject of the rejected BX Options Transaction for the account of the defaulting Clearing Participant.

(b) Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. EST on the business day following the day the BX Options Transaction was rejected by the Clearing Corporation.

### **Options 6B Exercises and Deliveries**

#### **Section 1. Exercise of Options Contracts**

(a) Subject to the restrictions set forth in Options 9, Section 15 of these Rules (Exercise Limits) and to such restrictions as may be imposed pursuant to Options 9, Section 19 of these Rules (Other Restrictions on Options Transactions and Exercises) or pursuant to the Rules of the Clearing Corporation, an outstanding options contract may be exercised during the time period specified in the Rules of the Clearing Corporation by the tender to the Clearing Corporation of an exercise notice in accordance with the Rules of the Clearing Corporation. An exercise notice may be tendered to the Clearing Corporation only by the Clearing Participant in the account of which such options contract is carried with the Clearing Corporation. Participants may establish fixed procedures as to the latest time they will accept exercise instructions from customers.

(b) Special procedures apply to the exercise of equity options on the business day of their expiration, or in the case of option contracts expiring on a day that is not a business day, on the last business day before their expiration ("expiring options"). Unless waived by The Options Clearing Corporation (also known in this Rule as the Clearing Corporation), expiring options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under

Clearing Corporation Rule 805. This Rule provides that, unless contrary instructions are given, option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to the Rules of the Clearing Corporation, the following Exchange requirements apply with respect to expiring options. Option holders desiring to exercise or not exercise expiring options must either:

(1) take no action and allow exercise determinations to be made in accordance with the Clearing Corporation's Ex-by-Ex procedure where applicable; or

(2) submit a "Contrary Exercise Advice" to the Exchange as specified in paragraph (d) below.

(c) Exercise cut-off time. Option holders have until 5:30 p.m. Eastern Time on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the business day immediately prior to the expiration date, to make a final decision to exercise or not exercise an expiring option. Participants may not accept exercise instructions for customer or non-customer accounts after 5:30 p.m. Eastern Time.

(d) Submission of Contrary Exercise Advices. A Contrary Exercise Advice is a communication either: (i) to not exercise an option that would be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure, or (ii) to exercise an option that would not be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure.

A Contrary Exercise Advice may be submitted by a Participant by using the Clearing Corporation's ENCORE system, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a Participant and where the option is listed, or such other method as the Exchange may prescribe. A Contrary Exercise Advice may be canceled by filing an Advice Cancel at any time up to the submission cut-off times specified below.

For customer accounts, Participants have until 7:30 p.m. Eastern Time to submit a Contrary Exercise Advice to the Exchange.

For noncustomer accounts, Participants have until 7:30 p.m. Eastern Time to submit a Contrary Exercise Advice to the Exchange if such Participant employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Participants are required to manually submit a Contrary Exercise Advice by 5:30 p.m. for non-customer accounts if such Participants do not employ an electronic submission procedure with time stamp for the submission of exercise instructions by option holders.

(e) If the Clearing Corporation has waived the Ex-by-Ex procedure for an options class, Participants must either:

(1) submit to the Exchange, a Contrary Exercise Advice, in a manner specified by the Exchange, within the time limits specified in paragraph (d) above if the holder intends to exercise the option; or

(2) take no action and allow the option to expire without being exercised. In cases where the Ex-by-Ex procedure has been waived, the Rules of the Clearing Corporation require that Participants wishing to exercise such options must submit an affirmative Exercise Notice to the Clearing Corporation, whether or not a Contrary Exercise Advice has been filed with the Exchange.

(f) A Participant that has accepted the responsibility to indicate final exercise decisions on behalf of another Participant or non-Participant broker-dealer shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such Participant may establish a processing cut-off time prior to the Exchange's exercise cutoff time at which it will no longer accept final exercise decisions in expiring options from option holders for whom it indicates final exercise decisions. Each Participant that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are indicated in a timely manner to such broker-dealer.

(g) Notwithstanding the foregoing, Participants may make final exercise decisions after the exercise cutoff time but prior to expiration without having submitted a Contrary Exercise Advice in the circumstances listed below. A memorandum setting forth the circumstance giving rise to instructions after the exercise cutoff time shall be maintained by the Participant and a copy thereof shall be filed with the Exchange no later than 12:00 noon Eastern Time on the first business day following the respective expiration. An exercise decision after the exercise cut-off time may be made:

(1) in order to remedy mistakes or errors made in good faith; or

(2) where exceptional circumstances have restricted an option holder's ability to inform a Participant of a decision regarding exercise, or a Participant's ability to receive an option holder's decision by the cut-off time. The burden of establishing any of the above exceptions rests solely on the Participant seeking to rely on such exceptions.

(h) In the event the Exchange provides advance notice on or before 5:30 p.m. Eastern Time on the business day immediately prior to the business day of their expiration, or, in the case of an option contract expiring on a day that is not a business day, the second business day immediately prior to the expiration date indicating that a modified time for the close of trading in equity options on such business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. Eastern Time deadline found in

paragraph (c) of this Rule. However, Participants have until 7:30 Eastern Time to deliver a Contrary Exercise Advice or Advice Cancel to the Exchange for customer accounts and noncustomer accounts where such Participant employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, Participants that do not employ an electronic procedure with time stamp for the submission of exercise instructions are required to deliver a Contrary Exercise Advice or Advice Cancel within 1 hour and 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. Eastern Time deadline found in paragraph (d) of this Rule.

(i) Modification of cut-off time.

(1) The Exchange may establish extended cut-off times for decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances. For purposes of this subparagraph (i)(1), an "unusual circumstance" includes, but is not limited to, increased market volatility; significant order imbalances; significant volume surges and/or systems capacity constraints; significant spreads between the bid and offer in underlying securities; internal system malfunctions affecting the ability to disseminate or update market bids and offers and/or execute or route orders; or other similar occurrences.

(2) The Exchange with at least one (1) business day prior advance notice, by 12:00 noon on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a Contrary Exercise Advice be before the close of trading. For purposes of this subparagraph (i) (2), an "unusual circumstance" includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day the option contract expires, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to expiration.

(j) Submitting or preparing an exercise instruction, contrary exercise advice or advice cancel after the applicable exercise cut-off time in any expiring options on the basis of material information released after the cut-off time is activity inconsistent with just and equitable principles of trade.

(k) The failure of any Participant to follow the procedures in this Rule may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.

(l) Clearing Participants must follow the procedures of the Clearing Corporation when exercising American-style cash-settled index options contracts issued or to be issued in

any account at the Clearing Corporation. Options Participants must also follow the procedures set forth below with respect to American-style cash-settled index options:

(1) For all contracts exercised by the Options Participant or by any customer of the Options Participant, an "exercise advice" must be delivered by the Options Participant in such form or manner prescribed by the Exchange no later than 4:20 p.m. Eastern Time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.

(2) Subsequent to the delivery of an "exercise advice," should the Options Participant or a customer of the Options Participant determine not to exercise all or part of the advised contracts, the Options Participant must also deliver an "advice cancel" in such form or manner prescribed by the Exchange no later than 4:20 p.m. Eastern Time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.

(3) The Exchange may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph (1) if unusual circumstances are present.

(4) No Options Participant may prepare, time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the Options Participant knew or had reason to know that the contracts had not yet been purchased.

(5) The failure of any Options Participant to follow the procedures in this paragraph (1) may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Exchange.

(6) Preparing or submitting an "exercise advice" or "advice cancel" after the applicable deadline on the basis of material information released after such deadline, in addition to constituting a violation of this Rule, is activity inconsistent with just and equitable principles of trade.

(7) The procedures set forth in subparagraphs (1)-(2) of this subparagraph (1) do not apply (A) on the business day prior to expiration in series expiring on a day other than a business day or (B) on the expiration day in series expiring on a business day.

(8) Exercises of American-style, cash-settled index options (and the submission of corresponding "exercise advice" and "advice cancel" forms) shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

(A) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended

if it can be documented, in a form prescribed by the Exchange, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension.

(B) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of index option contracts expiring on a day that is not a business day, the last business day prior to their expiration.

(C) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern Time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern Time. In addition, if trading resumes following such a trading halt (pursuant to the procedure described in Options 3, Section 8 (Opening and Halt Cross)), exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph 3 are subject to the authority of the Exchange to impose restrictions on transactions and exercises pursuant to Options 9, Section 18 (Limit on Outstanding Uncovered Short Positions).

(D) The Exchange may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

### **Supplementary Material to Options 6B, Section 1**

.01 For purposes of this Rule, the terms "customer account" and "non-customer account" have the same meaning as defined in the Clearing Corporation By-Laws Article I(C)(28) and Article I(N)(2), respectively

.02 Each Participant shall prepare a memorandum of every exercise instruction received showing the time when such instruction was so received. Such memoranda shall be subject to the requirements of SEC Rule 17a-4(b).

.03 Each Participant shall establish fixed procedures to insure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

.04 The filing of a Contrary Exercise Advice required by this Rule does not serve to substitute as the effective notice to the Clearing Corporation for the exercise or non-exercise of expiring options.

### **Section 2. Allocation of Exercise Notices**

(a) Each Options Participant shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in such Options Participant's customers' accounts. The allocation shall be on a "first in, first out," or automated random selection

basis that has been approved by the Exchange, or on a manual random selection basis that has been specified by the Exchange. Each Options Participant shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' account, explaining its manner of operation and the consequences of that system.

(b) Each Options Participant shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no Options Participant shall change its method of allocation unless the change has been reported to and approved by the Exchange. The requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another SRO having comparable standards pertaining to methods of allocation.

(c) Each Options Participant shall preserve for a three-year period sufficient work papers and other documentary materials relating to the allocation of exercise notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

### **Section 3. Delivery and Payment**

(a) Delivery of the underlying security upon the exercise of an options contract, and payment of the aggregate exercise price in respect thereof, shall be in accordance with the Rules of the Clearing Corporation.

(b) As promptly as possible after the exercise of an options contract by a customer, the Options Participant shall require the customer to make full cash payment of the aggregate exercise price in the case of a call options contract, or to deposit the underlying security in the case of a put options contract, or to make the required margin deposit in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange and the applicable regulations of the Federal Reserve Board.

(c) As promptly as practicable after the assignment to a customer of an exercise notice the Options Participant shall require the customer to deposit the underlying security in the case of a call options contract if the underlying security is not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put options contract, or in either case to deposit the required margin in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, and the applicable regulations of the Federal Reserve Board.

(d) In accordance with the applicable rules of The Options Clearing Corporation ("OCC"), upon exercise of an in-the-money U.S. Dollar-Settled Foreign Currency option structured as a call, the holder receives, from OCC, U.S. dollars representing the difference between the exercise strike price and the closing settlement value of the U.S. Dollar-Settled Foreign Currency options contract multiplied by the number of units of currency covered by the contract. For a U.S. Dollar-Settled Foreign Currency option structured as a put, the holder receives U.S. dollars representing the excess of the exercise price over the closing settlement value of the U.S. Dollar- Settled Foreign Currency option contract multiplied by the number of units of foreign currency covered by the contract.

## **Options 6C Margins**

### **Section 1. General Rule**

No Participant or associated person may effect a transaction or carry an account for a Customer, whether a Participant or non-Participant of BX Options, without proper and adequate margin in accordance with this Options 6D, Section 4 and Regulation T.

### **Section 2. Time Margin Must be Obtained**

The amount of margin required by this Options 6D, Section 4 shall be obtained as promptly as possible and in any event within a reasonable time.

### **Section 3. Margin Requirements**

(a) A Participant or associated person must be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or the New York Stock Exchange ("NYSE") as the same may be in effect from time to time.

(b) Such election shall be made in writing by a notice filed with BX Regulation.

(c) Upon the filing of such election, a Participant or associated person shall be bound to comply with the margin rules of the CBOE or the NYSE, as applicable, as though said rules were part of these Rules.

### **Section 4. Reserved**

### **Section 5. Margin Required is Minimum**

(a) The amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby; but nothing in these Rules shall be construed to prevent a Participant or associated person from requiring margin in an amount greater than that specified.

(b) BX Options may at any time impose higher margin requirements with respect to such positions when it deems such higher margin requirements to be advisable.

### **Section 6. Reserved**

## **Options 6D Net Capital Requirements**

### **Section 1. Reserved**

### **Section 2. Reserved**

### **Section 3. Reserved**

### **Section 4. Joint Back Office Participants**

(a) Requirements for Joint Back Office Participants. Every Participant or associated person that maintains a joint back office ("JBO") arrangement with a clearing broker-

dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System that is not an NYSE member and that has elected instead to be bound by CBOE margin requirements shall comply with the requirements prescribed below:

(1) Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 and subject to the capital requirements prescribed by Rule 15c3-1 therein; and shall not be eligible to operate under the provisions of SEC Rule 15c3-1(b)(i).

(2) Each JBO participant must meet and maintain a minimum account equity requirement of \$1,000,000 with each clearing broker-dealer where a JBO account is carried. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Options 6C and this section of these Rules.

(3) Each JBO participant must meet and maintain the ownership standards established by the clearing broker-dealer; and

(4) Each JBO participant must employ (or have access to) a qualified Series 27 principal.

(b) Requirements for Clearing Participants Carrying the Accounts of JBO Participants. Every Clearing Participant carrying JBO accounts in accordance with Regulation T, Section 220.7 of the Federal Reserve Board is subject to the requirements outlined below:

(1) Each Participant which carries JBO accounts shall not allow its (a) tentative net capital to fall below \$25 million; or in the alternative its (b) net capital to fall below \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options Market Maker accounts and provided that at least 60% of the sum of gross haircuts calculated for all options Market Maker and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options Market Maker transactions. In addition, the firm operating pursuant to (b) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of gross options Market Maker deductions to adjusted net capital in accordance with the provisions of SEC Rule 15c3-1.

(2) Each Participant which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business

days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Options 6C and this section of these Rules.

(3) Each Participant which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO Participant's account equity and the proprietary haircut calculated pursuant to SEC Rule 15c3- 1 for the positions maintained in such account.

(4) Each Participant which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.

(5) The Participant must develop risk analysis standards which are acceptable to the BX Regulation. At minimum these standards must comply with the requirements of Options 6E, Section 6 of these Rules.

(6) Each Participant which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing, of its intention to carry such accounts.

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

(c) JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Options 6C and this section of these Rules.

### **Options 6E Records, Reports and Audits**

#### **Section 1. Maintenance, Retention and Furnishing of Books, Records and Other Information**

(a) Each Options Participant shall make, keep current and preserve such books and records as BX Regulation may prescribe pursuant to the Rules of the Exchange and as may be prescribed by the Exchange Act and the rules and regulations thereunder.

(b) No Options Participant shall refuse to make available to BX Regulation such books, records or other information as may be called for under the Rules of the Exchange or as may be requested in connection with an investigation by BX Regulation.

(c) All Options Participants shall prepare and make available all books and records as required by the Rules of the Exchange in English and U.S. dollars.

**Section 2. Reports of Uncovered Short Positions**

(a) Upon request of BX Regulation, each Options Participant shall submit a report of the total uncovered short positions in each options contract of a class dealt in on BX Options showing:

- (1) positions carried by such Options Participant for its own account and
- (2) positions carried by such Options Participant for the accounts of Customers;
- (3) provided that the Options Participant shall not report positions carried for the accounts of other Options Participants where such other Options Participants report the positions themselves.

(b) Such report shall be submitted not later than the second business day following the date the request is made.

**Section 3. Financial Reports and Audits**

Each Options Participant shall submit to BX Regulation answers to financial questionnaires, reports of income and expenses and additional financial information in the type, form, manner and time prescribed by the Exchange or BX Regulation under the Rules of the Exchange.

**Section 4. Reserved****Section 5. Automated Submission of Trade Data**

(a) An Options Participant shall submit requested trade data elements, in such automated format as may be prescribed by BX Regulation from time to time, in regard to a transaction(s) that is the subject of the particular request for information.

(b) If the transaction was a proprietary transaction effected or caused to be effected by the Options Participant for any account in which such Participant, or any person associated with the Options Participant, is directly or indirectly interested, the Participant shall submit or cause to be submitted, any or all of the following information as requested by BX Regulation:

- (1) Clearing house number or alpha symbol as used by the Options Participant submitting the data;
- (2) Clearing house number(s) or alpha symbol(s) as may be used from time to time, of the Options Participant(s) on the opposite side of the transaction;
- (3) Identifying symbol assigned to the security and where applicable for the options month and series symbols;
- (4) Date transaction was executed;

(5) Number of option contracts for each specific transaction and whether each transaction was an opening or closing purchase or sale, as well as:

(A) the number of shares traded or held by accounts for which options data is submitted;

(B) where applicable, the number of shares for each specific transaction and whether each transaction was a purchase, sale or short sale;

(6) Transaction price;

(7) Account number; and

(8) Market center where transaction was executed.

(c) If the transaction was effected or caused to be effected by the Options Participant for any Customer, such Options Participant shall submit or cause to be submitted any or all the following information as requested by BX Regulation:

(1) Data elements (1) through (8) of paragraph (b) above;

(2) If the transaction was effected for a Public Customer, customer name, address(es), branch office number, representative number, whether the order was discretionary, solicited or unsolicited, date the account was opened and employer name and tax identification number(s); and

(3) If the transaction was effected for a Participant broker-dealer customer, whether the broker-dealer was acting as a principal or agent on the transaction or transactions that are the subject of BX Regulation's request.

(d) In addition to the above trade data elements, an Options Participant shall submit such other information in such automated format as may be prescribed by BX Regulation, as may from time to time be required.

(e) BX Regulation may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (b) and (c) above be submitted to BX Regulation in an automated format.

### **Section 6. Risk Analysis of Market Maker Accounts**

(a) Each Clearing Participant that clears or guarantees the transactions of Market Makers pursuant to Options 6, Section 4 of these Rules (Letters of Guarantee), shall establish and maintain written procedures for assessing and monitoring the potential risks to the Participant's capital over a specified range of possible market movements of positions maintained in such Market Maker accounts and such related accounts as BX Regulation shall from time to time direct.

(1) Current procedures shall be maintained as current and filed with BX Regulation.

(2) The procedures shall specify the computations to be made, the frequency of computations, the records to be reviewed and maintained and the position(s) within the organization responsible for the risk management.

(b) Each affected Participant shall at a minimum assess and monitor its potential risk of loss from options Market Maker accounts each business day as of the close of business the prior day through use of a BX Regulation-approved computerized risk analysis program, which shall comply with at least the minimum standards specified below and such other standards as from time to time may be prescribed by BX Regulation:

(1) The estimated loss to the Clearing Participant for each Market Maker account (potential account deficit) shall be determined given the impact of broad market movements in reasonable intervals over a range from negative fifteen percent (15%) to positive fifteen percent (15%).

(2) The Participant shall calculate volatility using a method approved by BX Regulation, with volatility updated at least weekly. The program must have the capability of expanding volatility when projecting losses throughout the range of broad market movements.

(3) Options prices shall be estimated through use of recognized options pricing models such as, but not limited to, Black-Scholes and Cox-Reubenstein.

(4) At a minimum, written reports shall be generated which describe for each market scenario:

(A) projected loss per options class by account;

(B) projected total loss per options class for all accounts; and

(C) projected deficits per account and in aggregate.

Upon direction by BX Regulation, each affected Participant shall provide to BX Regulation such information as it may reasonably require with respect to the Participant's risk analysis for any or all of its Market Maker accounts.

### **Section 7. Regulatory Cooperation**

(a) BX Regulation may enter into agreements that provide for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and other regulatory purposes, with domestic and foreign self-regulatory organizations, as well as associations and contract markets and the regulators of such markets.

(b) No Options Participant, partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange or BX Regulation shall refuse to appear and testify before another exchange or self-regulatory organization in connection with a regulatory investigation, examination or disciplinary proceeding or refuse to furnish documentary materials or other information or otherwise impede or delay such investigation, examination or disciplinary proceeding if the Exchange or BX Regulation requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange or BX Regulation pursuant to paragraph (a) of this Rule, including but not limited to Participants and affiliates of the Intermarket Surveillance Group. The requirements of this paragraph (b) shall apply regardless whether the Exchange or BX Regulation has itself initiated a form investigation or disciplinary proceeding.

(c) Whenever information is requested by BX Regulation pursuant to this Rule, the Options Participant or person associated with a Participant from whom the information is requested shall have the same rights and procedural protections in responding to such request as such Participant or person would have in the case of any other request for information initiated by BX Regulation pursuant to BX Regulation's investigative powers.

### **Section 8 Reserved.**

### **Section 9. Audit Trail**

(a) Order Identification. When entering orders on BX Options, each Options Participant shall submit order information in such form as may be prescribed by BX in order to allow BX Options to properly prioritize and match orders and report resulting transactions to the Clearing Corporation.

(b) An Options Participant must ensure that each options order received from a Customer for execution on BX Options is recorded and time-stamped immediately. The order record must be time-stamped again on execution and also at the time of any modification or cancellation of the order by the Customer. Order records relating to BX Options must contain the following information at a minimum:

- i. a unique order identification;
- ii. the underlying security;
- iii. opening/closing designation;
- iv. the identity of the Clearing Participant;
- v. Options Participant identification;
- vi. Participant Capacity;

vii. identity of the individual/terminal completing the order ticket;

viii. customer identification;

ix. account identification;

x. buy/sell;

xi. contract volume;

xii. contract month;

xiii. exercise price;

xiv. put/call;

xv. price or price limit, price range or strategy price;

xvi. special instructions (e.g ., GTC); and

xvii. and such other information as may be required by BX Options.

(c) An Options Participant that employs an electronic system for order routing or order management which complies with BX Options requirements will be deemed to be complying with the requirements of this Rule if the required information is recorded in electronic form rather than in written form.

(d) In addition to any related requirement under applicable securities laws, information recorded pursuant to this Rule must be retained by Options Participants for a period of no less than three (3) years after the date of the transaction.

\* \* \* \* \*

### **Options 7 Pricing Schedule**

\* \* \* \* \*

### **Options 7 Pricing Schedule**

BX Options Participants may be subject to the Charges for Membership, Services and Equipment in the Equity 7 Rules, General 8, Sections 1-2, as well as the fees in this Options 7. For purposes of assessing fees and paying rebates, the following references should serve as guidance.

The term "**Customer**" or ("C") applies to any transaction that is identified by a Participant for clearing in the Customer range at The Options Clearing Corporation ("OCC") which is not for the account of broker or dealer or for the account of a "Professional" (as that term is defined in [Chapter I, Section 1(a)(48)])Options 1, Section 1(a)(47).

The term "**BX Options Market Maker**" or ("M") is a Participant that has registered as a Market Maker on BX Options pursuant to [Chapter VII, Section 2]Options 2, Section 1, and must also remain in good standing pursuant to [Chapter VII, Section 4]Options 2, Section 9. In order to receive Market Maker pricing in all securities, the Participant must be registered as a BX Options Market Maker in at least one security.

The term "**Lead Market Maker**" or ("LMM") applies to a registered BX Options Market Maker that is approved pursuant to [Chapter VII, Section 13]Options 2, Section 3 to be the LMM in an options class (options classes).

\* \* \* \* \*

The term "**Professional**" or ("P") means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s) pursuant to [Chapter I, Section 1(a)(48)]Options 1, Section 1(a)(47). All Professional orders shall be appropriately marked by Participants.

\* \* \* \* \*

The term "**Joint Back Office**" or "**JBO**" applies to any transaction that is identified by a Participant for clearing in the Firm range at OCC and is identified with an origin code as a JBO. A JBO will be priced the same as a Broker-Dealer as of September 1, 2014. A JBO participant is a Participant that maintains a JBO arrangement with a clearing broker-dealer ("JBO Broker") subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System as further discussed in [Chapter XIII, Section 5]Options 6D, Section 4.

\* \* \* \* \*

## **Section 2 BX Options Market—Fees and Rebates**

\* \* \* \* \*

(4) Fees for execution of contracts on the BX Options Market that generate an order exposure alert per BX [Chapter VI, Section 11(a)]Options 5, Section 4:

\* \* \* \* \*

## **Section 4 BX Options Market Data Distributor Fees**

\* \* \* \* \*

(e) BX Depth of Market (BX Depth) is data feed that includes quotation information for individual orders on the BX book, last sale information for trades executed on BX, and Order Imbalance Information as set forth in BX Rules [Chapter VI]Options 3, Section 8.

\* \* \* \* \*

## **Options 9 Business Conduct[Reserved]**

### **Section 1. Reserved**

#### **Section 2. Adherence to Law and Compliance with BX Options Rules**

(a) No Options Participant shall engage in conduct in violation of the Exchange Act or Rules thereunder, the Rules of the Exchange or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Options Participant shall supervise persons associated with the Participant to assure compliance therewith.

(b) Each Options Participant shall be responsible for ensuring that all arrangements made and systems used in connection with business conducted on BX Options, and the transaction of such business itself, comply with the Options Participant's and associated persons' obligations under the Rules of the Exchange, the Rules of the Clearing Corporation and any other relevant laws, rules, interpretations and obligations. In accordance with the BX Options Rules and in connection with business conducted on BX Options, each Options Participant shall:

(1) have adequate arrangements to ensure that all staff involved in the conduct of business on BX Options are suitable, adequately trained and properly supervised;

(2) be responsible for the acts and conduct of each associated person,

(3) establish its trading arrangements such that each Participant is able to meet the requirements set out in subparagraph (a) and that all other relevant obligations contained in the Rules are complied with;

(4) implement suitable security measures such that only those individuals explicitly authorized by the Options Participant to trade may gain access to passwords and security keys;

(5) ensure that any trading access granted to individuals (whether employees of the Options Participant or otherwise), for example by way of order routing systems, is adequately controlled and supervised, including appropriate checks before any orders are submitted to the Trading System; and

(6) ensure that accurate information is input into the System, including, but not limited to, the Options Participant's capacity.

### **Section 3. Reserved**

#### **Section 4. Disruptive Quoting and Trading Activity Prohibited**

(a) No Participant shall engage in or facilitate disruptive quoting and trading activity on the Exchange, as described in subsections (i) and (ii) of this Rule, including acting in concert with other persons to effect such activity.

(1) For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the following facts are present:

(A) Disruptive Quoting and Trading Activity Type 1:

(i) a party enters multiple limit orders on one side of the market at various price levels (the "Displayed Orders"); and

(ii) following the entry of the Displayed Orders, the level of supply and demand for the security changes; and

(iii) the party enters one or more orders on the opposite side of the market of the Displayed Orders (the "Contra-Side Orders") that are subsequently executed; and

(iv) following the execution of the Contra-Side Orders, the party cancels the Displayed Orders.

(B) Disruptive Quoting and Trading Activity Type 2:

(i) a party narrows the spread for a security by placing an order inside the NBBO; and

(ii) the party then submits an order on the opposite side of the market that executes against another market participant that joined the new inside market established by the order described in paragraph (b)(i).

(iii) Applicability. For purposes of this Rule, disruptive quoting and trading activity shall include a frequent pattern in which the facts listed above are present. Unless otherwise indicated, the order of the events indicating the pattern does not modify the applicability of the Rule. Further, disruptive quoting and trading activity includes a pattern or practice in which of the quoting and trading activity is conducted on the Exchange as well as a pattern or practice in which some portion of the quoting or trading activity is conducted on the Exchange and the other portions of the quoting or trading activity is conducted on one or more other exchanges.

**Section 5. Reserved**

**Section 6. Reserved**

**Section 7. Reserved**

**Section 8. Rumors**

No Options Participant or person associated with an Options Participant shall circulate, in any manner, rumors of a character which might affect market conditions in any security;

provided, however, that this Rule shall not prohibit discussion of unsubstantiated information, so long as its source and unverified nature are disclosed.

**Section 9. Prevention of the Misuse of Material Nonpublic Information**

(a) Every Options Participant shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Participant's business, to prevent the misuse of material nonpublic information by such Participant or persons associated with such Participant in violation of the federal securities laws or the Rules thereunder, and the Rules of the Exchange.

(b) Misuse of material nonpublic information includes, but is not limited to:

(1) trading in any securities issued by a corporation, or in any related securities or related options or other derivative securities, while in possession of material nonpublic information concerning that corporation;

(2) trading in an underlying security or related options or other derivative securities, while in possession of material nonpublic information concerning imminent transactions in the underlying security or related securities; and

(3) disclosing to another person any material nonpublic information involving a corporation whose shares are publicly traded or disclosing an imminent transaction in an underlying security or related securities for the purpose of facilitating the possible misuse of such material nonpublic information.

(c) Each Options Participant shall establish, maintain and enforce the following policies and procedures as appropriate for the nature of each Participant's business:

(1) All associated persons must be advised in writing of the prohibition against the misuse of material nonpublic information.

(2) Signed attestations from the Participant and all associated persons affirming their awareness of, and agreement to abide by, the aforementioned prohibitions must be maintained for at least three (3) years, the first two (2) years in an easily accessible place.

(3) Records of all brokerage accounts maintained by the Participant and all associated persons must be acquired and maintained for at least three (3) years, the first two (2) years in an easily accessible place, and such brokerage accounts must be reviewed periodically by the Participant for the purpose of detecting the possible misuse of material nonpublic information.

(4) Any business dealings the Participant may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the

Participant receiving, in the ordinary course of business, material nonpublic information concerning any such corporation, must be identified and documented.

(d) Participants that are required to file Form X-17A-5 under the Exchange Act or Rules thereunder, with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Participants stating that the procedures mandated by this Rule have been established, enforced and maintained.

(e) Any Options Participant or associated person who becomes aware of any possible misuse of material nonpublic information must promptly notify BX Regulation.

(f) It may be considered conduct inconsistent with just and equitable principles of trade for any Participant or person associated with a Participant who has knowledge of all material terms and conditions of:

(1) an order and a solicited order,

(2) an order being facilitated or submitted to BX Options for price improvement,  
or

(3) orders being crossed;

the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option for the same underlying security as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until (a) the terms and conditions of the order and any changes in the terms and conditions of the order of which the Participant or person associated with the Participant has knowledge are disclosed, or (b) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. The terms of an order are "disclosed" to BX Options Participants when the order is entered into the BX Options Book. For purposes of this paragraph (f), an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

#### **Section 10. Disciplinary Action by Other Organizations**

Every Options Participant shall promptly notify BX Regulation in writing of any disciplinary action, including the basis therefore, taken by any national securities exchange or registered securities association, clearing corporation, commodity futures market or government regulatory body against the Options Participant or its associated persons who are directly involved in derivatives trading, and shall similarly notify BX Regulation of any disciplinary action taken by the Options Participant itself against any of its associated persons who are directly involved in derivatives trading involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or any other significant limitation on activities.

**Section 11. Other Restrictions on Participants**

Whenever the Exchange shall find that an Options Participant has failed to perform on its contracts or is insolvent or is in such financial or operational condition or is otherwise conducting business in such a manner that it cannot safely conduct business with Customers, creditors or the Exchange, the Exchange may summarily suspend the Options Participant in accordance with Chapter X (Summary Suspension) or may impose such conditions and restrictions upon the Options Participant as the Exchange considers reasonably necessary for the protection of the Exchange, BX Options, and the Customers of such Options Participant.

**Section 12. Significant Business Transactions of Options Clearing Participants**

Significant Business Transactions of Options Clearing Participants shall be governed by this Rule and not by BX Rule 1017. All other Significant Business Transactions of Options Participants shall be subject to BX Rule 1017.

(a) Except as provided in paragraph (c) below, a Participant that clears Options Market Maker trades is required to notify BX Regulation in writing fifteen (15) days prior to any of the following proposed significant business transactions ("SBT"):

(1) the combination, merger or consolidation between the Participant and another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products;

(2) the transfer from another person, Market Maker, broker-dealer, or customer of securities or futures accounts that are significant in size or number to the business of the Participant;

(3) the assumption or guarantee by the Participant of liabilities of another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products, in connection with a direct or indirect acquisition of all or substantially all of the person's assets; or

(4) termination of the Participant's clearing business or any material part thereof.

(b) Notification of any of the following SBTs shall be made in writing to BX Regulation, not later than five (5) business days from the date on which the SBT becomes effective:

(1) the sale by the Clearing Participant of a significant part of its assets to another person;

(2) a change in the identity of any general partner or a change in the beneficial ownership of ten percent (10%) or more of any class of the outstanding stock of any corporate general partner;

(3) a change in the beneficial ownership of twenty percent (20%) or more of any class of the outstanding stock of the Participant or the issuance of any capital stock of the Participant; or

(4) the acquisition by the Clearing Participant of assets of another person that would constitute a "business" that is "significant," as those terms are defined in Section 11-01 of Regulation S-X under the Exchange Act.

(c) A Clearing Participant is required to notify BX Regulation in writing thirty (30) days prior to a proposed SBT included in paragraph (a) of this Rule, and such SBT shall be subject to the prior approval of BX Regulation, if the Participant's Market Maker clearance activities exceed, or would exceed as a result of the proposed SBT, any of the following parameters:

(1) fifteen percent (15%) of cleared BX Options Market Maker contract volume for the most recent three (3) months;

(2) an average of fifteen percent (15%) of the number of BX Options Market Makers as of each month and for the most recent three (3) months; or

(3) twenty-five percent (25%) of BX Options Market Maker gross deductions (haircuts) defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Participant in relation to the aggregate of such haircuts carried by all other Clearing Participants for any month end within the most recent three (3) months.

(d) An SBT that comes within paragraph (c) of this Rule may be disapproved or conditioned within the thirty (30) day period if BX Regulation determines that such SBT has the potential to threaten the financial or operational integrity of Market Maker transactions. In making this determination, BX Regulation may consider, among other relevant matters, the following:

(1) The effect of the proposed SBT on the capital size and structure of the resulting Clearing Participant(s), the potential for financial failure and the consequences of any such failure on the BX Options market as a whole, and the potential for increased or decreased operational efficiencies arising from the proposed transaction.

(2) The effect of the proposed SBT upon overall concentration of Market Makers, including a comparison of the following measures before and after the proposed transaction:

(A) proportion of BX Options Market Maker contract volume cleared;

(B) proportion of BX Options Market Makers cleared; and

(C) proportion of Market Maker gross deductions (haircuts) as defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Participant(s) in relation to the aggregate of such deductions carried by other Participants that clear Market Maker transactions.

(3) The regulatory history of the affected Participants, specifically as it may indicate a tendency to financial or operational weakness.

(e) Transactions that come within paragraph (c) of this Rule shall be reviewed according to the following procedures:

(1) A Participant must provide promptly, in writing, all information reasonably requested by BX Regulation. Any information disclosed by Participants pursuant to the requirements of this Rule shall be kept confidential by BX Regulation until such information is otherwise publicly disclosed and shall be used only for purposes of reviewing the proposal.

(2) If BX Regulation determines, prior to the expiration of the thirty (30) day period, that a proposed SBT may be approved without conditions, BX Regulation shall promptly so advise the Participant.

(3) All decisions to disapprove or condition a proposed SBT or to impose extraordinary requirements shall be in writing, shall include a statement setting forth the grounds for the decision, and the Participant shall be promptly notified of any such decisions by BX Regulation.

(4) Notwithstanding any other provisions of the BX Options Rules, the Participant may appeal a decision to disapprove or condition a proposed SBT directly to the Board by filing an application for review with the Secretary of the Exchange within fifteen (15) days of the date of service of the decision. Appeal to the Board shall be the exclusive method of reviewing such a decision.

(5) An appeal to the Board of a decision to disapprove or condition a proposed SBT shall not operate as a stay of that decision during the pendency of the appeal.

(6) BX Regulation shall file notice with the SEC in accordance with the provisions of Section 19(d)(1) of the Exchange Act of all final decisions to disapprove or condition a proposed SBT.

(f) BX Regulation may impose additional financial and/or operational requirements on a Participant that clears Market Maker trades at any time when it determines that the Participant's continuance in business without such requirements has the potential to threaten the financial or operational integrity of Market Maker transactions.

(g) The provisions of this Rule do not preclude summary action under Chapter X, Discipline and Summary Suspensions, of these Rules, or other BX Regulation action pursuant to the BX Options Rules.

(h) BX Regulation, upon approval by the Chief Regulatory Officer of BX, may exempt a Participant from the requirements of this Rule, either generally or in respect of specific types of transactions, based on the limited proportion of Market Maker trades on BX Options that are cleared by the Participant or on the limited importance that the clearing of Market Maker trades bears to the total business of the Participant.

### **Section 13. Position Limits**

(a) No Options Participant shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Participant has reason to believe that as a result of such transaction the Options Participant or its Customer would, acting alone or in concert with others, directly or indirectly:

(1) exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange, notwithstanding the foregoing options contracts overlying SPDR® S&P 500® exchange-traded fund ("SPY ETF" or "SPY") shall have a position limit of 1,800,000 contracts on the same side of the market;

(2) exceed the position limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange; or

(3) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected; or

(4) exceed the applicable position limit fixed from time to time by PHLX with respect to U.S. Dollar-Settled Foreign Currency Options.

(b) Should an Options Participant have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Participant is in excess of the applicable limit, such Options Participant shall promptly take the action necessary to bring the position into compliance.

### **Section 14. Exemptions from Position Limits**

An Options Participant may rely upon any available exemptions from applicable position limits granted from time to time by another Options Exchange for any options contract traded on BX Options provided that such Options Participant (1) provides BX Regulation with a copy of any written exemption issued by another Options Exchange or a written,

description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for BX Regulation to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to its trading on BX Options.

### **Section 15. Exercise Limits**

(a) No Options Participant shall exercise, for any account in which it has an interest or for the account of any Customer, a long position in any options contract where such Options Participant or Customer, acting alone or in concert with others, directly or indirectly, has or will have:

(1) exceeded the applicable exercise limit fixed from time-to-time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange, notwithstanding the foregoing options contracts overlying SPDR® S&P 500® exchange-traded fund ("SPY ETF" or "SPY") shall have an exercise limit of 1,800,000 contracts on the same side of the market;

(2) exceeded the exercise limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange;

(3) exceeded the applicable exercise limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected; or

(4) exceeded the applicable exercise limit fixed from time-to-time by PHLX with respect to U.S. Dollar-Settled Foreign Currency Options.

(b) an Options Market Maker that has been granted an exemption to position limits pursuant to Options 9, Section 14 (Exemption to Position Limits), the number of contracts which can be exercised over a five (5) business day period shall equal the Market Maker's exempted position.

### **Section 16. Reports Related to Position Limits**

Each Options Participant shall maintain and furnish to BX Regulation all reports required by the applicable rule of any Options Exchange of which it is a Member with respect to reports related to position limits.

### **Section 17. Liquidation Positions**

(a) Whenever BX Regulation shall find that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all options contracts or one or more classes or series traded on BX

Options in excess of the applicable position limit established pursuant to Options 9, Section 13 (Position Limits), it may order all Options Participants carrying a position in options contracts of such classes or series for such person or persons to liquidate such positions as expeditiously as possible, consistent with the maintenance of a fair and orderly market.

(b) Whenever such an order is given, no Options Participant shall accept any order to purchase, sell or exercise any options contract for the account of the person or persons named in the order, unless and until BX Regulation expressly approves such person or persons for options transactions.

#### **Section 18. Limit on Outstanding Uncovered Short Positions**

(a) Whenever it is determined from the reports of uncovered short positions submitted pursuant to Options 6E, Section 2 of these Rules (Reports of Uncovered Short Positions), viewed in light of current market conditions in options and in underlying securities, that there are outstanding an excessive number of uncovered short positions in options contracts of a given class traded on BX Options or that an excessively high percentage of outstanding short positions in options contracts of a given class traded on BX Options are uncovered, BX Regulation may determine to prohibit Options Participants from any further opening writing transactions on any exchange in options contracts of that class unless the resulting short position will be covered, and BX Regulation may prohibit the uncovering of any existing covered short positions in one or more series of options of that class, as it deems appropriate in the interest of maintaining a fair and orderly market in options contracts or in underlying securities.

(b) BX Regulation may exempt transactions of Options Market Makers from restrictions imposed under this Rule. Such restrictions shall be rescinded upon a determination that they are no longer appropriate.

#### **Section 19. Other Restrictions on Options Transactions and Exercises**

(a) BX may impose such restrictions on transactions or exercises in one or more series of options of any class traded on BX Options as BX Regulation in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

(1) During the effectiveness of such restrictions, no Options Participant shall, for any account in which it has an interest or for the account of any Customer, engage in any transaction or exercise in contravention of such restrictions.

(2) Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day, no restriction on exercise under this Rule may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the business day of their expiration or, in

the case of an option contract expiring on a day that is not a business day, on the last business day before the expiration date.

(3) Exercises of American-style, cash-settled index options shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

(A) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the Rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by BX Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension;

(B) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of an option contract expiring on a day that is not a business day, the last business day prior to their expiration;

(C) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern time. In addition, if trading resumes following such a trading halt pursuant to the procedure described in Options 3, Section 9 of these Rules, exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (a)(3)(C) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

(D) BX Options may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

(b) Whenever the issuer of a security underlying a call option traded on BX Options is engaged or proposes to engage in a public underwritten distribution ("public distribution") of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that BX Options impose restrictions upon all opening writing transactions in such options at a "discount" where the resulting short position will be uncovered ("uncovered opening writing transactions").

(1) In addition to a request, the following conditions are necessary for the imposition of restrictions:

(A) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;

(B) the underwriters agree to notify BX Regulation upon the termination of their stabilization activities; and

(C) the underwriters initiate stabilization activities in such underlying security on a national securities exchange when the price of such security is either at a "minus" or "zero minus" tick.

(2) Upon receipt of such a request and determination that the conditions listed above are met, BX Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after Participants shall have been notified and shall terminate such restrictions upon request of the underwriters or when BX Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.

(3) For purposes of paragraph (b) of this Rule, an uncovered opening writing transaction in a call option will be deemed to be effected at a "discount" when the premium in such transaction is either:

(A) in the case of a distribution of the underlying security not involving the issuance of rights and in the case of a distribution of securities exchangeable for or convertible into the underlying security, less than the amount by which the underwriters' stabilization bid for the underlying security exceeds the exercise price of such option; or

(B) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters' stabilization bid in the underlying security at the subscription price exceeds the exercise price of such option.

## **Section 20. Mandatory Systems Testing**

(a) Each Options Participant that BX designates as required to participate in a system test must conduct or participate in the testing of its computer systems to ascertain the compatibility of such systems with the Exchange's systems in the manner and frequency prescribed by the Exchange. BX will designate Options Participants as required to participate in a system test based on: (1) the category of the Participant (Market Maker and OEF); (2) the computer system(s) the Participant uses; and (3) the manner in which the Participant connects to the Exchange. BX will give Participants reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Participants' obligations in participating in the test.

(b) Every Options Participant required by BX to conduct or participate in testing of computer systems shall provide to the Exchange such reports relating to the testing as the Exchange may prescribe. Participants shall maintain adequate documentation of tests required by this Rule and results of such testing for examination by the Exchange.

(c) An Options Participant that is subject to this Rule and that fails to conduct or participate in the tests, fails to file the required reports, or fails to maintain the required documentation, may be subject to a summary suspension or other action taken pursuant to

Chapter X of these Rules and/or a disciplinary action pursuant to the Rule 9000 Series of the Rules of the Exchange (Disciplining of Members).

### **Section 21. Anti-Money Laundering Compliance Program**

Each Options Participant shall comply with General 9, Section 37.

### **Section 22. Reserved**

### **Section 23. Reserved**

## **Options 10 Doing Business with the Public**

### **Section 1. Eligibility**

An OEF may only transact business with Public Customers if such Participant also is a member of another registered national securities exchange or association with which the Exchange has entered into an agreement under Rule 17d-2 under the Exchange Act pursuant to which such other exchange or association shall be the designated options examining authority for the OEF. Eligibility to transact business with the public shall be based upon an OEF's meeting the general requirements set forth in this Options 10 and the net capital requirements set forth in Exchange Act Rule 15c3-1 (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

### **Section 2. Registration of Options Principals**

No OEF shall be approved to transact options business with the public until those associated persons who are designated as Options Principals have been approved by and registered with the Exchange. Persons engaged in the management and supervision of the OEF's business pertaining to options contracts shall be designated as Options Principals and shall have responsibility for the overall oversight of the OEF's options related activities on the Exchange.

### **Section 3. Registration of Representatives**

(a) No OEF shall be approved to transact business with the public until those persons associated with it who are designated representatives have been approved by and registered with the Exchange.

(b) Persons who perform duties for the OEF which are customarily performed by sales representatives or branch office managers shall be designated as representatives of the OEF. A person accepting orders from non-Member customers (unless such customer is a broker-dealer registered with the Securities and Exchange Commission) is required to register with the Exchange and to be qualified by passing the General Securities Registered Representative Examination (Series 7).

### **Section 4. Discipline, Suspension, Expulsion of Registered Persons**

The Exchange or BX Regulation may discipline, suspend or terminate the registration of any registered person for violation of the Rules of the Exchange or the Rules of the Clearing Corporation.

### **Section 5. Branch Offices**

(a) Every OEF approved to do options business with the public under this Options 10 shall file with BX Regulation and keep current a list of each of its branch offices showing the location of each such office and the name of the manager of each such office.

(b) No branch office of an OEF shall transact options business with the public unless the manager of such branch office has been qualified as a Registered Options and Security Futures Principal; provided, that this requirement shall not apply to branch offices in which not more than three (3) representatives are located so long as the OEF can demonstrate to the satisfaction of BX Regulation that the options activities of such branch offices are appropriately supervised by a Registered Options and Security Futures Principal.

### **Section 6. Opening of Accounts**

(a) *Approval Required.* No OEF shall accept an order from a Public Customer to purchase or write an options contract unless the Public Customer's account has been approved for options transactions in accordance with the provisions of this Rule.

(b) *Diligence in Opening Account.* In approving a Public Customer's account for options transactions, an OEF shall exercise due diligence to learn the essential facts as to the Public Customer and his investment objectives and financial situation, and shall make a record of such information, which shall be retained in accordance with SEC Rule 17a-4 under the Exchange Act. Based upon such information, the branch office manager or other Options Principal shall approve in writing the Public Customer's account for options transactions; provided, that if the branch office manager is not an Options Principal, his approval shall within a reasonable time be confirmed by an Options Principal.

(1) In fulfilling its obligations under this paragraph (b) with respect to options Public Customers that are natural persons, an OEF shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

(A) investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);

(B) employment status (name of employer, self-employed or retired);

(C) estimated annual income from all sources;

(D) estimated net worth (exclusive of primary residence);

(E) estimated liquid net worth (cash, securities, other);

(F) marital status;

(G) number of dependents;

(H) age; and

(I) investment experience and knowledge (e.g., number of years, size, frequency and type of transactions for options, stocks and bonds, commodities, other).

(2) In addition to the information required in subparagraph (b)(1) above, the Public Customer's account records shall contain the following information, if applicable:

(A) the source or sources of background and financial information (including estimates) concerning the Public Customer;

(B) discretionary trading authorization, including agreement on file, name, relationship to Public Customer and experience of person holding trading authority;

(C) date(s) options disclosure document(s) furnished to Public Customer;

(D) nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions);

(E) name of representative;

(F) name of the Options Principal approving account;

(G) date of approval; and

(H) dates of verification of currency of account information.

(3) Refusal of a Public Customer to provide any of the information called for in this paragraph (b) shall be so noted on the Public Customer's records at the time the account is opened. Information provided shall be considered together with other information available in determining whether and to what extent to approve the account for options transactions.

(c) Verification of Public Customer Background and Financial Information. The background and financial information upon which the account of every new Public Customer that is a natural person has been approved for options trading, including all of

the information required in paragraph (b)(ii) of this Rule, unless the information is included in the Public Customer's account agreement, shall be sent to the Public Customer for verification or correction within fifteen (15) days after the Public Customer's account has been approved for options transactions. A copy of the background and financial information on file with the OEF shall also be sent to the Public Customer for verification within fifteen (15) days after the OEF becomes aware of any material change in the Public Customer's financial situation. Absent advice from the Public Customer to the contrary, the information will be deemed to be verified.

(d) *Agreements to Be Obtained.* Within fifteen (15) days after a Public Customer's account has been approved for options transactions, an OEF shall obtain from the Public Customer a written agreement that the account shall be handled in accordance with the Rules of the Exchange and the Rules of the Clearing Corporation and that such Public Customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Options 9, Section 13 and 15 of these Rules.

(e) *Options Disclosure Documents to Be Furnished.* At or prior to the time a Public Customer's account is approved for options transactions, an OEF shall furnish the Public Customer with one (1) or more current options disclosure documents issued by the OCC in accordance with the requirements of Options 10, Section 13 (Delivery of Current Options Disclosure Documents and Prospectus).

(f) Every OEF transacting business with the public in uncovered options contracts shall develop, implement and maintain specific written procedures governing the conduct of such business that shall at least include the following:

(A) specific criteria and standards to be used in evaluating the suitability of a Public Customer for uncovered short options transactions;

(B) specific procedures for approval of accounts engaged in writing uncovered short options contracts (which for the purposes of this Rule shall include combinations and any transactions that involve naked writing), including written approval of such accounts by an Options Principal;

(C) designation of a specific Registered Options and Security Futures Principal(s) as responsible for approving accounts that do not meet the specific criteria and standards for writing uncovered short options transactions and for maintaining written records of the reasons for every account so approved;

(D) establishment of specific minimum net equity requirements for initial approval and maintenance of Public Customer uncovered options accounts; and

(E) requirements that Public Customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short options transactions, at or prior to the initial

uncovered short options transaction pursuant to Options 10, Section 13 (Delivery of Current Options Disclosure Documents and Prospectus).

### **Section 7. Supervision of Accounts**

(a) Duty to Supervise - General. Each Member that conducts a public customer options business shall ensure that its written supervisory system policies and procedures pursuant to FINRA Rules 3110, 3120, 3130 and 3170 adequately address the Member's public customer options business.

(b) Duty to Supervise — Non-Participant Accounts. Every OEF shall develop and implement a written program for the review of the its non-Participant Public Customer accounts and all orders in such accounts, insofar as such accounts and orders relate to options contracts.

(c) Duty to Supervise — Uncovered Short Options. Every OEF shall develop and implement specific written procedures concerning the manner of supervision of Public Customer accounts maintaining uncovered short (written) options positions (which for the purposes of this Rule shall include combinations and any transactions that involve naked writing) and specifically providing for frequent supervisory review of such accounts.

(d) Maintenance of Public Customer Records. Background and financial information of Public Customers who have been approved for options transactions shall be maintained at the principal supervisory office having jurisdiction over the office servicing a Public Customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each Public Customer's options account on a timely basis to determine:

(A) the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;

(B) the size and frequency of options transactions;

(C) commission activity in the account;

(D) profit or loss in the account;

(E) undue concentration in any options class or classes; and

(F) compliance with the provisions of Regulation T of the Federal Reserve Board.

### **Section 8. Suitability of Recommendations**

(a) Every OEF, Options Principal or representative who recommends to a Public Customer the purchase or sale (writing) of any options contract shall have reasonable

grounds for believing that the recommendation is not unsuitable for such Public Customer on the basis of the information furnished by such Public Customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such OEF, Options Principal or representative.

(b) No OEF, Options Principal or representative shall recommend to a Public Customer an opening transaction in any options contract unless the person making the recommendation has a reasonable basis for believing at the time of making the recommendation that the Public Customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the options contract.

### **Section 9. Discretionary Accounts**

(a) *Authorization and Approval Required.* No OEF shall exercise any discretionary power with respect to trading in options contracts in a Public Customer's account unless such Public Customer has given prior written authorization and the account has been accepted in writing by a Registered Options and Security Futures Principal.

(1) Each participant shall designate specific Registered Options and Security Futures Principals to review discretionary accounts. A Registered Options and Security Futures Principal other than the Registered Options and Security Futures Principal who accepted the account shall review the acceptance of each discretionary account to determine that the Registered Options and Security Futures Principal accepting the account had a reasonable basis for believing that the Public Customer was able to understand and bear the risks of the strategies or transactions proposed, and the reviewing Registered Options and Security Futures Principal shall maintain a record of the basis for his determination.

(2) Every discretionary order shall be identified as discretionary on the order at the time of its entry into BX Options market.

(2) Discretionary accounts shall receive frequent appropriate supervisory review by a Registered Options and Security Futures Principal who is not exercising the discretionary authority.

(b) *Record of Transactions.* A record shall be made of every options transaction for an account with respect to which an OEF is vested with any discretionary power, such record to include the name of the Public Customer, options class and series, number of contracts, premium, and date and time when such transaction took place.

(c) *Excessive Transactions Prohibited.* No OEF shall effect with or for any Public Customer's account with respect to which such Participant is vested with any discretionary power any transactions of purchase or sale of options contracts that are excessive in size or frequency in view of the financial resources and character of such account.

(d) Options Programs. Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the Public Customer shall be furnished with a written explanation of the nature and risks of such programs.

(e) Discretion as to Price or Time Excepted. This rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts in a specified security shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent a specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined in General 9, Section 30(b)(2) pursuant to valid Good-Till-Cancelled instructions issued on a "not held" basis. Any exercise of time and price discretion must be reflected on the order ticket.

(f) Any participant that does not utilize computerized surveillance tools for the frequent and appropriate review of discretionary account activity must establish and implement procedures to require Registered Options and Security Futures Principal qualified individuals who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

#### **Section 10. Confirmation to Public Customers**

(a) Every OEF shall promptly furnish to each Public Customer a written confirmation of each transaction in options contracts that shows the underlying security, type of options, expiration month, exercise price, number of options contracts, premium, commissions, date of transaction and settlement date, and shall indicate whether the transaction is a purchase or sale and whether a principal or agency transaction.

(b) The confirmation shall, by appropriate symbols, distinguish between Exchange options transactions and other transactions in option contracts though such confirmation does not need to specify the exchange or exchanges on which such option contracts were executed.

#### **Section 11. Statement of Accounts to Public Customers**

(a) Every OEF shall send to its Public Customers a statement of account showing security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement; provided, however, that such charges need not be specifically delineated on the statement if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

(b) With respect to options Public Customers having a general (margin) account, the Public Customer statement shall also provide the mark-to-market price and market value of each options position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account, and the general (margin) account equity. For purposes of this paragraph

(b), general (margin) account equity shall be computed by subtracting the total of the short security values and any debit balance from the total of the long security values and any credit balance.

(c) The Public Customer statement shall bear a legend stating that further information with respect to commissions and other charges related to the execution of listed options transactions has been included in confirmations of such transactions previously furnished to the Public Customer, and that such information will be made available to the Public Customer promptly upon request.

(d) Public Customer statements shall bear a legend requesting that the Public Customer promptly advise the Participant of any material change in the Public Customer's investment objectives or financial situation.

(e) Public Customer statements shall be sent at least quarterly to all accounts having a money or a security position during the preceding quarter and at least monthly to all accounts having an entry during the preceding month.

### **Section 12. Statements of Financial Condition to Public Customers**

Every OEF shall send to each of its Public Customers statements of the Participant's financial condition as required by SEC Rule 17a-5 under the Exchange Act.

### **Section 13. Delivery of Current Options Disclosure Documents and Prospectus**

(a) *Options Disclosure Documents.* Every OEF shall deliver a current options disclosure document issued by the OCC to each Public Customer at or prior to the time such Public Customer's account is approved for options transactions. Where a Public Customer is a broker or dealer, the OEF shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current options disclosure documents, as requested by the broker or dealer, to enable it to comply with the requirements of this Rule.

(1) The term "current options disclosure document" means, as to any category of underlying security, the most recent edition of such document that meets the requirements of Rule 9b-1 under the Exchange Act.

(2) A copy of each amendment to an options disclosure document shall be furnished to each Public Customer who was previously furnished the options disclosure document to which the amendment pertains, not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such Public Customer. BX Regulation will advise OEFs when an options disclosure document is amended.

(b) The written description of risks required by this Rule shall be in a format prescribed by the Exchange or in a format developed by the Participant, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

(c) Below is a sample risk description for use by OEFs to satisfy the requirements of paragraph (b) of this Rule:

*Special Statement for Uncovered Options Writers.*

*There are special risks associated with uncovered options writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all Public Customers approved for options transactions.*

*1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.*

*2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.*

*3. Uncovered options writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.*

*4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.*

*5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.*

*6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period. NOTE: It is expected that you will read the booklet entitled CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS available from your broker. In particular, your attention is directed to the chapter entitled Risks of Buying and Writing Options. This statement is not intended to enumerate all of the risks entailed in writing uncovered options.*

**Section 14. Restrictions on Pledge and Lending of Public Customers' Securities**

(a) No OEF shall lend, either to itself or to others, securities carried for the account of any Public Customer, unless such OEF shall first have obtained a separate written authorization from such Public Customer permitting the lending of the securities.

(b) Regardless of any agreement between an OEF and a Public Customer authorizing the OEF to lend or pledge such securities, no OEF shall lend or pledge more of such securities than is fair and reasonable in view of the indebtedness of the Public Customer to such OEF, except such lending as may be specifically authorized under paragraph (c) of this Rule.

(c) No OEF shall lend securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be loaned in view of the indebtedness of the Public Customer, unless such OEF first obtains from such Public Customer a separate written authorization designating the particular securities to be loaned.

(d) No OEF shall hold securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be pledged in view of the indebtedness of the Public Customer, unless such securities are segregated and identified by a method that clearly indicates the interest of such Public Customer in those securities.

#### **Section 15. Transactions of Certain Public Customers**

(a) No OEF shall execute any transaction in securities or carry a position in any security in which:

(1) an officer or employee of the Exchange, BX Regulation, BX Options or any national securities exchange that is a participant of the Clearing Corporation, or an officer or employee of a corporation in which the Exchange, or such other exchange owns the majority of the capital stock, is directly or indirectly interested, without the prior written consent of the Exchange; or

(2) a partner, officer, director, principal shareholder or employee of another OEF is directly or indirectly interested, without the consent of such other OEF.

(b) Where the required consent has been granted, duplicate reports of the transaction and position shall promptly be sent to the Exchange or OEF, as the case may be.

#### **Section 16. Guarantees**

No OEF shall guarantee a Public Customer against loss in his account or in any transaction effected with or for such Public Customer.

#### **Section 17. Profit Sharing**

(a) No OEF, person associated with an OEF or Options Principal shall share directly or indirectly in the profits or losses in any Public Customer's account, whether carried by

such OEF, or any other OEF, without the prior written consent of the OEF carrying the account.

(b) Where such consent is obtained, the OEF, person associated with an OEF or Options Principal shall share in the profits or losses in such account only in direct proportion to the financial contribution made to the account by such person.

### **Section 18. Assuming Losses**

No OEF shall assume for its own account any position established for a Public Customer in a security traded on the Exchange after a loss to the Public Customer has been established or ascertained, unless the position was created by the OEF's mistake or unless approval of BX Regulation has first been obtained.

### **Section 19. Transfer of Accounts**

Every Options Participant shall expedite the transfer of a customer's account pursuant to General 9, Section 1 and Equity Rule 11870.

### **Section 20. Communications with Public Customers**

(a) Options Participants and associated persons of Options Participants shall be bound to comply with the Communications with Public Customers rule of the FINRA, as applicable, as though said rules were part of these Rules.

(b) No OEF shall address any communications to a Public Customer in care of any other person unless either: (1) the Public Customer, within the preceding twelve (12) months, has instructed the OEF in writing to send communications in care of such other persons, or (2) duplicate copies are sent to the Public Customer at some other address designated in writing by him.

### **Section 21. Fidelity Bond**

Options Participants approved to transact business with the public under these Rules and every Clearing Participant shall comply with all applicable provisions of General 9, Section 39.

### **Section 22. Public Customer Complaints**

(a) Every OEF conducting a non-Participant Public Customer business shall make and keep current a separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved.

(b) The term "options-related complaint" shall mean any written statement by a Public Customer or person acting on behalf of a Public Customer alleging a grievance arising out of or in connection with listed options.

(c) The central file shall be located at the principal place of business of the Participant or such other principal office as shall be designated by the OEF.

(1) Each options-related complaint received by a branch office of an OEF shall be forwarded to the office in which the separate, central file is located not later than thirty (30) days after receipt by the branch office.

(2) A copy of every options-related complaint shall be maintained at the branch office that is the subject of a complaint.

(d) At a minimum, the central file shall include:

(1) identification of complainant;

(2) date complaint was received;

(3) identification of the representative servicing the account, if applicable;

(4) a general description of the subject of the complaint; and

(5) a record of what action, if any, has been taken by the Participant with respect to the complaint.

### **Section 23. Telephone Solicitation**

Options Participants and associated persons shall comply with all applicable provisions of General 9, Section 5.

### **Section 24. Other Affiliations of Registered Persons**

Except with the express written permission of BX Regulation, every registered person shall devote his entire time during business hours to the business of the OEF employing him, or to the business of its affiliates that are engaged in the transaction of business as a broker or dealer in securities or commodities or in such other businesses as have been approved by the OEF's designated examining authority.

### **Section 25. Reserved**

### **Options 11 Minor Rule Plan Violations**

#### **Section 1. Minor Rule Plan Violations**

The following BX Options rule and policy violations may be determined by BX Regulation to be minor in nature. If so, BX Regulation may, with respect to any such violation, proceed under the 9200 Series Rules of the Exchange and impose the fine set forth below. BX Regulation is not required to proceed under said Sections as to any rule violation and may, whenever such action is deemed appropriate, commence a disciplinary proceeding under the 9200 Series Rules of the Exchange as to any such violation. A subsequent violation is calculated on the basis of a rolling 24-month period ("Period").

(a) **Position Limit Violations.** Violations of Options 9, Section 13 of these Rules (Position Limit) are subject to fines as follows:

<u>Number of Cumulative Violations Within Any Twenty four Month Rolling Period*</u>	<u>Sanction (Imposed on Exchange Members or violations occurring in all other accounts)</u>
<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Third Offense</u>	<u>\$2,500</u>
<u>Fourth and Each Subsequent Offense</u>	<u>\$5,000</u>

\* A violation that consists of (i) a 1 trade date overage, (ii) a consecutive string of trade date overage violations where the position does not change or where a steady reduction in the overage occurs, or (iii) a consecutive string of trade date overage violations resulting from other mitigating circumstances, may be deemed to constitute one offense, provided that the violations are inadvertent.

(b) **Order Entry.** Violations of Options 2, Section 5(a) - (c) of these Rules, (Market Maker Quotations) regarding restrictions on orders entered by Market Makers, will be subject to the fines listed below. Each paragraph of such sections subject to this Rule shall be treated separately for purposes of determining the number of cumulative violations.

Number of Violations Fine Amount Within One Period

<u>1 to 5</u>	<u>Letter of Caution</u>
<u>6 to 10</u>	<u>\$500</u>
<u>11 to 15</u>	<u>\$1000</u>
	<u>\$2000</u>
<u>16 to 20</u>	

(c) **Intra-day Quotes.** Violations of Options 2, Section 5(d) of these Rules regarding Market Maker intra-day bids and offers shall be subject to the fines listed below. Violations of the rule that continue over consecutive trading days will be subject to a separate fine, pursuant to this paragraph (d), for each day during which the violation occurs and is continuing up to a limit of fifteen consecutive trading days. In calculating fine thresholds for each Market Maker, all violations occurring within the Period in any of the Market Makers registered series are to be added together.

Number of Cumulative Fine Amount Violations Within One Period

<u>1</u>	<u>Letter of Caution</u>
<u>2 or more</u>	<u>\$300 per day</u>

**(d) LOPR Reporting and Position Limit Violations.** Violations of Options 9, Section 13-16 of these Rules regarding position limits and maintaining and furnishing reports related to applicable position limits for Options contracts.

<u>FINE SCHEDULE</u>	<u>LOPR Reporting</u>	<u>Position Limits</u>
<u>First Offense</u>	<u>\$1,000</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$2,500</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>	<u>\$2,500</u>

**(e) Expiring Exercise Declaration Rules.** Violations of Options 6B, Section 1 of these Rules regarding exercise of Options Contracts, allocation of exercise notices and delivery and payment of the underlying security.

<u>FINE SCHEDULE</u>	<u>Individual</u>	<u>Firm</u>
<u>First Offense</u>	<u>\$500</u>	<u>\$1,000</u>
<u>Second Offense</u>	<u>\$1,000</u>	<u>\$2,500</u>
<u>Subsequent Offense</u>	<u>\$2,500</u>	<u>\$5,000</u>

**(f) Audit Trail Submissions and Record Keeping Requirements.** Options 6E, Section 9, regarding the submission of audit trail information; and Options 6E, Sections 1-3 of these Rules regarding information to be recorded, retained and provided upon request by BX Regulation or other applicable regulatory entity.

<u>FINE SCHEDULE</u>	<u>Audit Trail Information</u>	<u>Records Provisions</u>
<u>First Offense</u>	<u>\$1,500</u>	<u>\$2,000</u>
<u>Second Offense</u>	<u>\$3,000</u>	<u>\$4,000</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>	<u>\$5,000</u>

**(g) Representation of Orders.** Options 3, Section 22 of these Rules regarding Options Participants' restriction on execution of principal orders they represent as agent unless proper exposure parameters are applied.

FINE SCHEDULE

<u>First Offense</u>	<u>\$1,000</u>
<u>Second Offense</u>	<u>\$2,500</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>

(h) **Trade Reporting.** Options 6, Sections 1 and 2 of these Rules regarding all transactions effected on BX Options shall be submitted for clearance to the Clearing Corporation, the Options Participants' obligation to give up the name of the Clearing Participants and the prompt reporting of any change in this identity to BX Options.

FINE SCHEDULE

<u>First Offense</u>	<u>\$1,500</u>
<u>Second Offense</u>	<u>\$3,000</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>

(i) **Locked and Cross Market Violations.** Options 5, Section 3 of these Rules (Locked and Crossed Markets) regarding procedures to be followed in the instance of a Locked or a Crossed Market.

FINE SCHEDULE

<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$2,500</u>

(j) **Trade-Through Violations.** Options 5, Section 2(a) of these Rules (Order Protection) regarding trade throughs.

FINE SCHEDULE

<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$2,500</u>

(k) **Failure to Timely File Amendments to Form U4, Form U5 and Form BD.** Any member and/or participant organization that is required to file Form U4, Form U5 or Form BD pursuant to Section 1031 of the BX Rules and the Securities and Exchange Act of 1934, and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Members and/or participant organizations shall amend Form U4, Form U5 and Form BD not later than thirty (30) days after the filer knew of or should have known of the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$2,000</u>

## **Section 2. Suspension**

(a) Imposition of Suspension. An Options Participant or person associated with an Options Participant that has been expelled or suspended from any SRO or barred or suspended from being associated with a Participant of any SRO, or an Options Participant that is in such financial or operating difficulty that BX Regulation determines that the Options Participant cannot be permitted to continue to do business as a Participant with safety to investors, creditors, other Options Participants, or BX Options, may be summarily suspended. BX Regulation may limit or prohibit any person with respect to access to services offered by BX Options if any of the criteria of the foregoing sentence is applicable to such person or, in the case of a person who is an Options Participant, if the Exchange determines that such person does not meet the qualification requirements or other prerequisites for such access with safety to investors, creditors, Options Participants or the Exchange.

(1) In the event a determination is made to take summary action pursuant to this Rule, notice thereof will be sent to the SEC. Any person aggrieved by any summary action taken under this Rule shall be promptly afforded an opportunity for a hearing by BX Regulation in accordance with the provisions of the 9500 Series of the Exchange's Rules. A summary suspension or other action taken pursuant to this Options 11 shall not be deemed to be disciplinary action under the 9500 Series of the Exchange's Rules. The provisions of such 9500 Series Rules shall be applicable regardless of any action taken pursuant to this Options 11.

(b) Investigation Following Suspension Violations. Every Options Participant or person associated with a Participant against which action has been taken in accordance with the Summary Suspension procedures of these Rules shall immediately afford every facility required by BX Regulation for the investigation of his or its affairs and shall forthwith file with the Secretary a written statement covering all information requested, including a complete list of creditors and the amount owing to each and a complete list of each open long and short position in BX options contracts maintained by the Participant and each of his or its Customers. This includes, without limitation, the furnishing of such books and records of the Options Participant or person associated with an Options Participant and the giving of such sworn testimony as may be requested by BX Regulation.

### (c) Reinstatement Following Suspension

#### (1) General

(A) An Options Participant, person associated with an Options Participant or other person suspended or limited or prohibited with respect to access to services offered by BX under the Summary Suspension procedures of

these Rules may apply for reinstatement within the time period set forth below.

(B) Notice of an application for reinstatement shall be given to the Secretary by the Participant and shall be posted by BX Regulation at least five (5) business days prior to the consideration by BX Regulation of said application.

(C) BX Regulation may approve an application for reinstatement if it finds that the applicant is operationally and financially able to conduct his business with safety to investors, creditors, Participants, and BX.

(2) Suspension Due to Operating Difficulty.

(A) An applicant that, by reason of operating difficulty, has been suspended or limited or prohibited with respect to BX services, must file any application for reinstatement within six (6) months from the date of such action. Such application must include a statement of all actions taken by the applicant to remedy the operational difficulty in question.

(B) If the applicant fails to receive reinstatement, or if the application is not acted upon ninety (90) days of its submission, the applicant shall be afforded an opportunity for a hearing in accordance with the provisions of the 9000 Series of the Exchange's Rules.

(3) Suspension Due to Financial Difficulty.

(A) An applicant who, by reason of financial difficulty, has been suspended or limited or prohibited with respect to BX services, must file any application for reinstatement within thirty (30) days of such action.

(B) Such application must include a list of all creditors of the applicant a statement of the amount originally owing and the nature of the settlement in each case, and such other information as may be requested by BX Regulation.

(C) The Participant status of an Options Participant summarily suspended by reason of financial difficulty may not be disposed of by BX Regulation until that Participant has been afforded an opportunity for a hearing respecting such summary suspension pursuant to the provisions of the 9000 Series of the Exchange's Rules.

(d) Failure to Obtain Reinstatement. If an Options Participant suspended under the provisions of Options 11 fails or is unable to apply for reinstatement in accordance with Section 3 of Options 11 or fails to obtain reinstatement as therein provided, his or its

Participant status shall be disposed of by BX Regulation in accordance with the 9500 Series of the Exchange's Rules.

(e) Termination of Rights by Suspension. An Options Participant suspended under the provisions of Options 11 shall be deprived during the term of his or its suspension of all rights and privileges of Participation.