

Required fields are shown with yellow backgrounds and asterisks.

Filing by Nasdaq ISE, LLC  
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 \*).

Proposal to relocate the ISE rules from their current place in the Rulebook into the 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

**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 06/06/2019 Global Chief Legal and Policy Officer  
 By Edward S. Knight  
 (Name \*)

edward.knight@nasdaq.com

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 ISE, LLC (“ISE” 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 26, 2018. 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 ISE rules into the new Rulebook shell with some amendments to the shell.<sup>3</sup> The Exchange is relocating the ISE Rules first and plans on relocating the Rulebooks of its Affiliated Exchanges so that it may harmonize its rules, where applicable, across Nasdaq markets. The relocation and harmonization of the ISE Rules 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 ISE Rules into their new location in the shell will facilitate the use of the Rulebook by Members.

Universal Changes

The Exchange proposes to amend the defined term "System"<sup>4</sup> and replace "trading system" or "system" with the defined term throughout the new rules. The Exchange proposes to capitalize the defined term "market maker" within proposed Options 1, Section 1(a)(21) and also capitalize the term throughout the Rulebook. The Exchange proposes to capitalize the defined term "Member"<sup>5</sup> throughout the new rules

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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, Nasdaq BX, Inc.; Nasdaq PHLX LLC; The Nasdaq Stock Market LLC; Nasdaq GEMX, LLC; and Nasdaq MRX, LLC ("Affiliated Exchanges"). The shell structure currently contains eight (8) Chapters which, once complete, will apply a common set of rules to the Affiliated Exchanges. See Securities Exchange Act Release No. 82175 (November 29, 2017), 82 FR 57494 (December 5, 2017) (SR-NASDAQ-2017-125).

<sup>4</sup> The term "System" is defined at Rule 100(a)(63).

<sup>5</sup> The term "Member" is defined at Rule 100(a)(30).

where it is not already capitalized. The Exchange proposes to correct references to the non-defined term “member organization” to the defined term “Member.” The Exchange proposes to capitalize the “t” in the defined term “Exchange Transactions”<sup>6</sup> where the term is not properly capitalized within the Rules. The Exchange proposes to change references to “Commentary” to “Supplementary Material” to conform the term throughout the Rulebook. References to the term “Regulatory Information Circular” are being amended to the updated term “Options Regulatory Alert.”

The Exchange proposes to update all cross-references within the Rule to the new relocated rule cites. 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 ISE Rule 715 refers currently to “Rule 715” or “this Rule 715” 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. Finally, the Exchange proposes to delete any current Rules that are reserved in the Rulebook.

#### General 1

The Exchange proposes to relocate certain definitions from Rule 100 into proposed General 1, Section 1 and the remainder of the rules into Options 1, Section 1. The Exchange proposes to relocate definitions that are specific to the options product into

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<sup>6</sup> The term “Exchange Transactions” is defined at Rule 100(a)(22).

Options 1, Section 1 and the more general definitions will be relocated into the General provisions.<sup>7</sup>

### General 2

The Exchange will not relocate ISE Rules 200-203 into General 2 Organization and Administration. The Exchange will separately file a proposed rule change to delete these rules. General 2 would be comprised of the following rules:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 204. Divisions of the Exchange
Section 2 (all 4 rules combined)	Rule 205. Access Fees Rule 206. Transaction Fees Rule 207. Communication Fees Rule 208. Regulatory Fees or Charges
Section 3	Rule 211. Exchange's Costs of Defending Legal Proceedings
Section 4	Rule 312. Limitation on Affiliation between the Exchange and Members

The Exchange is combining Rules 205-208 into a single rule to conform the content to that of other Affiliated Exchanges.<sup>8</sup> Rule 212, Sales Value Fee, will be relocated into Options 7. The Exchange intends to locate similar rules within other

<sup>7</sup> These rules are being relocated into Section 1 of the General Provisions: Chapter I (a)(4), (9), (10) (13A), (17), (18), (20), (20A), (22), (25), (26), (27), (30), (31), (48), (57), (58), (62) and (66).

<sup>8</sup> The Exchange is not proposing any substantive changes in consolidating these rules.

Nasdaq Rulebooks in similar locations when it files to relocate other Affiliate Exchange Rulebooks in separate rule changes. The Exchange proposes to reserve Sections 5 and 6 within General 2.

### General 3

The Exchange proposes to relocate the following rules into General 3, “Membership and Access.”

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 301. Qualification of Members
Section 2	Rule 302. Denial of and Conditions to Becoming a Member
Section 3	Rule 304. Persons Associated with Members
Section 4	Rule 305. Documents Required of Applicants and Members
Section 5	Rule 306. Member Application Procedures
Section 6	Rule 310. Dissolution and Liquidation of Members

### General 5

The Exchange proposes to relocate the following rules into General 5 Discipline:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1600. Disciplinary Jurisdiction
Section 2	80. Investigations and Sanctions
Section 3	90. Code of Procedure

### Options 1

The Exchange proposes to rename current Options 1 from “Options Definitions” to “General Provisions.” The Exchange proposes to relocate certain definitions from Rule 100 into proposed General 1, Section 1 and the remainder of the rules into Options

1, Section 1. The Exchange proposes to relocate definitions that are specific to the options product into Options 1, Section 1. Section 2 of Options 1 is being reserved.

### 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	Rule 800. Registration of Market Makers
Section 2	Rule 801. Designated Trading Representatives
Section 3	Rule 802. Appointment of Market Makers
Section 4	Rule 803. Obligations of Market Makers
Section 5	Rule 804. Market Maker Quotations except 804(h) which will be relocated into Options 3
Section 6	Rule 805. Market Maker Orders
Section 7	Rule 807. Securities Accounts and Orders of Market Makers
Section 8	Rule 809. Financial Requirements for Market Makers

Sections 9 and 10 will be reserved.

### Options 2A

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

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 300. Market Maker Rights
Section 2	Rule 303. Approval to Operate Multiple Memberships
Section 3	Rule 307. Sale and Transfer of Market Maker Rights



Section 4	Rule 308. Leasing Memberships
Section 5	Rule 309. Registration of Memberships by Individuals for Members
Section 6	Rule 311. Obligations of Terminating Members and Transferors of Market Maker Rights and Memberships
Section 7	Rule 209. Transfer Fees

### 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	Rule 700. Days and Hours of Business
Section 2	Rule 708. Units of Trading/Rule 709. Meaning of Premium Quotes and Orders (combined into one rule)
Section 3	Rule 710. Minimum Trading Increments
Section 4	Rule 711. Acceptance of Quotes and Orders, except (c) and (d)
Section 5	Reserved.
Section 6	Rule 704. Collection and Dissemination of Quotations
Section 7	Rule 715. Types of Orders
Section 8	Rule 701. Opening
Section 9	Rule 702. Trading Halts/Rule 703. Trading Halts Due To Extraordinary Market Volatility
Section 10	Rule 713. Priority of Quotes and Orders
Section 11	Rule 716. Auction Mechanisms
Section 12	Rule 721. Crossing Orders
Section 13	Rule 723. Price Improvement Mechanism for Crossing Transactions

Section 14	Rule 722. Complex Orders
Section 15	Rule 714. Automatic Execution of Orders
Section 16	Rule 724. Complex Order Risk Protections
Section 17	Kill Switch (relocating 711(c))
Section 18	Detection of Loss of Communication (relocating 711(d))
Section 19	Reserved
Section 20	Rule 720. Nullification and Adjustment of Options Transactions including Obvious Errors/Rule 720A. Erroneous Trades due to System Disruptions and Malfunctions (combined into one rule)
Section 21	Rule 706. Access to and Conduct on the Exchange
Section 22	Rule 717. Limitations on Orders
Section 23	Rule 718. Data Feeds and Trade Information
Section 24	Rule 719. Transaction Price Binding
Section 25	Reserved
Section 26	Message Traffic Mitigation (relocating Rule 804(h))
Section 27	Rule 705. Limitation of Liability

The Exchange proposes to combine ISE Rules 708 and 709 within Section 2.<sup>9</sup> ISE Rule 714 is being relocated into Options 3, Section 15 and is being renamed from “Automatic Execution of Orders” to “Simple Order Risk Protections.” ISE Rules 702 and 703 are being combined into Section 9. The Exchange proposes to combine ISE Rules 720 and 720A into Section 20.<sup>10</sup> The Exchange proposes to relocate ISE Rule

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<sup>9</sup> The Exchange is not proposing any substantive changes in consolidating these rules.

<sup>10</sup> Id.

711(c) and (d) into new separate Rules at Sections 17 and 18. The Exchange proposes to create a separate rule in Section 26 relocated from Rule 804(h) and title the rule “Message Traffic Mitigation.”

#### Options 4

The Exchange proposes to relocate rules within Options 4 Options Listing Rules as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 500. Designation of Securities
Section 2	Rule 501. Rights and Obligations of Holders and Writers
Section 3	Rule 502. Criteria for Underlying Securities
Section 4	Rule 503. Withdrawal of Approval of Underlying Securities
Section 5	Rule 504. Series of Options Contracts Open for Trading
Section 6	Rule 504A. Select Provisions of Options Listing Procedures Plan
Section 7	Rule 505. Adjustments
Section 8	Rule 506. Long-Term Options Contracts
Section 9	Rule 507. Limitation on the Liability of Index Licensors for Options on Fund Shares
Section 10	Rule 508. Back-Up Trading Arrangements

Rule 509, “Authority to Take Action Under Emergency Conditions” is not being relocated as this rule will be deleted.

#### 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	Rule 2000. Application of Index Rules
Section 2	Rule 2001. Definitions
Section 3	Rule 2002. Designation of an Index
Section 4	Reserved.
Section 5	Rule 2003. Dissemination of Information
Section 6	Rule 2004. Position Limits for Broad-Based Index Options
Section 7	Rule 2005. Position Limits for Industry Index Options
Section 8	Rule 2005A. Position Limits for Foreign Currency Index Options
Section 9	Rule 2006. Exemptions from Position Limits
Section 10	Rule 2007. Exercise Limits
Section 11	Rule 2008. Trading Sessions
Section 12	Rule 2009. Terms of Index Options Contracts
Section 13	Rule 2010. Debit Put Spread Cash Account Transactions
Section 14	Rule 2011. Disclaimers
Section 15	Rule 2012. Exercise of American-Style Index Options
Section 16	Rule 2013. Market Maker Trading License

### Options 5

The Exchange proposes to rename Options 5 from “Options Trade Administration” to “Order Protection and Locked and Crossed Markets” and relocate rules within Options 5 as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1900. Definitions
Section 2	Rule 1901. Order Protection
Section 3	Rule 1902. Locked and Crossed Markets
Section 4	Rule 1903. Order Routing to Other Exchanges
Section 5	Rule 1904. Cancellation of Orders and Error Account

### 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	Rule 707. Clearing Member Give Up
Section 2	Rule 712. Submission of Orders and Clearance of Transactions
Section 3	Rule 806. Trade Reporting and Comparison
Section 4	Rule 808. 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	Rule 1000. Contracts of Suspended Members
Section 2	Rule 1001. 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	Rule 1100. Exercise of Options Contracts
Section 2	Rule 1101. Allocation of Exercise Notices
Section 3	Rule 1102. 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	Rule 1200. General Rule
Section 2	Rule 1201. Time Margin Must Be Obtained
Section 3	Rule 1202. Margin Requirements
Section 4	Rule 1203. Meeting Margin Calls by Liquidation Prohibited
Section 5	Rule 1204. Margin Required Is Minimum
Section 6	Rule 1205. Margin Requirements Exception

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	Rule 1300. Minimum Requirements

Section 2	Rule 1301. "Early Warning" Notification Requirements
Section 3	Rule 1302. Power of President to Impose Restrictions
Section 4	Rule 1303. Joint Back Office Arrangements

### 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	Rule 1400. Maintenance, Retention and Furnishing of Books, Records and Other Information
Section 2	Rule 1401. Reports of Uncovered Short Positions
Section 3	Rule 1402. Financial Reports
Section 4	Rule 1403. Audits
Section 5	Rule 1404. Automated Submission of Trade Data
Section 6	Rule 1405. Risk Analysis of Market Maker Accounts
Section 7	Rule 1406. Regulatory Cooperation
Section 8	Rule 1408. Fingerprint-Based Background Checks of Exchange Employees and Independent Contractors and Other Service Providers

### Options 7

The Exchange proposes to relocate Rule 212 titled “Sales Value Fee” to Options 7, Options Pricing at new proposed Section 12.

The Exchange is updating various cross-references within Options 7 to reflect the new rule locations. Within the definition of Options 7, Section 1, the Exchange is also deleting rule references to “SSF-Option Orders” which terminology no longer exists

within current Rule 722.<sup>11</sup>

Options 9

The Exchange proposes to relocate rules within new proposed Options 9 titled

“Business Conduct” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 400. Just and Equitable Principles of Trade
Section 2	Rule 401. Adherence to Law
Section 3	Rule 402. Sharing of Offices and Wire Connections
Section 4	Rule 403. Disruptive Quoting and Trading Activity Prohibited
Section 5	Rule 404. False Statements
Section 6	Rule 405. Manipulation
Section 7	Rule 406. Gratuities
Section 8	Rule 407. Rumors
Section 9	Rule 408. Prevention of the Misuse of Material Nonpublic Information
Section 10	Rule 409. Disciplinary Action by Other Organizations
Section 11	Rule 410. Other Restrictions on Members
Section 12	Rule 411. Significant Business Transactions
Section 13	Rule 412. Position Limits
Section 14	Rule 413. Exemptions from Position Limits
Section 15	Rule 414. Exercise Limits
Section 16	Rule 415. Reports Related to Position Limits

<sup>11</sup> See Securities Exchange Act Release No. 82999 (April 5, 2018), 83 FR 15662 (April 11, 2018) (SR-ISE-2018-28).



Section 17	Rule 416. Liquidation Positions
Section 18	Rule 417. Limit on Outstanding Uncovered Short Positions
Section 19	Rule 418. Other Restrictions on Options Transactions and Exercises
Section 20	Rule 419. Mandatory Systems Testing
Section 21	Rule 420. Anti-Money Laundering Compliance Program
Section 22	Rule 421. Proxy Voting
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	Rule 600. Exchange Approval
Section 2	Rule 601. Registration of Options Principals
Section 3	Rule 602. Registration of Representatives
Section 4	Rule 606. Discipline, Suspension, Expulsion of Registered Persons
Section 5	Rule 607. Branch Offices
Section 6	Rule 608. Opening of Accounts
Section 7	Rule 609. Supervision of Accounts
Section 8	Rule 610. Suitability of Recommendations
Section 9	Rule 611. Discretionary Accounts
Section 10	Rule 612. Confirmation to Customers
Section 11	Rule 613. Statement of Accounts to Customers

Section 12	Rule 614. Statements of Financial Condition to Customers
Section 13	Rule 616. Delivery of Current Options Disclosure Documents and Prospectus
Section 14	Rule 617. Restrictions on Pledge and Lending of Customers' Securities
Section 15	Rule 618. Transactions of Certain Customers
Section 16	Rule 619. Guarantees
Section 17	Rule 620. Profit Sharing
Section 18	Rule 621. Assuming Losses
Section 19	Rule 622. Transfer of Accounts
Section 20	Rule 623. Options Communications
Section 21	Rule 624. Brokers' Blanket Bonds
Section 22	Rule 625. Customer Complaints
Section 23	Rule 626. Telemarketing

The Exchange proposes to reserve Options 10, Sections 24 and 25.

#### Options 11

Finally, the Exchange proposes to relocate Rule 1614, titled “Imposition of Fines for Minor Rule Violations” to Options 11 titled “Minor Rule Plan Violations” at Section 1.

#### b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>13</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

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 rules, where applicable, across Nasdaq markets so that Members can readily locate rules which cover similar topics. The relocation and harmonization of the ISE Rules 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 ISE 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 ISE's Rules. The Exchange intends to file other rule change to relocate Affiliated Exchange Rulebooks to relocate corresponding rules into the same location in each Rulebook for ease of reference. 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.

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 ISE's Rules.

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>14</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>15</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 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 ISE 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

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>15</sup> 17 CFR 240.19b-4(f)(6).

rule changes are non-substantive in nature and intended to bring clarity to the rule.

Renumbering, re-lettering, deleting reserved rules and amending cross-references will bring greater transparency to ISE's Rules.

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 rules 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 Rulebook 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 Rules 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-ISE-2019-17)

June \_\_, 2019

Self-Regulatory Organizations; Nasdaq ISE, LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Relocate ISE's Rules From Their Current Place in the Rulebook into the 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 June 6, 2019, Nasdaq ISE, LLC ("ISE" 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://ise.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 ISE rules into the new Rulebook shell with some amendments to the shell.<sup>3</sup> The Exchange is relocating the ISE Rules first and plans on relocating the Rulebooks of its Affiliated Exchanges so that it may harmonize its rules, where applicable, across Nasdaq markets. The relocation and harmonization of the ISE Rules 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 ISE Rules into their new location in the shell will facilitate the use of the Rulebook by Members.

Universal Changes

The Exchange proposes to amend the defined term "System"<sup>4</sup> and replace "trading system" or "system" with the defined term throughout the new rules. The Exchange proposes to capitalize the defined term "market maker" within proposed

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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, Nasdaq BX, Inc.; Nasdaq PHLX LLC; The Nasdaq Stock Market LLC; Nasdaq GEMX, LLC; and Nasdaq MRX, LLC ("Affiliated Exchanges"). The shell structure currently contains eight (8) Chapters which, once complete, will apply a common set of rules to the Affiliated Exchanges. See Securities Exchange Act Release No. 82175 (November 29, 2017), 82 FR 57494 (December 5, 2017) (SR-NASDAQ-2017-125).

<sup>4</sup> The term "System" is defined at Rule 100(a)(63).



Options 1, Section 1(a)(21) and also capitalize the term throughout the Rulebook. The Exchange proposes to capitalize the defined term “Member”<sup>5</sup> throughout the new rules where it is not already capitalized. The Exchange proposes to correct references to the non-defined term “member organization” to the defined term “Member.” The Exchange proposes to capitalize the “t” in the defined term “Exchange Transactions”<sup>6</sup> where the term is not properly capitalized within the Rules. The Exchange proposes to change references to “Commentary” to “Supplementary Material” to conform the term throughout the Rulebook. References to the term “Regulatory Information Circular” are being amended to the updated term “Options Regulatory Alert.”

The Exchange proposes to update all cross-references within the Rule to the new relocated rule cites. 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 ISE Rule 715 refers currently to “Rule 715” or “this Rule 715” 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. Finally, the Exchange proposes to delete any current Rules that are reserved in the Rulebook.

#### General 1

The Exchange proposes to relocate certain definitions from Rule 100 into proposed General 1, Section 1 and the remainder of the rules into Options 1, Section 1. The Exchange proposes to relocate definitions that are specific to the options product into

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<sup>5</sup> The term “Member” is defined at Rule 100(a)(30).

<sup>6</sup> The term “Exchange Transactions” is defined at Rule 100(a)(22).

Options 1, Section 1 and the more general definitions will be relocated into the General provisions.<sup>7</sup>

### General 2

The Exchange will not relocate ISE Rules 200-203 into General 2 Organization and Administration. The Exchange will separately file a proposed rule change to delete these rules. General 2 would be comprised of the following rules:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 204. Divisions of the Exchange
Section 2 (all 4 rules combined)	Rule 205. Access Fees Rule 206. Transaction Fees Rule 207. Communication Fees Rule 208. Regulatory Fees or Charges
Section 3	Rule 211. Exchange's Costs of Defending Legal Proceedings
Section 4	Rule 312. Limitation on Affiliation between the Exchange and Members

The Exchange is combining Rules 205-208 into a single rule to conform the content to that of other Affiliated Exchanges.<sup>8</sup> Rule 212, Sales Value Fee, will be relocated into Options 7. The Exchange intends to locate similar rules within other

<sup>7</sup> These rules are being relocated into Section 1 of the General Provisions: Chapter I (a)(4), (9), (10) (13A), (17), (18), (20), (20A), (22), (25), (26), (27), (30), (31), (48), (57), (58), (62) and (66).

<sup>8</sup> The Exchange is not proposing any substantive changes in consolidating these rules.

Nasdaq Rulebooks in similar locations when it files to relocate other Affiliate Exchange Rulebooks in separate rule changes. The Exchange proposes to reserve Sections 5 and 6 within General 2.

### General 3

The Exchange proposes to relocate the following rules into General 3, “Membership and Access.”

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 301. Qualification of Members
Section 2	Rule 302. Denial of and Conditions to Becoming a Member
Section 3	Rule 304. Persons Associated with Members
Section 4	Rule 305. Documents Required of Applicants and Members
Section 5	Rule 306. Member Application Procedures
Section 6	Rule 310. Dissolution and Liquidation of Members

### General 5

The Exchange proposes to relocate the following rules into General 5 Discipline:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1600. Disciplinary Jurisdiction
Section 2	80. Investigations and Sanctions
Section 3	90. Code of Procedure

### Options 1

The Exchange proposes to rename current Options 1 from “Options Definitions” to “General Provisions.” The Exchange proposes to relocate certain definitions from Rule 100 into proposed General 1, Section 1 and the remainder of the rules into Options

1, Section 1. The Exchange proposes to relocate definitions that are specific to the options product into Options 1, Section 1. Section 2 of Options 1 is being reserved.

### 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	Rule 800. Registration of Market Makers
Section 2	Rule 801. Designated Trading Representatives
Section 3	Rule 802. Appointment of Market Makers
Section 4	Rule 803. Obligations of Market Makers
Section 5	Rule 804. Market Maker Quotations except 804(h) which will be relocated into Options 3
Section 6	Rule 805. Market Maker Orders
Section 7	Rule 807. Securities Accounts and Orders of Market Makers
Section 8	Rule 809. Financial Requirements for Market Makers

Sections 9 and 10 will be reserved.

### Options 2A

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

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 300. Market Maker Rights
Section 2	Rule 303. Approval to Operate Multiple Memberships
Section 3	Rule 307. Sale and Transfer of Market Maker Rights

Section 4	Rule 308. Leasing Memberships
Section 5	Rule 309. Registration of Memberships by Individuals for Members
Section 6	Rule 311. Obligations of Terminating Members and Transferors of Market Maker Rights and Memberships
Section 7	Rule 209. Transfer Fees

### 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	Rule 700. Days and Hours of Business
Section 2	Rule 708. Units of Trading/Rule 709. Meaning of Premium Quotes and Orders (combined into one rule)
Section 3	Rule 710. Minimum Trading Increments
Section 4	Rule 711. Acceptance of Quotes and Orders, except (c) and (d)
Section 5	Reserved.
Section 6	Rule 704. Collection and Dissemination of Quotations
Section 7	Rule 715. Types of Orders
Section 8	Rule 701. Opening
Section 9	Rule 702. Trading Halts/Rule 703. Trading Halts Due To Extraordinary Market Volatility
Section 10	Rule 713. Priority of Quotes and Orders
Section 11	Rule 716. Auction Mechanisms
Section 12	Rule 721. Crossing Orders
Section 13	Rule 723. Price Improvement Mechanism for Crossing Transactions

Section 14	Rule 722. Complex Orders
Section 15	Rule 714. Automatic Execution of Orders
Section 16	Rule 724. Complex Order Risk Protections
Section 17	Kill Switch (relocating 711(c))
Section 18	Detection of Loss of Communication (relocating 711(d))
Section 19	Reserved
Section 20	Rule 720. Nullification and Adjustment of Options Transactions including Obvious Errors/Rule 720A. Erroneous Trades due to System Disruptions and Malfunctions (combined into one rule)
Section 21	Rule 706. Access to and Conduct on the Exchange
Section 22	Rule 717. Limitations on Orders
Section 23	Rule 718. Data Feeds and Trade Information
Section 24	Rule 719. Transaction Price Binding
Section 25	Reserved
Section 26	Message Traffic Mitigation (relocating Rule 804(h))
Section 27	Rule 705. Limitation of Liability

The Exchange proposes to combine ISE Rules 708 and 709 within Section 2.<sup>9</sup> ISE Rule 714 is being relocated into Options 3, Section 15 and is being renamed from “Automatic Execution of Orders” to “Simple Order Risk Protections.” ISE Rules 702 and 703 are being combined into Section 9. The Exchange proposes to combine ISE Rules 720 and 720A into Section 20.<sup>10</sup> The Exchange proposes to relocate ISE Rule

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<sup>9</sup> The Exchange is not proposing any substantive changes in consolidating these rules.

<sup>10</sup> Id.

711(c) and (d) into new separate Rules at Sections 17 and 18. The Exchange proposes to create a separate rule in Section 26 relocated from Rule 804(h) and title the rule “Message Traffic Mitigation.”

#### Options 4

The Exchange proposes to relocate rules within Options 4 Options Listing Rules as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 500. Designation of Securities
Section 2	Rule 501. Rights and Obligations of Holders and Writers
Section 3	Rule 502. Criteria for Underlying Securities
Section 4	Rule 503. Withdrawal of Approval of Underlying Securities
Section 5	Rule 504. Series of Options Contracts Open for Trading
Section 6	Rule 504A. Select Provisions of Options Listing Procedures Plan
Section 7	Rule 505. Adjustments
Section 8	Rule 506. Long-Term Options Contracts
Section 9	Rule 507. Limitation on the Liability of Index Licensors for Options on Fund Shares
Section 10	Rule 508. Back-Up Trading Arrangements

Rule 509, “Authority to Take Action Under Emergency Conditions” is not being relocated as this rule will be deleted.

#### 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	Rule 2000. Application of Index Rules
Section 2	Rule 2001. Definitions
Section 3	Rule 2002. Designation of an Index
Section 4	Reserved.
Section 5	Rule 2003. Dissemination of Information
Section 6	Rule 2004. Position Limits for Broad-Based Index Options
Section 7	Rule 2005. Position Limits for Industry Index Options
Section 8	Rule 2005A. Position Limits for Foreign Currency Index Options
Section 9	Rule 2006. Exemptions from Position Limits
Section 10	Rule 2007. Exercise Limits
Section 11	Rule 2008. Trading Sessions
Section 12	Rule 2009. Terms of Index Options Contracts
Section 13	Rule 2010. Debit Put Spread Cash Account Transactions
Section 14	Rule 2011. Disclaimers
Section 15	Rule 2012. Exercise of American-Style Index Options
Section 16	Rule 2013. Market Maker Trading License

### Options 5

The Exchange proposes to rename Options 5 from “Options Trade Administration” to “Order Protection and Locked and Crossed Markets” and relocate rules within Options 5 as follows:



<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 1900. Definitions
Section 2	Rule 1901. Order Protection
Section 3	Rule 1902. Locked and Crossed Markets
Section 4	Rule 1903. Order Routing to Other Exchanges
Section 5	Rule 1904. Cancellation of Orders and Error Account

### 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	Rule 707. Clearing Member Give Up
Section 2	Rule 712. Submission of Orders and Clearance of Transactions
Section 3	Rule 806. Trade Reporting and Comparison
Section 4	Rule 808. 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	Rule 1000. Contracts of Suspended Members
Section 2	Rule 1001. 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	Rule 1100. Exercise of Options Contracts
Section 2	Rule 1101. Allocation of Exercise Notices
Section 3	Rule 1102. 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	Rule 1200. General Rule
Section 2	Rule 1201. Time Margin Must Be Obtained
Section 3	Rule 1202. Margin Requirements
Section 4	Rule 1203. Meeting Margin Calls by Liquidation Prohibited
Section 5	Rule 1204. Margin Required Is Minimum
Section 6	Rule 1205. Margin Requirements Exception

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	Rule 1300. Minimum Requirements

Section 2	Rule 1301. "Early Warning" Notification Requirements
Section 3	Rule 1302. Power of President to Impose Restrictions
Section 4	Rule 1303. Joint Back Office Arrangements

#### 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	Rule 1400. Maintenance, Retention and Furnishing of Books, Records and Other Information
Section 2	Rule 1401. Reports of Uncovered Short Positions
Section 3	Rule 1402. Financial Reports
Section 4	Rule 1403. Audits
Section 5	Rule 1404. Automated Submission of Trade Data
Section 6	Rule 1405. Risk Analysis of Market Maker Accounts
Section 7	Rule 1406. Regulatory Cooperation
Section 8	Rule 1408. Fingerprint-Based Background Checks of Exchange Employees and Independent Contractors and Other Service Providers

#### Options 7

The Exchange proposes to relocate Rule 212 titled “Sales Value Fee” to Options 7, Options Pricing at new proposed Section 12.

The Exchange is updating various cross-references within Options 7 to reflect the new rule locations. Within the definition of Options 7, Section 1, the Exchange is also deleting rule references to “SSF-Option Orders” which terminology no longer exists

within current Rule 722.<sup>11</sup>

Options 9

The Exchange proposes to relocate rules within new proposed Options 9 titled

“Business Conduct” as follows:

<b>Proposed New Rule Number</b>	<b>Current Rule Number</b>
Section 1	Rule 400. Just and Equitable Principles of Trade
Section 2	Rule 401. Adherence to Law
Section 3	Rule 402. Sharing of Offices and Wire Connections
Section 4	Rule 403. Disruptive Quoting and Trading Activity Prohibited
Section 5	Rule 404. False Statements
Section 6	Rule 405. Manipulation
Section 7	Rule 406. Gratuities
Section 8	Rule 407. Rumors
Section 9	Rule 408. Prevention of the Misuse of Material Nonpublic Information
Section 10	Rule 409. Disciplinary Action by Other Organizations
Section 11	Rule 410. Other Restrictions on Members
Section 12	Rule 411. Significant Business Transactions
Section 13	Rule 412. Position Limits
Section 14	Rule 413. Exemptions from Position Limits
Section 15	Rule 414. Exercise Limits
Section 16	Rule 415. Reports Related to Position Limits

<sup>11</sup> See Securities Exchange Act Release No. 82999 (April 5, 2018), 83 FR 15662 (April 11, 2018) (SR-ISE-2018-28).

Section 17	Rule 416. Liquidation Positions
Section 18	Rule 417. Limit on Outstanding Uncovered Short Positions
Section 19	Rule 418. Other Restrictions on Options Transactions and Exercises
Section 20	Rule 419. Mandatory Systems Testing
Section 21	Rule 420. Anti-Money Laundering Compliance Program
Section 22	Rule 421. Proxy Voting
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	Rule 600. Exchange Approval
Section 2	Rule 601. Registration of Options Principals
Section 3	Rule 602. Registration of Representatives
Section 4	Rule 606. Discipline, Suspension, Expulsion of Registered Persons
Section 5	Rule 607. Branch Offices
Section 6	Rule 608. Opening of Accounts
Section 7	Rule 609. Supervision of Accounts
Section 8	Rule 610. Suitability of Recommendations
Section 9	Rule 611. Discretionary Accounts
Section 10	Rule 612. Confirmation to Customers
Section 11	Rule 613. Statement of Accounts to Customers

Section 12	Rule 614. Statements of Financial Condition to Customers
Section 13	Rule 616. Delivery of Current Options Disclosure Documents and Prospectus
Section 14	Rule 617. Restrictions on Pledge and Lending of Customers' Securities
Section 15	Rule 618. Transactions of Certain Customers
Section 16	Rule 619. Guarantees
Section 17	Rule 620. Profit Sharing
Section 18	Rule 621. Assuming Losses
Section 19	Rule 622. Transfer of Accounts
Section 20	Rule 623. Options Communications
Section 21	Rule 624. Brokers' Blanket Bonds
Section 22	Rule 625. Customer Complaints
Section 23	Rule 626. Telemarketing

The Exchange proposes to reserve Options 10, Sections 24 and 25.

### Options 11

Finally, the Exchange proposes to relocate Rule 1614, titled “Imposition of Fines for Minor Rule Violations” to Options 11 titled “Minor Rule Plan Violations” at Section 1.

### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>12</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>13</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect

<sup>12</sup> 15 U.S.C. 78f(b).

<sup>13</sup> 15 U.S.C. 78f(b)(5).

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 rules, where applicable, across Nasdaq markets so that Members can readily locate rules which cover similar topics. The relocation and harmonization of the ISE Rules 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 ISE 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 ISE's Rules. The Exchange intends to file other rule change to relocate Affiliated Exchange Rulebooks to relocate corresponding rules into the same location in each Rulebook for ease of reference. 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 ISE's Rules.

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>14</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>15</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.

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<sup>14</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>15</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.



#### 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-ISE-2019-17 on the subject line.

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-ISE-2019-17. 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-ISE-2019-17 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>16</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>16</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

New text is underlined; deleted text is in brackets.

**Nasdaq ISE Rulebook****[1. Definitions****Rule 100. Definitions**

(a) The following terms, when used in these Rules, shall have the meanings specified in this Chapter 1, unless the context indicates otherwise. Any term defined in the Limited Liability Company Agreement (the "LLC Agreement") or the By-Laws of Nasdaq ISE, LLC (the "By-Laws") and not otherwise defined in this Chapter shall have the meaning assigned in the LLC Agreement or the By-Laws.

- (1) An "**account number**" shall mean a number assigned to a Member. Members 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 Rule 1100 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised on any business day prior to its expiration date and on its expiration date.
- (4) The term "**associated person**" or "**person associated with a Member**" means any partner, officer, director, or branch manager of a Member (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 Member or any employee of a Member.
- (5) A "**badge**" shall mean an account number, which may contain letters and/or numbers, assigned to Market Makers. A Market Maker account may be associated with multiple badges.
- (6) The term "**bid**" means a quote or limit order to buy one or more options contracts.
- (7) 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.
- (8) The term "**class of options**" means all options contracts covering the same underlying security.

- (9) The term "**Clearing Corporation**" means The Options Clearing Corporation.
- (10) The term "**Clearing Member**" means a Member that is self-clearing or an Electronic Access Member that clears Exchange Transactions for other Members of the Exchange.
- (11) The term "**closing purchase transaction**" means an Exchange Transaction that will reduce or eliminate a short position in an options contract.
- (12) The term "**closing writing transaction**" means an Exchange Transaction that will reduce or eliminate a long position in an options contract.
- (13) The term "**CMM Rights**" means the transferable rights held by a Competitive Market Maker or a non-member owner (as that term is defined in Rule 300(a)). The number of authorized CMM Rights will be 160 CMM Rights.
- (13A) The term "**Code of Procedure**" means the procedural rules contained in Chapter 90.
- (14) The term "**Competitive Market Maker**" means a Member that is approved to exercise trading privileges associated with CMM Rights.
- (15) The term "**covered short position**" means (i) the obligation of a writer of a call option is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Rule 710(f) or 710(h), 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 type and 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) 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 type and 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.
- (16) 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.
- (17) The term "**EAM Rights**" means the non-transferable rights held by an Electronic Access Member.
- (18) The term "**Electronic Access Member**" means a Member that is approved to exercise trading privileges associated with EAM Rights.
- (19) The term "**European-style option**" means an options contract that, subject to the provisions of Rule 1100 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on its expiration date.

(20) The term "**Exchange Act**" or the "Act" means the Securities Exchange Act of 1934 and the rules and regulations thereunder, as amended from time to time.

(20A) 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 Exchange 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 302, 307, 720, 720A, and 804; and (7) such other proceedings or actions authorized by the Exchange Rules.

(21) The term "**Exchange Rights**" means the PMM Rights, CMM Rights and EAM Rights collectively.

(22) The term "**Exchange Transaction**" means a transaction executed on or through the facilities of the Exchange.

(23) 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.

(24) The term "**expiration date**" means, unless separately defined elsewhere in these Rules: (i) in the case of 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 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.

(25) The term "**Federal Reserve Board**" means the Board of Governors of the Federal Reserve System.

(26) The term "**good standing**" means that a Member is not delinquent with respect to Exchange dues, fees or other charges and is not suspended or barred from effecting Exchange Transactions or from association with a Member either by the Exchange or by means of a statutory disqualification.

(27) 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.

(28) 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 Rules 701 and 803.

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

(30) The term "**Member**" means an organization that has been approved to exercise trading rights associated with Exchange Rights.

(31) The term "**Membership**" refers to the trading privileges associated with Exchange Rights.

(32) The term "**market makers**" refers to "Competitive Market Makers" and "Primary Market Makers" collectively.

(33) The term "**Market Maker Rights**" refers to PMM Rights and CMM Rights collectively.

(34) A "**mnemonic**" shall mean an acronym comprised of letters and/or numbers assigned to Electronic Access Members. An Electronic Access Member account may be associated with multiple mnemonics.

(35) The term "**Non-Customer**" means a person or entity that is a broker or dealer in securities.

(36) The term "**Non-Customer Order**" means an order for the account of a Non-Customer.

(37) The term "**offer**" means a quote or limit order to sell one or more options contracts, except that with respect to an Equity Security (as that term is defined in Rule 2100), it means an order to sell such security.

(38) The term "**opening purchase transaction**" means an Exchange Transaction that will create or increase a long position in an options contract.

(39) The term "**opening writing transaction**" means an Exchange Transaction that will create or increase a short position in an options contract.

(40) 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 Rules 701 and 803.

- (41) The term "**Voluntary Professional**" means any Public Customer that elects, in writing, to be treated in the same manner as a broker or dealer in securities for purposes of Rules 713, 716, 722, and 723, as well as the Exchange's Pricing Schedule.
- (42) 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.
- (43) The term "**OPRA**" means the Options Price Reporting Authority.
- (44) The term "**order**" means a commitment to buy or sell securities as defined in Rule 715.
- (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 expired.
- (46) The term "**PMM Rights**" means the transferable rights held by a Primary Market Maker or a non-member owner (as that term is defined in Rule 300(a)). The number of authorized PMM Rights will be 10 PMM Rights.
- (47) The term "**Primary Market Maker**" means a Member that is approved to exercise trading privileges associated with PMM Rights.
- (48) The term "**primary market**" means the principal market in which an underlying security is traded.
- (49) The term "**Priority Customer**" means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).
- (50) The term "**Priority Customer Order**" means an order for the account of a Priority Customer.
- (51) The term "**Professional Order**" means an order that is for the account of a person or entity that is not a Priority Customer.
- (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 Complex Order comprising 9 options legs or

more, including "single-strike algorithms" which track the Best Bid and Offer ("BBO") or National Best Bid and Offer ("NBBO"). A cancel message is not an order.

(c) Complex Orders consisting of 8 legs or fewer will be counted as a single order, and respecting Complex Orders of 9 options legs or more, each leg will count as a separate order. Stock orders shall not count toward the number of legs.

(d) 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 customer orders, if one 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.

(51A) The term "**Professional Customer**" means a non-broker/dealer participant who enters at least 390 orders per day on average during a calendar month for its own beneficial account(s).

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

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

(54) 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 number of shares of the underlying security covered by the options contract.

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

(56) The term "**quote**" or "**quotation**" means a bid or offer entered by a market maker that updates the market maker's previous bid or offer, if any.

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

(58) The terms "**SEC**" and "**Commission**" mean the United States Securities and Exchange Commission.



(59) The term "**series of options**" means all options contracts of the same class having the same exercise price and expiration date.

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

(61) 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 following business week that is a business day, 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. 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.

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

(63) The term "**System**" means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions.

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

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

(66) The term "**underlying security**" means the security that the Clearing Corporation shall be obligated to sell (in the case of a call option) or purchase (in the case of a put option) upon the valid exercise of an options contract.

(67) The term "**proprietary trading**" for purposes of Rule 1210 means trading done by a member having the following characteristics:

- (A) The member is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act;
- (B) All funds used or proposed to be used by the member are the trading member's own capital, traded through the member's own accounts;
- (C) The member does not, and will not, have customers; and

(D) All persons registered on behalf of the member acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the Member.]

## **2. Organization and Administration**

### **Rule 200. Establishment of Committees**

The Chief Executive Officer, with the approval of the Board, shall appoint any committee members that are not Directors to committees established by the Board in the By-Laws, or established by the Chief Executive Officer pursuant to authority delegated to him by the Board.

### **Rule 201. Removal of Committee Members**

The Chief Executive Officer may, with the approval of the Board, remove any committee member that is not a Director for refusal, neglect, or inability to discharge such committee member's duties.

### **Rule 202. Committee Procedures**

Except as otherwise provided in the By-Laws, the Rules or resolution of the Board, each committee shall determine its own time and manner of conducting its meetings, and the vote of a majority of the members of a committee present at a meeting at which a quorum is present shall be the act of the committee. Committees may act informally by written consent of all of the members of the committee.

### **Rule 203. General Duties and Powers of Committees**

Each committee shall administer the provisions of the By-Laws and the Rules pertaining to matters within its jurisdiction. Each committee shall have such other powers and duties as may be delegated to it by the Board. Each committee is subject to the control and supervision of the Board.

### **[Rule 204. Divisions of the Exchange**

The divisions of the Exchange shall include the Regulatory Division and such other Divisions as the Chief Executive Officer, with the approval of the Board, may establish. The Chief Executive Officer shall appoint a head of every Division and may designate departments within each Division.

### **Rule 205. Access Fees**

The access fees payable by Members shall be fixed from time to time by the Board. Access fees shall be payable in full on a monthly basis.

### **Rule 206. Transaction Fees**

Members shall pay a fee for each transaction they execute on the Exchange, as may be determined by the Board.

### **Rule 207. Communication Fees**

The Board may, at its discretion, impose a communication fee for quotes entered on the Exchange in addition to the fee contained in Rule 206.

**Rule 208. Regulatory Fees or Charges**

In addition to the dues and charges specified in this Chapter, the Board may, from time to time, fix and impose other fees, assessments or charges to be paid to the Exchange by Members or by Classes of Members with respect to applications, registrations, approvals, use of Exchange facilities, or other services or privileges granted, including but not limited to the following:

**(a) Regulatory Oversight Service Fees.**

(1) Members that are subject to Rule 15c3-3 under the Exchange Act (the "Net Capital Rule") and for which the Exchange has been assigned as the designated examining authority ("DEA") pursuant to Rule 17d-1 under the Exchange Act shall be required to pay a fee to be determined by the Board.

(2) Members, whether or not they are members of another registered national securities exchange or securities association with which the Exchange has executed an agreement under Rule 17d-2 under the Exchange Act to allocate responsibility for examining Members for compliance with and enforcement of certain regulatory requirements, shall be required to pay a fee to be determined by the Board.

**(b) Registration Fees.** Members shall pay application, maintenance and transfer registration fees for their Registered Options Principals ("ROPs") as described in Rule 601 and 1220(a) and Registered Representatives ("RRs") as described in Rule 602 and 1220(b).

**Rule 209. Transfer Fees**

Members shall pay a fee for each transfer or lease of a Membership, as may be determined by the Board.

**Rule 210. Reserved**

Reserved

**Rule 211. Exchange's Costs of Defending Legal Proceedings**

(a) Any Member or person associated with a Member who fails to prevail in a lawsuit or other legal proceeding instituted by such person against the Exchange or any of its Directors, officers, committee members, employees or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed fifty thousand dollars (\$50,000).

(b) Paragraph (a) of this Rule shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

**Rule 212. Sales Value Fee**

The Sales Value Fee is assessed by the Exchange to each Member for sales on the Exchange with respect to which the Exchange is obligated to pay a fee to the Commission under Section 31 of the Exchange Act. To the extent that there may be any excess monies collected under this rule, the Exchange may retain those monies to help fund its general operating expenses. The sales transactions to which the fee applies are sales of options (other than options on a security index) and the sales of securities resulting from the exercise of physical-delivery options. The fee is collected indirectly from Members through their clearing firms by the Clearing Corporation on behalf of Nasdaq ISE with respect to options sales and options exercises. The Sales Value Fee is equal to (a) the Section 31 fee rate multiplied by (b) the Member's aggregate dollar amount of covered sales resulting from options transactions occurring on the Exchange during any computational period.

**Rule 213. Reserved.**

Reserved.

**3. Membership**

**Rule 300. Market Maker Rights**

(a) Market Maker Rights may be owned by (i) registered broker-dealers approved as Members of the Exchange according to the requirements contained in this Chapter 3 or (ii) individuals and organizations that are not Members of the Exchange or that are otherwise Members, but do not seek to exercise trading privileges associated with such Rights (collectively "non-member owners").

(b) Non-member owners shall not be permitted to exercise trading privileges on the Exchange with respect to such Rights, and are not considered Members of the Exchange with respect to such Rights for any purposes of these Rules. Non-member owners of Market Maker Rights shall lease the trading privileges associated with the Rights (i.e., the "Membership") to registered broker-dealers approved by the Exchange as Members.

(c) Every non-member owner of Market Maker Rights shall submit a non-member owner application in the form and manner prescribed by the Exchange. Non-member owner applications must be accompanied by a non-refundable application fee. Approved non-member owner applicants must complete the transfer of Market Maker Rights to the applicant within ninety (90) days of the date of approval by the Exchange. Should an approved applicant fail to complete the transfer of a Market Maker Right within ninety (90) days, its approval shall expire unless an extension is granted by the Exchange based on a showing that a transfer is pending or near completion.

(d) Any increase in the number of authorized PMM Rights or CMM Rights must be approved by the affirmative vote of the holders of at least a majority of the then outstanding PMM Rights, voting as a class, and the affirmative vote of the holders of at least a majority of the then outstanding CMM Rights, voting as a class (such voting rights, the "Core Rights").

(e) Any amendments to the LLC Agreement or the By-Laws that would alter or change the powers, preferences or special rights of one or more series of PMM Rights or CMM Rights must also be approved by the holders of a majority of such PMM Rights or CMM Rights, as applicable.

**Rule 301. Qualification of Members**

(a) A Member of the Exchange may be a corporation, partnership, or LLC. Each Member must:

- (1) be a broker-dealer registered pursuant to Section 15 of the Exchange Act; and
- (2) meet the qualifications for a Member in accordance with Exchange Rules applicable thereto.

(b) A Member that 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:

- (1) prepare all such reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars;
- (2) reimburse the Exchange for any expense 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; and
- (3) ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations.

(c) Every Member shall have as the principal purpose of being a Member the conduct of a public securities business. Such a purpose shall be deemed to exist if and so long as:

- (1) the Member has qualified and acts in respect of its business on the Exchange in one or more of the following capacities: (i) an Electronic Access Member; (ii) a Primary Market Maker; or (iii) a Competitive Market Maker; and
- (2) all transactions effected by the Member are in compliance with Section 11(a) of the Exchange Act and the rules and regulations adopted thereunder.

**Rule 302. Denial of and Conditions to Becoming a Member**

(a) An applicant to become a Member of the Exchange must seek approval in the form and manner prescribed by the Exchange.

(b) The Exchange may deny (or condition) approval of a Member, or may prevent a person from becoming associated (or condition an association) with a Member, for the

same reasons that the SEC may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Exchange Act.

(c) The Exchange also may deny (or condition) approval of a Member, or may prevent a person from becoming associated with (or condition an association) with a Member, when the applicant, directly or indirectly:

(1) has a negative net worth, has financial difficulties involving an amount that is more than five percent (5%) of the applicant's net worth, or has a pattern of failure to pay just debts (whether or not such debts have been the subject of a bankruptcy action);

(2) is unable satisfactorily to demonstrate a capacity to adhere to all applicable Exchange, SEC, the Clearing Corporation and Federal Reserve Board policies, rules and regulations, including those concerning record-keeping, reporting, finance and trading procedures; or

(3) is unable satisfactorily to demonstrate reasonably adequate systems capability and capacity.

(d) When an applicant is a subject of an investigation conducted by any SRO or government agency involving its fitness for becoming a Member, the Exchange need not act on the application until the matter has been resolved.

(e) The Exchange may determine not to permit a Member or person associated with a Member to continue as a Member or associated therewith, if the Member or associated person:

(1) fails to meet any of the qualification requirements for becoming a Member or associated with a Member after approval thereof;

(2) fails to meet any condition placed by the Exchange on such Member or association with a Member;

(3) violates any agreement with the Exchange; or

(4) becomes subject to a statutory disqualification under the Exchange Act.

(f) If a Member or person associated with a Member that becomes subject to a statutory disqualification under the Exchange Act wants to continue as a Member of the Exchange or in association with a Member, the Member or associated person must submit an application to the Exchange seeking to continue as a Member or in association with a Member notwithstanding the statutory disqualification, as set forth in Rule 9522. Failure to timely file such an application is a factor that may be taken into consideration by the Exchange in making determinations pursuant to paragraph (e) of this Rule.

(g) Review by the Exchange Review Council

Subject to Chapter 90 of the Rules, any applicant whose application to become a Member is denied or conditioned by the Exchange's Membership Department ("the Department"), or any person whose association with a Member is denied or conditioned by the Department pursuant to paragraph (b) or (c) of this Rule, and any Member or person associated with a Member who is not permitted by the Department pursuant to paragraph (e) of this Rule to continue as a Member or to be associated with a Member or which continuance as a Member or association is conditioned by the Department, may appeal the Department's decision to the Exchange Review Council, as set forth below.

**(1) Initiation of Review by Applicant**

Within 25 days after service of a decision under Rule 302, an applicant ("Applicant") may file a written request for review with the Exchange Review Council. A request for review shall state with specificity why the Applicant believes that the Department's decision is inconsistent with the bases for denial set forth in Rule 302, or otherwise should be set aside, and state whether a hearing is requested. The Applicant simultaneously shall file by first-class mail a copy of the request with the Department.

**(2) Transmission of Documents**

Within ten days after the filing of a request for review, the Department shall:

**(A)** transmit to the Exchange Review Council copies of all documents that were considered in connection with the Department's decision and an index to the documents; and

**(B)** serve on the Applicant a copy of such documents (other than those documents originally submitted by Applicant) and a copy of the index.

**(3) Membership Application Docket**

The Department shall promptly record in the Exchange's membership application docket each request for review filed with the Exchange Review Council under this Rule and each material subsequent event, filing, and change in the status of a membership proceeding.

**(4) Appointment of Subcommittee**

The Exchange Review Council or the Review Subcommittee defined in Rule 9120 shall appoint a Subcommittee to participate in the review. The Subcommittee shall be composed of two or more persons who shall be current or past members of the Exchange Review Council or former Directors.

**(5) Powers of Subcommittee**

If a hearing is requested, the Subcommittee shall conduct the hearing. If a hearing is not requested, the Subcommittee may serve a notice directing that a hearing be held. If a

hearing is not requested or directed, the Subcommittee shall conduct its review on the basis of the record developed before the Department and any written submissions made by the Applicant or the Department in connection with the request for review.

**(6) Hearing**

**(A) Notice**

If a hearing is requested or directed, the hearing shall be held within 45 days after the filing of the request with the Exchange Review Council or service of the notice by the Subcommittee. The Exchange Review Council shall serve written notice of the date and time of the hearing to the Applicant by facsimile or overnight courier not later than 14 days before the hearing.

**(B) Counsel**

The Applicant and the Department may be represented by counsel at a hearing conducted pursuant to this Rule.

**(C) Evidence**

Formal rules of evidence shall not apply to a hearing under this Rule. Not later than five days before the hearing, the Applicant and the Department shall exchange copies of their proposed hearing exhibits and witness lists and provide copies of the same to the Exchange Review Council. If the Applicant or the Department fails to provide copies of its proposed hearing exhibits or witness list within such time, the Subcommittee shall exclude the evidence or witnesses from the proceeding, unless the Subcommittee determines that good cause is shown for failure to comply with the production date set forth in this subparagraph.

**(D) Transcript**

The hearing shall be recorded and a transcript prepared by a court reporter. A transcript of the hearing shall be available for purchase from the court reporter at prescribed rates. The Applicant, the Department, or a witness may seek to correct the transcript. A proposed correction of the transcript shall be submitted to the Subcommittee within a reasonable period of time prescribed by the Subcommittee. Upon notice to the Applicant and the Department, the Subcommittee may direct the correction to the transcript as requested or sua sponte.

**(7) Additional Information, Briefs**

At any time during its consideration, the Subcommittee or the Exchange Review Council may direct the Applicant or the Department to file additional information or briefs. Any additional information or brief filed shall be provided to all parties before the Exchange Review Council renders its decision.



**(8) Abandonment of Request for Review**

If an Applicant fails to specify the grounds for its request for review under Rule 302 (g)(1), appear at a hearing for which it has notice, or file information or briefs as directed, the Exchange Review Council or the Review Subcommittee may dismiss the request for review as abandoned, and the decision of the Department shall become the final action of the Exchange. Upon a showing of good cause, the Exchange Review Council or the Review Subcommittee may withdraw a dismissal entered pursuant to this paragraph.

**(9) Subcommittee Recommendation**

The Subcommittee shall present a recommended decision in writing to the Exchange Review Council within 60 days after the date of the hearing held pursuant to subparagraph (g)(6), and not later than seven days before the meeting of the Exchange Review Council at which the membership proceeding shall be considered.

**(10) Decision****(A) Proposed Written Decision**

After considering all matters presented in the review and the Subcommittee's recommended written decision, the Exchange Review Council may affirm, modify, or reverse the Department's decision or remand the membership proceeding with instructions. The Exchange Review Council shall prepare a proposed written decision pursuant to subparagraph (g)(10)(B).

**(B) Contents**

The decision shall include:

- (i) a description of the Department's decision, including its rationale;
- (ii) a description of the principal issues raised in the review;
- (iii) a summary of the evidence on each issue; and
- (iv) a statement whether the Department's decision is affirmed, modified, or reversed, and a rationale therefor that references the bases for denial in Rule 302.

**(C) Issuance of Decision After Expiration of Call for Review Periods**

The Exchange Review Council shall provide its proposed written decision to the Exchange Board. The Exchange Board may call the membership proceeding for review pursuant to Rule 302(h). If the Exchange Board does not call the membership proceeding for review, the proposed written decision of the Exchange Review Council shall become final. The Exchange Review Council shall serve the Applicant with a written notice

specifying the date on which the call for review period expired and stating that the final written decision will be served within 15 days after such date. The Exchange Review Council shall serve its final written decision within 15 days after the date on which the call for review period expired. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Review Council remands the membership proceeding.

**(D) Failure to Issue Decision**

If the Exchange Review Council fails to serve its final written decision within the time prescribed in subparagraph (g)(10)(C), the Applicant may file a written request with the Exchange Board requesting that the Exchange Board direct the Exchange Review Council to serve its decision immediately or to show good cause for an extension of time. Within seven days after the filing of such a request, the Board shall direct the Exchange Review Council to serve its written decision immediately or to show good cause for an extension of time. If the Exchange Review Council shows good cause for an extension of time, the Exchange Board may extend the 15-day time limit by not more than 15 days.

**(h) Discretionary Review by the Exchange Board**

**(1) Call for Review by Director**

A Director may call a membership proceeding for review by the Exchange Board if the call for review is made within the period prescribed in subparagraph (h)(2).

**(2) 15 Day Period; Waiver**

A Director shall make his or her call for review at the next meeting of the Exchange Board that is at least 15 days after the date on which the Exchange Board receives the proposed written decision of the Exchange Review Council. By unanimous vote of the Exchange Board, the Exchange Board may shorten the period to less than 15 days. By an affirmative vote of the majority of the Exchange Board then in office, the Exchange Board may, during the 15 day period, vote to extend the period to more than 15 days.

**(3) Review At Next Meeting**

If a Director calls a membership proceeding for review within the time prescribed in subparagraph (h)(2), the Exchange Board shall review the membership proceeding not later than the next meeting of the Exchange Board. The Exchange Board may order the Applicant and the Department to file briefs in connection with review proceedings pursuant to this paragraph.

**(4) Decision of the Exchange Board, Including Remand**

After review, the Exchange Board may affirm, modify, or reverse the proposed written decision of the Exchange Review Council. Alternatively, the Exchange Board may

remand the membership proceeding with instructions. The Exchange Board shall prepare a written decision that includes all of the elements described in Rule 302(g)(10)(B).

**(5) Issuance of Decision**

The Exchange Board shall serve its written decision on the Applicant within 15 days after the meeting at which it conducted its review. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Board remands the membership proceeding.

**Rule 303. Approval to Operate Multiple Memberships**

**(a)** An applicant to become a Member or an approved Member may seek approval to exercise trading privileges associated with more than one Membership in the form and manner prescribed by the Exchange.

**(b)** An applicant or approved Member will be denied approval with respect to a particular Membership if (together with any of its affiliates) approval would result in the applicant or approved Member being approved to exercise the trading privileges associated with more than one (1) Primary Market Maker Membership or more than ten (10) Competitive Market Maker Memberships. This requirement may be waived by the Exchange for good cause shown, but in no event shall the Exchange waive this requirement if such waiver would result in the applicant or approved Member (together with any of its affiliates) being approved to exercise trading privileges associated with more than 20% of the outstanding Competitive Market Maker Memberships.

*Supplementary Material to Rule 303*

.01 When making its determination whether good cause has been shown to waive the limitations contained in Rule 303(b), the Exchange will consider whether an operational, business or regulatory need to exceed the limits has been demonstrated. In those cases where such a need is demonstrated, the Exchange also will consider any operational, business or regulatory concerns that might be raised if such a waiver were granted. The Exchange only will waive such limitations when, in its judgment, such action is in the best interest of the Exchange.

.02 In addition to the trading concentration limits contained in this Rule, no holder or lessee of Market Maker Rights, together with any affiliate, may gain ownership or voting rights in excess of 20% of the outstanding PMM Rights or CMM Rights, as applicable.

**Rule 304. Persons Associated with Members**

**(a)** Persons associated with Members shall be bound by the By-Laws and Rules of the Exchange and the rules of the Clearing Corporation. The Exchange may bar a person from becoming or continuing to be associated with a Member if such person does not agree in writing, on a form prescribed by the Exchange, to furnish the Exchange with information with respect to such person's relationship and dealings with the Member, and information reasonably related to such person's other securities business, as may be

required by the Exchange, and to permit the examination of its books and records by the Exchange to verify the accuracy of any information so supplied.

(b) Each Member shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Member 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).

(c) A claim of any person associated with a Member described in the first sentence of paragraph (b) of this Rule against such organization shall be subordinate in right of payment of customers and other Members.

### **Rule 305. Documents Required of Applicants and Members**

(a) Although the Exchange may request additional information, at a minimum, the partnership agreement and all amendments thereto, in the case of a partnership, the articles of incorporation, by-laws and all amendments thereto, in the case of a corporation, and in the case of a limited liability company, the articles of organization and operating agreement and all amendments thereto, and any lease agreement to which a Membership is subject, shall be filed with, and shall be subject to review by, the Exchange; however, no action or failure to act by the Exchange shall be construed to mean that the Exchange has in any way passed on the investment merits of or given approval to any such document.

(b) Every Member shall report to the Exchange all contact information required by the Exchange via the FINRA Contact system. 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. 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.

(c) In a manner and form prescribed by the Exchange, every Member shall pledge to abide by the By-Laws and 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 By-Laws and Rules.

(d) Reserved.

### **Rule 306. Member Application Procedures**

(a) Every applicant to become a Member of the Exchange shall file an application. Applications must be accompanied by a non-refundable application fee.

(b) Within a reasonable time following receipt of an application, the name of the applicant shall be posted by the Exchange.

- (c) An applicant must be approved by the Exchange to perform in at least one of the recognized capacities of a Member as stated in Rule 301(c).
- (d) Upon completion of the application process, the Exchange shall consider whether to approve the application, unless there is just cause for delay. Persons associated with the applicant are subject to investigation by the Exchange and may be required to appear in person before the Exchange. The Exchange may also require any person associated with a Member who may possess information relevant to the applicant's suitability to be a Member to provide information or testimony.
- (e) The Exchange will determine whether to approve an application. Written notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefor, shall be provided to the applicant.
- (f) If the application process is not completed within six (6) months of the filing of the application form and payment of the appropriate fee, the application shall be deemed to be automatically withdrawn.
- (g) Approved applicants must become effective Members within ninety (90) days of the date of approval by the Exchange by owning or leasing a Membership. Should an approved applicant fail to own or lease a Membership within ninety (90) days, its approval shall expire unless an extension is granted by the Exchange based on a showing that a transfer is pending or near completion.
- (h) With respect to each Membership that becomes effective in accordance with this Rule, the Exchange shall promptly notify all Members thereof.

**Rule 307. Sale and Transfer of Market Maker Rights**

- (a) The owner of Market Maker Rights may sell or otherwise transfer ownership of its Market Maker Rights upon the approval of the Exchange. A sale or other transfer of Market Maker Rights shall not be effective until an executed purchase or transfer agreement between the owner and an approved transferee has been filed with, and approved by, the Exchange in writing. The Exchange will provide a bulletin board on which interests to sell or purchase such Market Maker Rights may be posted; however, owners are not required to post interest to sell nor to give preference to posted interests to purchase Market Maker Rights.
- (b) Whenever one or more of the following conditions exist with respect to Market Maker Rights, the Exchange may offer the Rights for sale by posting a notice of such sale on a bulletin board for at least thirty (30) days:
- (1) An individual owner of Market Maker Rights has died or has been declared legally incompetent, and the legal representative of such owner has failed to consummate a transfer of the Rights within six (6) months of the owner's death or incompetence or within such extended time as may have been granted by the Exchange;

(2) An owner's good standing has been terminated or has been suspended and has failed to be reinstated at the expiration of the period of suspension including any extension of such period that may have been granted by the Exchange; and

(3) An owner that is an organization has been dissolved, formally or informally, and no transfer of its Market Maker Rights has been accomplished within six (6) months of the dissolution or within such extended time as may have been granted by the Exchange.

(4) An owner exceeds the concentration limitations contained in Rule 303.

(c) Pursuant to paragraph (a) above, the Exchange's Membership Department shall either approve or disapprove an executed transfer agreement between an owner and an approved applicant within thirty (30) days of receipt of the agreement. A transfer agreement may be disapproved under the following circumstances: (i) the contract attempts to transfer only part of the rights associated with a Market Maker Right; or (ii) the transfer would result in the transferee exceeding the ownership concentration limits contained in the Rules, or would otherwise violate the Exchange's Rules.

(d) The owner or an approved applicant that is a party to an executed transfer agreement that is denied approval (the "Applicant") may appeal the Membership Department's decision to the Exchange Review Council, as set forth below.

#### (1) Initiation of Review by Applicant

Within 25 days after service of a decision under paragraph (c), an Applicant that is denied approval may file a written request for review with the Exchange Review Council. A request for review shall state with specificity why the Applicant believes that the Membership Department's decision is inconsistent with the bases for denial set forth in Rule 307(c), or otherwise should be set aside, and state whether a hearing is requested. The Applicant simultaneously shall file by first-class mail a copy of the request with the Exchange.

#### (2) Transmission of Documents

Within ten days after the filing of a request for review, the Exchange shall:

(A) transmit to the Exchange Review Council copies of all documents that were considered in connection with the Exchange's decision and an index to the documents; and

(B) serve on the Applicant a copy of such documents (other than those documents originally submitted by the Applicant) and a copy of the index.

#### (3) Appointment of Subcommittee

The Exchange Review Council or the Review Subcommittee defined in Rule 9120 shall appoint a Subcommittee to participate in the review. The Subcommittee shall be composed of two or more persons who shall be current or past members of the Exchange Review Council or former Directors.

**(4) Powers of Subcommittee**

If a hearing is requested, the Subcommittee shall conduct the hearing. If a hearing is not requested, the Subcommittee may serve a notice directing that a hearing be held. If a hearing is not requested or directed, the Subcommittee shall conduct its review on the basis of the record developed before the Membership Department and any written submissions made by the Applicant or the Membership Department in connection with the request for review.

**(5) Hearing**

**(A) Notice**

If a hearing is requested or directed, the hearing shall be held within 45 days after the filing of the request with the Exchange Review Council or service of the notice by the Subcommittee. The Exchange Review Council shall serve written notice of the date and time of the hearing to the Applicant by facsimile or overnight courier not later than 14 days before the hearing.

**(B) Counsel**

The Applicant and the Membership Department may be represented by counsel at a hearing conducted pursuant to this Rule.

**(C) Evidence**

Formal rules of evidence shall not apply to a hearing under this Rule. Not later than five days before the hearing, the Applicant and the Membership Department shall exchange copies of their proposed hearing exhibits and witness lists and provide copies of the same to the Exchange Review Council. If the Applicant or the Membership Department fails to provide copies of its proposed hearing exhibits or witness list within such time, the Subcommittee shall exclude the evidence or witnesses from the proceeding, unless the Subcommittee determines that good cause is shown for failure to comply with the production date set forth in this subparagraph.

**(D) Transcript**

The hearing shall be recorded and a transcript prepared by a court reporter. A transcript of the hearing shall be available for purchase from the court reporter at prescribed rates. The Applicant, the Membership Department, or a witness may seek to correct the transcript. A proposed correction of the transcript shall be submitted to the Subcommittee

within a reasonable period of time prescribed by the Subcommittee. Upon notice to the Applicant and the Membership Department, the Subcommittee may direct the correction to the transcript as requested or sua sponte.

**(6) Additional Information, Briefs**

At any time during its consideration, the Subcommittee or the Exchange Review Council may direct the Applicant or the Membership Department to file additional information or briefs. Any additional information or brief filed shall be provided to all parties before the Exchange Review Council renders its decision.

**(7) Abandonment of Request for Review**

If an Applicant fails to specify the grounds for its request for review under Rule 307 (d)(1), appear at a hearing for which it has notice, or file information or briefs as directed, the Exchange Review Council or the Review Subcommittee may dismiss the request for review as abandoned, and the decision of the Membership Department shall become a final Exchange action. Upon a showing of good cause, the Exchange Review Council or the Review Subcommittee may withdraw a dismissal entered pursuant to this paragraph.

**(8) Subcommittee Recommendation**

The Subcommittee shall present a recommended decision in writing to the Exchange Review Council within 60 days after the date of the hearing held pursuant to subparagraph (d)(5), and not later than seven days before the meeting of the Exchange Review Council at which the membership proceeding shall be considered.

**(9) Decision**

**(A) Proposed Written Decision**

After considering all matters presented in the review and the Subcommittee's recommended written decision, the Exchange Review Council may affirm, modify, or reverse the Membership Department's decision or remand the proceeding with instructions. The Exchange Review Council shall prepare a proposed written decision pursuant to subparagraph (d)(9)(B).

**(B) Contents**

The decision shall include:

- (i) a description of the Exchange Review Council's decision, including its rationale;
- (ii) a description of the principal issues raised in the review;
- (iii) a summary of the evidence on each issue; and



- (iv) a statement whether the Membership Department's decision is affirmed, modified, or reversed, and a rationale therefor that references the bases for denial in Rule 307(c).

**(C) Issuance of Decision After Expiration of Call for Review Periods**

The Exchange Review Council shall provide its proposed written decision to the Exchange Board. The Exchange Board may call the proceeding for review pursuant to Rule 307(d)(10). If the Exchange Board does not call the proceeding for review, the proposed written decision of the Exchange Review Council shall become final. The Exchange Review Council shall serve the Applicant with a written notice specifying the date on which the call for review period expired and stating that the final written decision will be served within 15 days after such date. The Exchange Review Council shall serve its final written decision within 15 days after the date on which the call for review period expired. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Review Council remands the membership proceeding.

**(D) Failure to Issue Decision**

If the Exchange Review Council fails to serve its final written decision within the time prescribed in subparagraph (d)(9)(C), the Applicant may file a written request with the Exchange Board requesting that the Exchange Board direct the Exchange Review Council to serve its decision immediately or to show good cause for an extension of time. Within seven days after the filing of such a request, the Board shall direct the Exchange Review Council to serve its written decision immediately or to show good cause for an extension of time. If the Exchange Review Council shows good cause for an extension of time, the Exchange Board may extend the 15-day time limit by not more than 15 days.

**(10) Discretionary Review by the Exchange Board**

**(A) Call for Review by Director**

A Director may call a proceeding for review by the Exchange Board if the call for review is made within the period prescribed in subparagraph (d)(10)(B).

**(B) 15 Day Period; Waiver**

A Director shall make his or her call for review at the next meeting of the Exchange Board that is at least 15 days after the date on which the Exchange Board receives the proposed written decision of the Exchange Review Council. By unanimous vote of the Exchange Board, the Exchange Board may shorten the period to less than 15 days. By an affirmative vote of the majority of the Exchange Board then in office, the Exchange Board may, during the 15 day period, vote to extend the period to more than 15 days.

**(C) Review At Next Meeting**

If a Director calls a proceeding for review within the time prescribed in subparagraph (d)(10)(B), the Exchange Board shall review the proceeding not later than the next meeting of the Exchange Board. The Exchange Board may order the Applicant and the Membership Department to file briefs in connection with review proceedings pursuant to this paragraph.

**(D) Decision of the Exchange Board, Including Remand**

After review, the Exchange Board may affirm, modify, or reverse the proposed written decision of the Exchange Review Council. Alternatively, the Exchange Board may remand the proceeding with instructions. The Exchange Board shall prepare a written decision that includes all of the elements described in subparagraph (d)(9)(B).

**(5) Issuance of Decision**

The Exchange Board shall serve its written decision on the Applicant within 15 days after the meeting at which it conducted its review. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Board remands the proceeding.

**Rule 308. Leasing Memberships**

The owner of Market Maker Rights in good standing may lease a market maker Membership to a Member, and a lessee of a market maker Membership in good standing may sublease such Membership to a Member with the permission of the owner. The owner must retain the Core Rights associated with such Market Maker Rights and may not transfer such voting rights to the lessee.

**(a)** A Membership may only be leased to a Member of the Exchange that has been approved to conduct the appropriate market making activities.

**(b)** Lease agreements, which may not become effective until approved by the Exchange in writing, shall include provisions covering:

**(1)** the duration of the lease arrangement;

**(2)** the consideration to be paid by the lessee;

**(3)** the assignability of the respective interests of the lessee and lessor in such lease agreement; and

**(4)** as between the parties, which party shall exercise the voting rights of the Membership and which party shall provide the funds necessary to satisfy all applicable Exchange dues, fees and other charges.

(c) Any division of rights and responsibilities between the owner and lessee shall not affect the obligation of the owner to pay all amounts due the Exchange upon default of the lessee.

**Rule 309. Registration of Memberships by Individuals for Members**

(a) An individual owner of Market Maker Rights that is an executive officer, director, principal shareholder or general partner of a registered broker-dealer that is or proposes to become a Member of the Exchange, may register his Membership for such broker-dealer by filing an application in the form prescribed by the Exchange.

(b) The registration of a Membership for a Member by an individual may be withdrawn by the Exchange for any reason that would justify withdrawal of the approval of the individual as an owner of a Membership.

(c) Upon the death, retirement, withdrawal or resignation from a Member of an individual whose Membership is registered for the organization which leaves the organization without a Membership, the Exchange may permit the organization to continue to act as a Member in good standing for such period as the Exchange deems reasonably necessary to enable the organization to acquire a Membership.

**Rule 310. Dissolution and Liquidation of Members**

Every Member shall promptly notify the Exchange in writing upon the adoption of a plan of liquidation or dissolution. Upon receipt of such notice, the Member's trading privileges may be suspended in accordance with Rule 9558.

**Rule 311. Obligations of Terminating Members and Transferors of Market Maker Rights and Memberships**

(a) Every Member that transfers a Membership pursuant to the provisions of this Chapter must be current in all filings and payments of dues, fees and charges relating to that Membership, including filing fees and charges required by the SEC and Securities Investor Protection Corporation. If a Member fails to make all such filings, or to pay all such dues, fees and charges, the Exchange may, notwithstanding the other applicable provisions of this Chapter, delay the effectiveness of the Membership for the transferee, until such failures have been remedied.

(b) Every owner that transfers its Market Maker Rights or Memberships pursuant to the provisions of this Chapter must be current in all payments of dues, fees and charges relating to those Rights or Memberships. If an owner fails to pay all such dues, fees and charges, the Exchange may, notwithstanding the other applicable provisions of this Chapter, delay the effectiveness of the transfer of the Rights or of the Memberships until such failures have been remedied.

**Rule 312. Limitation on Affiliation between the Exchange and Members**

(a) Without prior SEC approval, the Exchange, or any facility of the Exchange, or any entity with which the Exchange or any facility of the Exchange is affiliated shall not, directly or indirectly through one or more intermediaries, acquire or maintain an

ownership interest in a Member or non-member owner. In addition, a Member or non-member owner shall not be or become an affiliate of the Exchange, or any facility of the Exchange, or any entity with which the Exchange or any facility of the Exchange is affiliated. In addition, no Member or person associated with a Member shall be the beneficial owner, directly or indirectly, of greater than twenty percent (20%) of the (i) then-outstanding voting Limited Liability Company Interest of the Exchange, or (ii) then-outstanding voting securities of Nasdaq, Inc.

(b) Nothing in this Rule shall prohibit any Member from being or becoming an affiliate of the Exchange, or any facility of the Exchange, or an affiliate of any affiliate of the Exchange or any facility of the Exchange solely by reason of any officer, director or partner of such Member being or becoming a Member Representative Director (as defined in the By-Laws) pursuant to the By-Laws. For purposes of this rule, any calculation of the voting Limited Liability Company Interest of the Exchange or the voting securities of Nasdaq, Inc. 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 "beneficially owned", including all derivative or similar words, shall have the meaning set forth in the Amended and Restated Certificate of Incorporation of Nasdaq, Inc.

(c) Nasdaq, Inc., which owns NASDAQ Execution Services, LLC and the Exchange, 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 the Exchange's systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange Members in connection with the provision of inbound routing to the Exchange.

#### **4. Business Conduct**

##### **Rule 400. Just and Equitable Principles of Trade**

No Member shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Members shall have the same duties and obligations as Members under the Rules of this Chapter.

##### *Supplementary Material to Rule 400*

.01 It will be a violation of Rule 400 for a Member to have a relationship with a third party regarding the disclosure of agency orders. Specifically, a Member may not disclose to a third party information regarding agency orders represented by the Member prior to entering such orders into the System to allow such third party to attempt to execute against the Member's agency orders. A Member's disclosing information regarding agency orders prior to the execution of such orders on the Exchange would provide an inappropriate informational advantage to the third party in violation of Rule 400. For purposes of this paragraph .01, a third party includes any other person or entity, including affiliates of the Member. Nothing in this paragraph is intended to prohibit a Member from soliciting interest to execute against an order it represents as agent (a "solicited

order"), the execution of which is governed by Rule 717(e) and paragraph .02 of Supplementary Material to Rule 717.

.02. It may be considered conduct inconsistent with just and equitable principles of trade for any person associated with a Member who has knowledge of all material terms and conditions of:

- (i) an order and a solicited order,
- (ii) an order being facilitated, or
- (iii) orders being crossed;

the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option 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 (i) the terms of the order and any changes in the terms of the order of which the person associated with the Member has knowledge are disclosed to the trading crowd, or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. The terms of an order are "disclosed" to the trading crowd on the Exchange when the order is entered into the System, the Facilitation or Solicited Order Mechanisms.

#### **Rule 401. Adherence to Law**

No Member shall engage in conduct in violation of the Exchange Act, the By-Laws or 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 Member shall so supervise persons associated with the Member as to assure compliance therewith.

#### **Rule 402. Sharing of Offices and Wire Connections**

No Member, without the prior written consent of the Exchange, shall establish or maintain wire connections or office sharing arrangements with other Members or with non-member broker-dealers.

#### **Rule 403. Disruptive Quoting and Trading Activity Prohibited**

(a) No Member 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).

(ii) **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 are conducted on one or more other exchanges.

**Rule 404. False Statements**

No Member, person associated with a Member or applicant to become a Member shall make any false statements or misrepresentations in any application, report or other communication to the Exchange, and no Member or person associated with a Member shall make any false statement or misrepresentation to the Clearing Corporation with respect to the reporting or clearance of any Exchange Transaction or adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or transferring the position to another account.

**Rule 405. Manipulation**

(a) No Member shall effect or induce the purchase, sale or exercise of any security for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or in the underlying security, or for the purpose of unduly or improperly influencing the market price of such security or of the underlying security or for the purpose of making a price which does not reflect the true state of the market in such security or in the underlying security.

(b) No Member or any other person or organization subject to the jurisdiction of the Exchange shall directly or indirectly participate in or have any interest in the profit of a manipulative operation or knowingly manage or finance a manipulative operation. For the purposes of this paragraph but without limitation:

(1) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purposes of unfairly influencing the market price of any security by means of options or otherwise and for the purpose of making a profit thereby, shall be deemed to be a manipulative operation;

(2) the soliciting of subscriptions to any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation; and

(3) the carrying on margin of either a "long" or a "short" position in securities for, or the advancing of credit through loans of money or of securities to, any such pool syndicate or joint account shall be deemed to be financing a manipulative operation.

**Rule 406. Gratuities**

No Member shall give any compensation or gratuity in any one year in excess of \$50.00 to any employee of the Exchange or in excess of \$100.00 to any employee of any other Member or of any non-member broker, dealer, bank or institution, without the prior consent of the employer and of the Exchange.

**Rule 407. Rumors**

No Member 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.

**Rule 408. Prevention of the Misuse of Material Nonpublic Information**

(a) Every Member, other than a lessor that is neither registered, nor required to be registered, as a broker-dealer under Section 15 of the Exchange Act, shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Member's business, to prevent the misuse of material nonpublic information by such Member or persons associated with such Member in violation of the Exchange Act and Exchange Rules.

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

(i) trading in any securities issued by a corporation, partnership, or Funds, as defined in Rule 502(h), or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, while in possession of

material nonpublic information concerning that corporation or those Funds or that trust or similar entities;

**(ii)** trading in an underlying security or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, or any other derivatives based on such currency while in possession of material nonpublic information concerning imminent transactions in the above; and

**(iii)** disclosing to another person any material nonpublic information involving a corporation, partnership, or Funds or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or related securities or in the underlying non-U.S. currency or any related non-U.S. currency options, futures or options on futures on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, or any other derivatives based on such currency for the purpose of facilitating the possible misuse of such material nonpublic information.

**(2)** Each Member shall establish, maintain and enforce the following policies and procedures as appropriate for the nature of each Member'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 Member 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 Member 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 Member for the purpose of detecting the possible misuse of material nonpublic information; and

**(iv)** any business dealings the Member may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Member receiving, in the ordinary course of business, material nonpublic information concerning any such corporation, must be identified and documented.

**(b)** Members that are required, pursuant to Exchange Rule 1403 (Audits), to file Form X-17A-5 under the Exchange Act with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Members stating that the procedures mandated by this Rule have been established, enforced and maintained.



(c) Any Member or associated person who becomes aware of a possible misuse of material nonpublic information must promptly notify the Exchange.

**Rule 409. Disciplinary Action by Other Organizations**

Every Member shall promptly notify the Exchange in writing of any disciplinary action, including the basis therefor, taken by any national securities exchange or registered securities association, clearing corporation, commodity futures market or government regulatory body against the Member or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the Member itself against any of its associated persons involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or any other significant limitation on activities.

**Rule 410. Other Restrictions on Members**

Whenever the Exchange shall find that a Member has failed to perform on his or 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 be permitted to continue in business with safety to customers or creditors or the Exchange, the Exchange may summarily suspend the Member in accordance with Rule 9558 or may impose such conditions and restrictions upon the Member as considered reasonably necessary for the protection of the Exchange and the customers of such Member.

**Rule 411. Significant Business Transactions**

(a) Except as provided in paragraph (c) below, a Member that clears market maker trades is required to notify the Exchange in writing fifteen (15) days prior to any of the following proposed significant business transactions ("SBT"):

- (1) the combination, merger or consolidation between the Member 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 of market maker, broker-dealer, or customer securities or futures accounts that are significant in size or number to the business of the Member;
- (3) the assumption or guarantee by the Member 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 Member's clearing business or any material part thereof.

(b) Notification of any of the following SBTs shall be made in writing to the Exchange, not later than five (5) business days from the date on which the SBT becomes effective:

- (1) the sale by the Clearing Member 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 Member or the issuance of any capital stock of the Member; or

(4) the acquisition by the Clearing Member 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 Member is required to notify the Exchange 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 the Exchange, if the Member'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 Exchange market maker contract volume for the most recent three (3) months;

(2) an average of fifteen percent (15%) of the number of Exchange market makers as of each month and for the most recent three (3) months; or

(3) twenty-five percent (25%) of Exchange market maker gross deductions (haircuts) defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Member in relation to the aggregate of such haircuts carried by all other Clearing Members 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 the Exchange determines that such SBT has the potential to threaten the financial or operational integrity of market maker transactions. In making this determination, the Exchange 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 Member(s), the potential for financial failure and the consequences of any such failure on the Exchange 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:

(i) proportion of Exchange market maker contract volume cleared;

- (ii) proportion of Exchange market makers cleared; and
  - (iii) 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 Member(s) in relation to the aggregate of such deductions carried by other Members that clear market maker transactions.
- (3) The regulatory history of the affected Members, 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 Member must provide promptly, in writing, all information reasonably requested by the Exchange. Any information disclosed by Members pursuant to the requirements of this Rule shall be kept confidential by the Exchange until such information is otherwise publicly disclosed and shall be used only for purposes of reviewing the proposal.
  - (2) If the Exchange determines, prior to the expiration of the thirty (30) day period, that a proposed SBT may be approved without conditions, the Exchange shall promptly so advise the Member.
  - (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 Member shall be promptly notified of any such decisions by the Exchange.

#### **Rule 412. Position Limits**

- (a) Except with the prior permission of the President or his designee, to be confirmed in writing, no Member 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 Member has reason to believe that as a result of such transaction the Member or its customer would, acting alone or in concert with others, directly or indirectly:
- (1) control (as defined in paragraph (f) below) an aggregate position in an options contract traded on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000 or 250,000 options contracts (whether long or short) of the put type and the call type on the same side of the market respecting the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other number of options contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options; or
  - (2) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on the Exchange, when the Member is not a member of the other exchange on which the transaction was effected.

**(b)** Should a Member have reason to believe that a position in any account in which it has an interest or for the account of any customer is in excess of the applicable limit, such Member shall promptly take the action necessary to bring the position into compliance.

**(c)** Reasonable notice shall be given of each new position limit fixed by the Exchange.

**(d)** Limits shall be determined in the following manner:

**(1)** A 25,000 contract limit applies to those options having an underlying security that does not meet the requirements for a higher options contract limit.

**(2)** To be eligible for the 50,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least twenty (20) million shares, or the most recent six (6) month trading volume of the underlying security must have totalled at least fifteen (15) million shares and the underlying security must have at least forty (40) million shares currently outstanding.

**(3)** To be eligible for the 75,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least forty (40) million shares or the most recent six (6) month trading volume of the underlying security must have totalled at least thirty (30) million shares and the underlying security must have at least 120 million shares currently outstanding.

**(4)** To be eligible for the 200,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least eighty (80) million shares or the most recent six (6) month trading volume of the underlying security must have totalled at least sixty (60) million shares and the underlying security must have at least 240 million shares currently outstanding.

**(5)** To be eligible for the 250,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least 100 million shares or the most recent six-month trading volume of the underlying security must have totalled at least seventy-five (75) million shares and the underlying security must have at least 300 million shares currently outstanding.

**(e)** Every six (6) months, the Exchange will review the status of underlying securities to determine which limit should apply. A higher limit will be effective on the date set by the Exchange, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher limit is met at the time of the intervening six (6) month review. If, however, subsequent to a six (6) month review, an increase in volume and/or outstanding shares would make a stock eligible for a higher position limit prior to the next review, the Exchange in its discretion may immediately increase such position limit.

**(f)** Control exists under this Rule 412 when it is determined that an individual or entity makes investment decisions for an account or accounts, or materially influences directly or indirectly the actions of any person who makes investment decisions.

**(1)** Control will be presumed in the following circumstances, and will be presumed to continue until determined otherwise pursuant to paragraph (f)(2) below:

**(i)** among all parties to a joint account who have authority to act on behalf of the account;

**(ii)** among all general partners to a partnership account;

**(iii)** when an individual or entity holds an ownership interest of ten percent (10%) or more in an entity (ownership interest of less than ten percent (10%) will not preclude aggregation), or shares in ten percent (10%) or more of profits and losses of an account;

**(iv)** when accounts have common directors or management;

**(v)** where a person has the authority to execute transactions in an account.

**(2)** Control, presumed by one or more of the above findings or circumstances, can be rebutted by proving that the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other documentary evidence as may be appropriate in the circumstances. The Exchange will also consider the following factors in determining if aggregation of accounts is required:

**(i)** similar patterns of trading activity among separate entities;

**(ii)** the sharing of kindred business purposes and interests;

**(iii)** whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/or restrictions;

**(3)** Initial determinations under this paragraph (f) shall be made by the Regulatory Division. The initial determination may be reviewed by the President or his designee, based upon a report by the Regulatory Division. A Member or customer directly affected by such a determination may ask the President or his designee to reconsider, but may not request any other review or appeal except in the context of a disciplinary proceeding. The decision to grant non-aggregation under this paragraph (f) shall not be retroactive.

### ***Supplementary Material to Rule 412***

.01 The position limits applicable to option contracts on the securities listed in the chart below are as follows:

<b>Security Underlying Option</b>	<b>Position Limit</b>
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depository Receipts® Trust (SPY)	1,800,000 contracts
The iShares® Russell 2000® ETF (IWM)	1,000,000 contracts
The PowerShares QQQQ Trust (QQQQ)	1,800,000 contracts
The iShares MSCI Emerging Markets ETF (EEM)	1,000,000 contracts
iShares China Large-Cap ETF (FXI)	500,000 contracts
iShares MSCI EAFE ETF (EFA)	500,000 contracts
iShares MSCI Brazil Capped ETF (EWZ)	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF (TLT)	500,000 contracts
iShares MSCI Japan ETF (EWJ)	500,000 contracts

.02 Whenever the Exchange determines that a higher margin requirement is warranted in light of the risks associated with an under-hedged options position, the Exchange may impose additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Rule 1204(b). The Clearing Member carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

.03 Positions in option contracts overlying 10 shares of stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security ("Mini Options"), shall be aggregated with positions in regular size stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security option contracts, for purposes of this rule, provided that ten (10) Mini Option contracts shall count as one (1) regular size option contract.

### **Rule 413. Exemptions from Position Limits**

**(a) Equity Hedge Exemption.** The following qualified hedging transactions and positions described in paragraphs (1) through (5) and (7) below shall be exempt from established position limits as prescribed under Rule 412(d) and Supplementary Material .03 to Rule 412. Hedge transactions and positions established pursuant to paragraphs six (6) and eight (8) below are subject to a position limit equal to five (5) times the standard limit established under Rule 412(d) and Supplementary Material .03 to Rule 412. The equity hedge exemption is in addition to the standard limit and other exemptions available under Exchange Rules.

(1) Where each option contract is "hedged" or "covered" by 100 shares (10 shares in the case of a Mini Option) of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract; (i) long call and short stock; (ii) short call and long stock; (iii) long put and long stock; (iv) short put and short stock.

(2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("reverse conversion").

(3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and long put is equal, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("conversion").

(4) A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time the position is established ("collar").

(5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established ("reverse collar").

(6) A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price ("box spread").

(7) An equity option position is delta neutral, subject to the following:

(A) The term "delta neutral" refers to an equity options position that is hedged, in accordance with a permitted pricing model as defined in paragraph (C) below, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the options position will change with incremental changes in the price of the security underlying the option position.

In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments, as defined in Rule 2006(d)(1), in accordance with Rule 2006(d) - Delta-Based Index Hedge Exemption, for calculation of the delta-based equity hedge exemption.

**(B)** An equity options position of a member or non-member affiliate of a member that is delta neutral shall be exempt from established position limits. An equity options position that is not delta neutral shall be subject to position limits in accordance with Rule 412 (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by the number of shares that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.

**(C)** A "permitted pricing model" means:

**(1)** A pricing model maintained and operated by the Options Clearing Corporation ("OCC Model");

**(2)** A pricing model maintained and used by a member subject to consolidated supervision by the Commission pursuant to Appendix E of Commission Rule 15c3-1, or by an affiliate that is part of such member's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to Commission Rule 15c3-1 and Commission Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such member's consolidated supervised holding company group;

**(3)** A pricing model maintained and used by a financial holding company or a company treated as a financial holding company under the Bank Holding Company Act of 1956, or by an affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:

**(i)** the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Board of Governors of the Federal Reserve System, provided that the member or affiliate of a member relying on



this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or

**(ii)** the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk-based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where "principal regulator" means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;

**(4)** A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a member) may rely on this subparagraph (d); or

**(5)** A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a member) may rely on this Subparagraph (C)( 5).

**(D)** Effect on Aggregation of Account Positions.

**(1)** Members and non-member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such member or non-member affiliate.

**(2)** Notwithstanding subparagraph (D)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in or relating to the security underlying the option position held by an affiliated entity or by another trading unit within the same entity, provided that:

**(i)** the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Nasdaq ISE Rule 412(f), exists between such affiliates or trading units; and

(ii) the entity has provided the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

(3) Notwithstanding subparagraph (D)(1) or (D)(2), a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange, each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(i) the permitted pricing model shall be applied, for purposes of calculating such member's or affiliate's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and

(ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the nonexempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member or affiliate.

**(E) Obligations of Members and Affiliates.**

(1) A member that relies on this exemption for a proprietary equity options position:

(i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The equity option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.

(3) A member carrying an account that includes an equity option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member:

(i) a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) a written statement confirming that such non-member affiliate:

(a) is relying on this exemption;

(b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(c) will promptly notify the member if it ceases to rely on this exemption;

(d) authorizes the member to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the Exchange such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

#### (F) Reporting

Each member (other than an Exchange market-maker using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 415, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to Rule 4.13 (a)(7)(D) shall also report, in accordance with Rule 415, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Rule 413, the net delta and the options contract equivalent of the net delta of such position.

#### (G) Records

Each member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

(8) A listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

(9) For those strategies described under (2), (3), (4), and (5) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

**(10)** An OTC option contract is defined as an option contract that is not listed on a National Securities Exchange or cleared at the Options Clearing Corporation.

**(b) Market Maker Exemption.** The provisions set forth below apply only to market makers seeking an exemption to the standard position limits in all options traded on the Exchange for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not to confer a right upon the market maker applying for an exemption.

**(1)** In light of the procedural safeguards, the purpose of this exemption process, and the prohibition against the granting of retroactive exemptions, decisions granting or denying exemptions are not subject to review.

**(2)** An exemption may be granted for the purpose of maintaining a fair and orderly market in the options on a given underlying security.

**(3)** Generally, an exemption will be granted only to a market maker who has requested an exemption, who is appointed to the options class in which the exemption is requested pursuant to Rule 802, whose positions are near the current position limit and who is significant in terms of daily volume. The positions must generally be within ten percent (10%) of the limits contained in Rule 412 for equity options and twenty percent (20%) of those limits for broad-based index options.

**(4)** If an exemption is granted, it will be effective at the time the decision is communicated, and retroactive exemptions will not be granted.

**(5)** The size and length of an exemption will be determined on a case by case basis; however, an exemption usually will be granted until the nearest expiration. The exemption may specify the extent to which the resulting position may be carried in options in one or more expiration cycles.

**(6)** Procedures for market makers nearing the limits due to general market conditions:

**(i)** A request for an exemption from the established position and exercise limits must be in writing and must state the specific reasons why an exemption should be granted.

**(ii)** The request should be submitted to the Exchange no later than 1:00 p.m. for same-day review.

**(iii)** Review of the request will be conducted informally, *i.e.*, the Exchange may receive information in such manner as is most effective, in its discretion, to ascertain whether an exemption is necessary to maintain depth and liquidity in the market.

**(iv)** The Exchange will communicate the exemption decision to the requesting market maker and his or its Clearing Member as soon as possible, generally on the day following review.

(7) Requests for instant exemptions may be made for extraordinary situations, such as when there is an order imbalance or a market maker is near the limits intraday. Following immediate review of the situation, the Exchange will decide whether an exemption is warranted.

(c) *Firm Facilitation Exemption.* To the extent that the following procedures and criteria are satisfied, a Member may receive and maintain for its proprietary account an exemption ("facilitation exemption") from the applicable standard position limit in non-multiply-listed options traded on the Exchange for the purpose of facilitating, pursuant to the provisions of Rule 716(d), (i) orders for its own Public Customer (one that will have the resulting position carried with the firm) or (ii) orders received from or on behalf of a Public Customer for execution only against the Member firm's proprietary account.

(1) The Member must receive approval from the Exchange prior to executing facilitating trades.

(2) The facilitation exemption shall be granted to the Member owning or controlling the account in which the exempt options positions are held. For purposes of this paragraph (c), control shall be determined in accordance with the provision of Rule 412(f).

(3) Exchange approval may be given on the basis of verbal representations, in which event the Member shall, within a period of time to be designated by the Exchange, furnish the appropriate forms and documentation substantiating the basis for the exemption. The approval for the facilitation exemption will specify the maximum number of contracts that may be exempt under this paragraph (c). In no event may the aggregate exempted position under this paragraph (c) exceed twice the applicable standard limit.

(4) The facilitation exemption is in addition to the standard limit and other exemptions available under Exchange Rules. A Member so approved is hereinafter referred to as a "facilitation firm."

(5) The facilitation firm must provide all information required by the Exchange on approved forms and keep such information current. The facilitation firm shall promptly provide to the Exchange any information or documents requested concerning the exempted options positions and the positions hedging them.

(6) The facilitation firm shall comply with the following provisions regarding the execution of its Public Customer Order and its own facilitating order:

(i) neither order may be contingent on a "fill-or-kill" instructions; and

(ii) the orders must be executed pursuant to Rule 716(d).

(7) To remain qualified, a facilitation firm must, within five (5) business days after the execution of a facilitation exemption order, hedge all exempt options positions that have

not previously been liquidated, and furnish the Exchange with documentation reflecting the resulting hedging positions.

**(8)** The facilitation firm shall:

**(i)** liquidate and establish its Public Customer's and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate its Public Customer's or its own stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;

**(ii)** promptly notify the Exchange of any material change in the exempted options position or the hedge; and

**(iii)** not increase the exempted options position once it is closed unless approval is received again pursuant to a reapplication under this paragraph (c).

**(9)** Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption hereunder.

**(d) Exemptions Granted by Other Options Exchanges** - A Member 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 the Exchange provided that such Member:

**(1)** provides the Exchange 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 Exchange regulatory staff to verify the validity of that exemption with the issuing options exchange, and

**(2)** fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the Member's trading on the Exchange.

**Rule 414. Exercise Limits**

**(a)** Except with the prior permission of the President or his designee, to be confirmed in writing, no Member 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 Member or customer, acting alone or in concert with others, directly or indirectly, has or will have:

**(1)** exercised within any five (5) consecutive business days aggregate long positions in any class of options traded on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000 or 250,000 options contracts or such other number of options contract as may be fixed from time to time by the Exchange as the exercise limit for that class of options; or

(2) exceeded the applicable exercise limit fixed from time to time by another exchange for an options class not traded on the Exchange, when the Member is not a member of the other exchange which lists the options class.

(b) Reasonable notice shall be given of each new exercise limit fixed by the Exchange by posting notice thereof by the Exchange.

(c) Limits shall be determined in the manner described in Rule 412. For a Member that has been granted an exemption to position limits pursuant to Rule 413(a), the number of contracts which can be exercised over a five (5) business day period shall equal the Member's exempted position.

***Supplementary Material to Rule 414***

.01 The exercise limits applicable to option contracts on the securities listed in the chart below is as follows:

<b>Security Underlying Option</b>	<b>Position Limit</b>
The DIAMONDS Trust (DIA)	300,000 contracts
The Standard and Poor's Depository Receipts® Trust (SPY)	1,800,000 contracts
The iShares® Russell 2000® ETF (IWM)	1,000,000 contracts
The PowerShares QQQQ Trust (QQQQ)	1,800,000 contracts
The iShares MSCI Emerging Markets ETF (EEM)	1,000,000 contracts
iShares China Large-Cap ETF (FXI)	500,000 contracts
iShares MSCI EAFE ETF (EFA)	500,000 contracts
iShares MSCI Brazil Capped ETF (EWZ)	500,000 contracts
iShares 20+ Year Treasury Bond Fund ETF (TLT)	500,000 contracts
iShares MSCI Japan ETF (EWJ)	500,000 contracts

**Rule 415. Reports Related to Position Limits**

(a) Each Member shall file with the Exchange the name, address and social security or tax identification number of any customer, as well as any Member, any general or special partner of the Member, any officer or director of the Member or any participant, as such, in any joint, group or syndicate account with the Member or with any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions

of 200 or more options contracts of any single class of options traded on the Exchange. The report shall indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered.

(b) Electronic Access Members that maintain an end of day position in excess of 10,000 non-FLEX equity options contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report whether such position is hedged and provide documentation as to how such position is hedged. This report is required at the time the subject account exceeds the 10,000 contract threshold and thereafter, for customer accounts, when the position increases by 2,500 contracts and for proprietary accounts when the position increases by 5,000 contracts.

(c) In addition to the reports required by paragraph (a) and (b) of this Rule, each Member shall report promptly to the Exchange any instance in which the Member has reason to believe that a person included in paragraph (a), acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Rule 412.

#### ***Supplementary Material to Rule 415***

.01 For purposes of calculating the aggregate long or short position under paragraph (a) above, Members shall combine (i) long positions in put options with short positions in call options, and (ii) short positions in put options with long positions in call options.

#### **Rule 416. Liquidation Positions**

(a) Whenever the Exchange 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 the Exchange in excess of the applicable position limit established pursuant to Rule 412, it may order all Members 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 Member 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 the Exchange expressly approves such person or persons for options transactions.

#### **Rule 417. Limit on Outstanding Uncovered Short Positions**

(a) Whenever it is determined from the reports of uncovered short positions submitted pursuant to Rule 1401 (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 the Exchange or that an excessively high percentage of outstanding short positions in options contracts of a given class traded on the Exchange are uncovered, the Board or a committee or Exchange official designated by the Board may determine to



prohibit Members from any further opening writing transactions on any exchange in options contracts of that class unless the resulting short position will be covered, and it 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)** The Board or a committee or Exchange official designated by the Board may exempt transactions of market makers from restrictions imposed under this Rule. Such restrictions shall be rescinded upon a determination that they are no longer appropriate.

**Rule 418. Other Restrictions on Options Transactions and Exercises**

**(a)** The Exchange may impose such restrictions on transactions or exercises in one or more series of options of any class traded on the Exchange as the Exchange 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 Member 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, which shall include such expiration date for an option contract that expires on a business day, other than index options, 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:

**(i)** 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;

**(ii)** Exercises of expiring American-style, cash-settled index options shall not be prohibited 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 prior to their expiration;

**(iii)** 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 (such as by closing rotation), 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)(iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

**(iv)** An Exchange officer designated by the Board 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 the Exchange 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 the Exchange 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:

**(i)** less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;

**(ii)** the underwriters agree to notify the Exchange upon the termination of their stabilization activities; and

**(iii)** 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 contained in paragraph (b)(1) are met, the Exchange shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after Members shall have been notified and shall terminate such restrictions upon request of the underwriters or when the Exchange otherwise discovers that stabilizing transactions by the underwriters has been terminated.

**(3)** For purposes of this paragraph (b), 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:

**(i)** 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

(ii) 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.

**Rule 419. Mandatory Systems Testing**

(a) Each member that the Exchange 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. The Exchange will designate members as required to participate in a system test based on: the category of membership (Primary Market Maker, Competitive Market Maker and Electronic Access Member); the computer system(s) the member uses; and the manner in which the member connects to the Exchange. The Exchange will give Members reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Members' obligations in participating in the test.

(b) Every member required by the Exchange 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. Members shall maintain adequate documentation of tests required by this Rule and results of such testing for examination by the Exchange.

(c) A member or member organization 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 disciplinary action pursuant to the Exchange's rules.

**Rule 420. Anti-Money Laundering Compliance Program**

Each Member shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the Member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.) and the implementing regulations promulgated thereunder by the Department of the Treasury. Each Member's anti-money laundering program must be approved, in writing, by the Member's senior management. The anti-money laundering programs required by this Rule shall, at a minimum,

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

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

(c) Provide for independent testing for compliance to be conducted by the Member's personnel or by a qualified outside party;

(d) Designate and identify to the Exchange (by name, title, mailing address, e-mail address, telephone number, and facsimile number) an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program, and provide prompt notification to the Exchange regarding any change in such designation(s); and

(e) Provide ongoing training for appropriate personnel.

In the event that any of the provisions of this Rule 420 conflict with any of the provisions of another, applicable self-regulatory organization's rule requiring the development and implementation of an anti-money laundering compliance program, the provisions of the rule of the Member's Designated Examining Authority shall apply.

#### **Rule 421. Proxy Voting**

(a) No Member shall give a proxy to vote stock that is registered in its name, unless: (i) such Member is the beneficial owner of such stock; (ii) pursuant to the written instructions of the beneficial owner; or (iii) pursuant to the rules of any national securities exchange or association of which it is a member provided that the records of the Member clearly indicate the procedure it is following.

(b) Notwithstanding the foregoing, a Member that is not the beneficial owner of a security registered under Section 12 of the Exchange 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 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 SEC, 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.

### **5. Securities Traded on the Exchange**

#### **Rule 500. Designation of Securities**

The Exchange trades options contracts, each of which is designated by reference to the issuer of the underlying security, expiration month or expiration date, exercise price and type (put or call).

#### **Rule 501. Rights and Obligations of Holders and Writers**

The rights and obligations of holders and writers shall be set forth in the Rules of the Clearing Corporation.

#### **Rule 502. Criteria for Underlying Securities**

(a) Underlying securities with respect to which put or call options contracts are approved for listing and trading on the Exchange must meet the following criteria:

(1) the security must be registered and be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(2) the security shall be characterized by a substantial number of outstanding shares that are widely held and actively traded.

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

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

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

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

(4) Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve (12) months.

(5) Either:

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

(ii) If the underlying security is not a "covered security," the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days.

(6) Notwithstanding the requirements set forth in Paragraphs 1, 2, 4 and 5 above, the Exchange may list and trade an options contract if (i) the underlying security meets the guidelines for continued approval in Rule 503; and (ii) options on such underlying security are traded on at least one other registered national securities exchange.

(c) *Securities of Restructured Companies.*

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

**(i)** "Restructuring Transaction" refers to a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction.

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

**(iii)** "Original Equity Security" refers to a company's equity security that is issued and outstanding prior to the effective date of a Restructuring Transaction of the company.

**(iv)** "Relevant Percentage" refers to either:

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

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

**(2) "Share" and "Number of Shareholder" Guidelines.** In determining whether a Restructure Security satisfies the share guideline set forth in Rule 502(b)(1) (the "Share Guideline") or the number of holders guideline set forth in Rule 502(b)(2) (the "Number of Shareholders Guideline"), the Exchange may rely upon the facts and circumstances that it expects to exist on the option's intended listing date, rather than on the date on which the Exchange selects for options trading the underlying Restructure Security.

**(i)** The Exchange may assume that:

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

**(B)** either such Guideline is satisfied if, on the option's intended listing day, the Exchange expects the Restructure Security to be listed on an exchange or automatic quotation system that has, and is subject to, an initial listing requirement that is no less stringent than the Guideline in question.

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

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

**(3)** "Trading Volume" Guideline. In determining whether a Restructure Security that is issued or distributed to the holders of shares of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies the trading volume guideline set forth in Rule 502(b)(4) (the "Trading Volume Guideline"), the Exchange may consider the trading volume history of the Original Equity Security prior to the "ex-date" of the Restructuring Transaction if the Restructure Security satisfies the "Substantiality Test" set forth in subparagraph (c)(5) below.

**(4)** "Market Price" Guideline. In determining whether a Restructure Security satisfies the market price history guideline set forth in Rule 502(b)(5) (the "Market Price Guideline"), the Exchange may consider the market price history of the Original Equity Security prior to the "ex-date" of the Restructuring Transaction if:

**(i)** the Restructure Security satisfies the "Substantiality Test" set forth in subparagraph (c)(5) below; and

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

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

**(B)** at the close of trading on each trading day on which the Restructure Security trades "regular way" prior to the date of selection, and the opening of trading on the date of selection, the market price of the Restructure Security was at least \$7.50, or, if the Restructure Security is a "covered security," as defined in Rule 502(b)(5)(I), the market price of the Restructure Security was at least \$3.00.

**(5)** The "Substantiality Test." A Restructure Security satisfies the "Substantiality Test" if:

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

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

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

**(B)** the aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of

the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or

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

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

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

(8) In calculating comparative asset values and revenues, the Exchange shall use (i) the issuer's latest annual financial statements or (ii) the issuer's most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

(9) Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, the Exchange may not rely upon the trading volume or market price history of an Original Equity Security as this paragraph (c) permits for any trading day unless it relies upon both of those measures for that trading day.

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

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

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

(e) The word "security" shall be broadly interpreted to mean any equity security, as defined in Rule 3a11-1 under the Exchange Act, which is appropriate for options trading, and the word "shares" shall mean the unit of trading of such security.



**(f)** Securities deemed appropriate for options trading shall include nonconvertible preferred stock issues and American Depositary Receipts ("ADRs") if they meet the criteria and guidelines set forth in this Rule 502 and if, in the case of ADRs:

**(1)** the Exchange has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded;

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

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

**(4)** the SEC otherwise authorizes the listing.

**(g)** Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries ("International Funds") if they meet the criteria and guidelines set forth in this Rule 502 and either:

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

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

**(h)** Securities deemed appropriate for options trading shall include shares or other securities ("Exchange-Traded Fund Shares") that are traded on a national securities exchange and are defined as an "NMS" stock under Rule 600 of Regulation NMS, and that (i) represent interests in registered investment companies (or series thereof)

organized as open-end management investment companies, unit investment trusts or similar entities that hold portfolios of securities and/or financial instruments, including, but not limited to, stock index futures contracts, options on futures, options on securities and indices, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the "Financial Instruments"), and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the "Money Market Instruments") comprising or otherwise based on or representing investments in broad-based indexes or portfolios of securities and/or Financial Instruments and Money Market Instruments (or that hold securities in one or more other registered investment companies that themselves hold such portfolios of securities and/or Financial Instruments and Money Market Instruments) or (ii) represent interests in a trust or similar entity that holds a specified non-U.S. currency or currencies deposited with the trust when aggregated in some specified minimum number may be surrendered to the trust or similar entity by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust ("Currency Trust Shares") or (iii) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or non-U.S. currency ("Commodity Pool ETFs") or (iv) represent interests in the SPDR® Gold Trust, the iShares COMEX Gold Trust, the iShares Silver Trust, the ETFS Gold Trust, the ETFS Silver Trust, the ETFS Palladium Trust, the ETFS Platinum Trust or the Sprott Physical Gold Trust or (v) represents an interest in a registered investment company ("Investment Company") organized as an open-end management company or similar entity, that invests in a portfolio of securities selected by the Investment Company's investment adviser consistent with the Investment Company's investment objectives and policies, which is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value ("NAV"), and when aggregated in the same specified minimum number, may be redeemed at a holder's request, which holder will be paid a specified portfolio of securities and/or cash with a value equal to the next determined NAV ("Managed Fund Share"); provided that all of the following conditions are met:

**(A)** the Exchange-Traded Fund Shares either (i) meet the criteria and guidelines set forth in paragraphs (a) and (b) above; or (ii) the Exchange-Traded Fund Shares are available for creation or redemption each business day from or through the issuing trust, investment company, commodity pool or other entity in cash or in kind at a price related to net asset value, and the issuer is obligated to issue Exchange-Traded Fund Shares in a specified aggregate number even if some or all of the investment assets and/or cash required to be deposited have not been received by the issuer, subject to the condition that the person obligated to deposit the investment assets has undertaken to deliver them as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer of the Exchange-Traded Fund Shares, all as described in the Exchange-Traded Fund Shares' prospectus; and

**(B)** the Exchange-Traded Fund Shares meet the following criteria:

**(1)** are listed pursuant to generic listing standards for series of portfolio depository receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required; or

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

**(3)** component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index;

**(4)** component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index;

**(5)** For Currency Trust Shares, the Exchange has entered into an appropriate comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in derivatives (options or futures) on the specified non- U.S. currency or currencies, which are utilized by the national securities exchange where the underlying Currency Trust Shares are listed and traded; and

**(6)** For Commodity Pool ETFs that engage in holding and/or managing portfolios or baskets commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities, options on non-U.S. currency and/or securities, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in such commodity futures contracts and/or options on commodity futures contracts on the specified commodities or non-U.S. currency, which are utilized by the national securities exchange where the underlying Commodity Pool ETFs are listed and traded.

**(i)** A "market information sharing agreement" for purposes of this Rule is an agreement that would permit the Exchange to obtain trading information relating to the securities held by the fund including the identity of the member of the foreign exchange executing a trade. International Fund shares not meeting criteria of paragraph (h) shall be deemed appropriate for options trading if the SEC specifically authorizes the listing.

**(j)** Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities

exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:

(1) the Trust Issued Receipts (i) meet the criteria and guidelines for underlying securities set forth in paragraph (b) to this Rule; or (ii) must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and

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

(k) (1) Securities deemed appropriate for options trading shall include shares or other securities ("Equity Index-Linked Securities," "Commodity-Linked Securities," "Currency-Linked Securities," "Fixed Income Index-Linked Securities," "Futures-Linked Securities," and "Multifactor Index-Linked Securities," collectively known as "Index-Linked Securities") that are principally traded on a national securities exchange and an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934), and represent ownership of a security that provides for the payment at maturity, as described below:

- (i) Equity Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an underlying index or indexes of equity securities ("Equity Reference Asset");
- (ii) Commodity-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more physical commodities or commodity futures, options on commodities, or other commodity derivatives or Commodity-Based Trust Shares or a basket or index of any of the foregoing ("Commodity Reference Asset");
- (iii) Currency-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more currencies, or options on currencies or currency futures or other currency derivatives or Currency Trust Shares (as defined in Rule 502(h)), or a basket or index of any of the foregoing ("Currency Reference Asset");
- (iv) Fixed Income Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity

securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof or a basket or index of any of the foregoing ("Fixed Income Reference Asset");

(v) Futures-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an index or indexes of futures contracts or options or derivatives on futures contracts ("Futures Reference Asset"); and

(vi) Multifactor Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of any combination of two or more Equity Reference Assets, Commodity Reference Assets, Currency Reference Assets, Fixed Income Reference Assets, or Futures Reference Assets ("Multifactor Reference Asset");

(2) For purposes of this Rule 502(k), Equity Reference Assets, Commodity Reference Asset, Currency Reference Assets, Fixed Income Reference Assets, Futures Reference Assets together with Multifactor Reference Assets, collectively will be referred to as "Reference Assets."

(3) (i) The Index-Linked Securities must meet the criteria and guidelines for underlying securities set forth in Rule 502(b); or (ii) the Index-Linked Securities must be redeemable at the option of the holder at least on a weekly basis through the issuer at a price related to the applicable underlying Reference Asset. In addition, the issuing company is obligated to issue or repurchase the securities in aggregation units for cash, or cash equivalents, satisfactory to the issuer of Index-Linked Securities which underlie the option as described in the Index-Linked Securities prospectus.

(4) The Exchange will implement surveillance procedures for options on Index-Linked Securities, including adequate comprehensive surveillance sharing agreements with markets trading in non-U.S. components, as applicable.

### **Rule 503. Withdrawal of Approval of Underlying Securities**

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

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

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

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

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

**(3)** The trading volume (in all markets in which the underlying security is traded) has been less than 1,800,000 shares in the preceding twelve (12) months.

**(4)** Reserved.

**(5)** The underlying security ceases to be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act.

**(6)** If an underlying security is approved for options listing and trading under the provisions of Rule 502(c), the trading volume of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including "when-issued" trading, may be taken into account in determining whether the trading volume requirement of (3) of this paragraph (b) is satisfied.

**(c)** Reserved.

**(d)** In considering whether any of the events specified in paragraph (b) of this Rule have occurred with respect to an underlying security, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which such security is traded.

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

**(f)** Whenever the Exchange announces that approval of an underlying security has been withdrawn for any reason or that the Exchange has been informed that the issuer of an underlying security has ceased to be in compliance with SEC reporting requirements,

each Member shall, prior to effecting any transaction in options contracts with respect to such underlying security for a customer, inform such customer of such fact and of the fact that the Exchange may prohibit further transactions in such options contracts to the extent it shall deem such action necessary and appropriate.

**(g)** If an ADR was initially deemed appropriate for options trading on the grounds that fifty percent (50%) or more of the worldwide trading volume (on a share-equivalent basis) in the ADR and other related ADRs and securities takes place in U.S. markets or in markets with which the Exchange has in place an effective surveillance sharing agreement, or if an ADR was initially deemed appropriate for options trading based on the daily trading volume standard Rule 502(f)(3), the Exchange may not open for trading additional series of options on the ADR unless:

**(1)** The percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which the Exchange has in place effective surveillance sharing agreements for any consecutive three (3) month period is either (i) at least thirty percent (30%) without regard to the average daily trading volume in the ADR, or (ii) at least fifteen percent (15%) when the average U.S. daily trading volume in the ADR for the previous three (3) months is at least 70,000 shares; or

**(2)** the Exchange then has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or

**(3)** the SEC has otherwise authorized the listing.

**(h)** Exchange-Traded Fund Shares approved for options trading pursuant to Rule 502(h) will not be deemed to meet the requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares if the Exchange-Traded Fund Shares are delisted from trading as provided in subparagraph (b)(5) of this Rule or the Exchange-Traded Fund Shares are halted or suspended from trading on their primary market. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

**(1)** In the case of options covering Exchange-Traded Fund Shares approved pursuant to Rule 502(h)(A)(i), in accordance with the terms of subparagraphs (b)(1), (2), (3) and (4) of this Rule 503;

**(2)** In the case of options covering Fund Shares approved pursuant to Rule 502(h)(A)(ii), following the initial twelve-month period beginning upon the commencement of trading in the Exchange-Traded Fund Shares on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, there were fewer than 50 record and/or beneficial holders of such Exchange-Traded Fund Shares for 30 or more consecutive trading days;

(3) the value of the index or portfolio of securities or non-U.S. currency, portfolio of commodities including commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities and/or Financial Instruments and Money Market Instruments, on which the Exchange-Traded Fund Shares are based is no longer calculated or available; or

(4) such other event occurs or condition exists that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

(i) Absent exceptional circumstances, securities initially approved for options trading pursuant to paragraph (j) of Rule 502 (such securities are defined and referred to in that paragraph as "Trust Issued Receipts") shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

(1) in accordance with the terms of paragraph (b) this Rule 503 in the case of options covering Trust Issued Receipts when such options were approved pursuant to subparagraph (j)(1)(i) under Rule 502;

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

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

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

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

(j) For Holding Company Depositary Receipts (HOLDRs), the Exchange will not open additional series of options overlying HOLDRs (without prior Commission approval) if:

(1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or

(2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.



(k) Absent exceptional circumstances, Index-Linked Securities ("Securities") initially approved for options trading pursuant to Rule 502(k) shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series or option contracts of the class covering such Securities whenever the underlying Securities are delisted and trading in the Securities is suspended on a national securities exchange, or the Securities are no longer an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934). In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Index-Linked Securities in any of the following circumstances:

- (i) The underlying Index-Linked Security fails to comply with the terms of Rule 502(k);
- (ii) In accordance with the terms of Rule 503(b), in the case of options covering Index-Linked Securities when such options were approved pursuant to Rule 502(k), except that, in the case of options covering Index-Linked Securities approved pursuant to Rule 502(k)(3)(ii) that are redeemable at the option of the holder at least on a weekly basis, then option contracts of the class covering such Securities may only continue to be open for trading as long as the Securities are listed on a national securities exchange and are "NMS" stock as defined in Rule 600 of Regulation NMS;
- (iii) In the case of any Index-Linked Security trading pursuant to Rule 502(k), the value of the Reference Asset is no longer calculated; or
- (iv) Such other event shall occur or condition exist that in the opinion of the Exchange make further dealing in such options on the Exchange inadvisable.

### ***Supplementary Material to Rule 503***

.01 If an option series is listed but restricted to closing transactions on another national securities exchange, the Exchange may list such series (even if such series would not otherwise be eligible for listing under the Exchange's rules), which shall also be restricted to closing transactions on the Exchange.

### **Rule 504. Series of Options Contracts Open for Trading**

(a) After a particular class of options has been approved for listing and trading on the Exchange, the Exchange from time to time may open for trading series of options in that class. Only options contracts in series of options currently open for trading may be purchased or written on the Exchange. Prior to the opening of trading in a given series, the Exchange will fix the type of option, expiration month, year and exercise price of that series. Exercise-price setting parameters adopted as part of the Options Listing Procedures Plan ("OLPP") are set forth in Rule 504A. For Short Term Option Series, the Exchange will fix a specific expiration date and exercise price, as provided in

Supplementary Material .02. For Quarterly Options Series, the Exchange will fix a specific expiration date and exercise price, as provided in Supplementary Material .03.

**(b)** Except as otherwise provided in this Rule 504 and Supplementary Material hereto, at the commencement of trading on the Exchange of a particular type of option of a class of options, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading on the Exchange. The exercise price of each series will be fixed at a price per share which is reasonably close to the price per share at which the underlying stock is traded in the primary market at about the time that class of options is first opened for trading on the Exchange.

**(c)** Additional series of options of the same class 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 market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened.

**(d)** Except as otherwise provided in this Rule 504 and Supplementary Material hereto, the interval between strike prices of series of options on individual stocks will be:

**(1)** \$2.50 or greater where the strike price is \$25.00 or less;

**(2)** \$5.00 or greater where the strike price is greater than \$25.00; and

**(3)** \$10.00 or greater where the strike price is greater than \$200.00.

**(e)** Reserved.

**(f)** New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add new series of options on an individual stock until the close of trading on the business day prior to expiration in the case of an option contract expiring on a business day, or, in the case of an option contract expiring on a day that is not a business day, on the second business day prior to expiration.

**(g)** The Exchange may select up to 60 options classes on individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50 (the "\$2.50 Strike Price Program"). On any option class that has been selected as part of this \$2.50 Strike Price Program, \$2.50 strike prices between \$50 and \$100 may be listed, provided that \$2.50 strike prices between \$50 and \$100 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, if an options class has been selected as part of the \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary market, the Exchange may list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the Exchange may list the \$52.50 strike price, the \$57.50 strike price and the \$62.50 strike price on the next business day. The Exchange

may list a strike price interval of \$2.50 in any multiply-traded option once an exchange selects an option as part of the \$2.50 Strike Price Program.

**(h)** The interval between strike prices of series of options on Fund Shares approved for options trading pursuant to Rule 502(h) shall be fixed at a price per share which is reasonably close to the price per share at which the underlying security is traded in the primary market at or about the same time such series of options is first open for trading on the Exchange, or at such intervals as may have been established on another options exchange prior to the initiation of trading on the Exchange.

#### ***Supplementary Material to Rule 504***

##### *.01 \$1 Strike Price Interval Program*

(a) *Program Description.* The interval between strike prices of series of options on individual stocks may be \$1.00 or greater strike price intervals where the strike price is \$50.00 or less, but not less than \$1. Except as provided in subparagraph (c) below, the listing of \$1 strike price intervals shall be limited to options classes overlying no more than 150 individual stocks as specifically designated by the Exchange. The Exchange may list \$1 strike price intervals on any other option classes if those classes are specifically designated by other securities exchanges that employ a \$1 Strike Price Interval Program under their respective rules. If a class participates in the \$1 Strike Price Interval Program, \$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPs.

(b) *Initial and Additional Series.* To be eligible for inclusion into the \$1 Strike Price Interval Program, an underlying stock must close below \$50 in its primary market on the previous trading day. After a stock 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 Rule 504A(b)(i).

(iv) No additional series in \$1 strike price intervals may be listed if the underlying stock closes at or above \$50 in its primary market. Additional series in \$1 strike price intervals may not be added until the underlying stock closes again below \$50.

(v) LEAPS. For stocks in the \$1 Strike Price Interval Program, the Exchange may list one \$1 strike price interval between each standard \$5 strike interval, with the \$1 strike price interval being \$2 above the standard strike for each interval above the price of the underlying stock, and \$2 below the standard strike for each interval below the price of the underlying stock ("2 wings"). For example, if the price of the underlying stock is \$24.50, the Exchange may list the following standard strikes in \$5 intervals: \$15, \$20, \$25, \$30 and \$35. Between these standard \$5 strikes, the Exchange may list the following \$2 wings: \$18, \$27 and \$32.

In addition, the Exchange may list the \$1 strike price interval which is \$2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price (\$24.50) is \$20, the Exchange may list a \$22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP. Additional long-term option strikes may not be listed within \$1 of an existing strike until less than nine months to expiration.

(c) The Exchange may list \$1 strike prices up to \$5 in LEAPS in up to 200 option classes on individual stocks. The Exchange may not list \$1 strike price intervals within \$0.50 of an existing \$2.50 strike in the same expiration.

(d) Delisting Policy. For options classes selected to participate in the \$1 Strike Price Interval Program, the Exchange will, on a monthly basis, review series that were originally listed under the \$1 Strike Price Interval Program with strike prices that are more than \$5 from the current value of an options class and delist those series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

If the Exchange identifies series for delisting pursuant to this policy, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work jointly with such other exchanges to develop a uniform list of series to be delisted so as to ensure uniform series delisting of multiply listed options classes.

Notwithstanding the above delisting policy, member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to the \$1 Strike Price Interval Program that are eligible for delisting may be granted.

(e) A stock shall remain in the \$1 Strike Price Interval Program until otherwise designated by the Exchange.

*.02 Short Term Option Series Program:* After an 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 at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly options series or Quarterly Options Series expire ("Short Term Option Expiration Dates"). The Exchange may have no more than a total of five Short Term Option Expiration Dates, not including any Monday or Wednesday SPY Expirations as provided below. 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 a Friday, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. With respect to Wednesday SPY Expirations, the Exchange may open for trading on any Tuesday or Wednesday that is a business day series of options on the SPDR S&P 500 ETF Trust (SPY) to expire on any Wednesday of the month that is a business day and is not a Wednesday in which Quarterly Options Series expire ("Wednesday SPY Expirations"). With respect to Monday SPY Expirations, the Exchange may open for trading on any Friday or Monday that is a business day series of options on the SPY to expire on any Monday of the month that is a business day and is not a Monday in which Quarterly Options Series expire ("Monday SPY Expirations"), provided that Monday SPY Expirations that are listed on a Friday must be listed at least one business week and one business day prior to the expiration. The Exchange may list up to five consecutive Wednesday SPY Expirations and five consecutive Monday SPY Expirations at one time; the Exchange may have no more than a total of five Wednesday SPY Expirations and a total of five Monday SPY Expirations. Monday and Wednesday SPY Expirations will be subject to the provisions of this Rule. Regarding Short Term Option Series:

(a) *Classes.* The Exchange may select up to fifty (50) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the 50 option class restriction, the Exchange may also 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 option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to 30 Short Term Option Series 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.

(b) *Expiration.* With the exception of Monday and Wednesday SPY Expirations, no Short Term Option Series may expire in the same week in which monthly option series on the same class expire. In the case of Quarterly Options Series, no Short Term Option Series may expire on the same day as an expiration of Quarterly Options Series.

(c) *Initial Series.* The Exchange may open up to 30 initial series for each option class that participates in the Short Term Option Series Program. 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 value of the underlying

security at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven series are initially opened, there will be at least three strike prices above and three strike prices below the value of the underlying security). Any strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

(d) Additional Series. If the Exchange opens less than thirty (30) 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 market price of the underlying security moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

The Exchange may also open additional strike prices on Short Term Option Series that are more than 50% above or below the current price of the underlying security (if the price is greater than \$20); 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.

In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week. The opening of new Short Term Option Series shall not affect the series of options of the same class previously opened. Notwithstanding any other provisions in this Rule 504, Short Term Option Series may be added up to and including on the Short Term Option Expiration Date for that options series.

(e) Strike Interval. The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same option class that expire in accordance with the normal monthly expiration cycle. During the month prior to expiration of an option class that is selected for the Short Term Option Series Program

pursuant to this rule ("Short Term Option"), the strike price intervals for the related non-Short Term Option ("Related non-Short Term Option") shall be the same as the strike price intervals for the Short Term Option.

*.03 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 ("ETFs"). 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.

(a) Expiration. 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.

(b) The Exchange will not list a Short Term Option Series on an options class whose expiration coincides with that of a Quarterly Options Series on that same options class.

(c) Initial Series. The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the approximate value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying on the preceding day.

(d) Additional Series. Additional Quarterly Options Series of the same class 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 market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing price of the underlying ETF (or "Exchange-Traded Fund Shares") as defined in Rule 502(h)) on the preceding day. The Exchange may also open additional strike prices of Quarterly Options Series in ETF options that are more than 30% above or below the current price of the underlying ETF 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 new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(e) Strike Interval. 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.

(f) Reserved.

(g)(i) Delisting Policy. With respect to Quarterly Options Series in ETF options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (1) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (2) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(ii) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series in ETF options in series eligible for delisting shall be granted.

(iii) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Quarterly Options Series in ETF options.

.04 Notwithstanding Supplementary Material .01 above, the intervals between strike prices for Mini-Nasdaq-100 Index ("MNX" or "Mini-NDX") options series shall be determined in accordance with Rule 2009(c)(5).

.05 *\$0.50 Strike Program*: The interval of strike prices of series of options on individual stocks may be \$0.50 or greater beginning at \$0.50 where the strike price is \$5.50 or less, but only for options classes whose underlying security closed at or below \$5.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation during the preceding three calendar months. The listing of \$0.50 strike prices shall be limited to options classes overlying no more than 20 individual stocks (the "\$0.50 Strike Program") as specifically designated by the Exchange. The Exchange may list \$0.50 strike prices on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$0.50 Strike Program under their respective rules. A stock shall remain in the \$0.50 Strike Program until otherwise designated by the Exchange.

.06 Notwithstanding Supplementary Material .01 above, the interval between strike prices of series of options on Index-Linked Securities, as defined in Rule 502(k)(1), will be \$1 or greater when the strike price is \$200 or less and \$5 or greater when the strike price is greater than \$200.

.07 Notwithstanding Supplementary Material .01 above, the interval between strike prices of series of options on Trust Issued Receipts, including Holding Company Depository Receipts (HOLDERS), will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.

.08 Reserved.



.09 *\$5 Strike Program*: The interval of strike prices may be \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks or on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$5 Strike Program under their respective rules.

.10 Notwithstanding the requirements set forth in this Rule 504 and any Supplementary Material thereto, the Exchange may list additional expiration months on options classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange.

.11 *\$0.50 and \$1.00 Strike Price Intervals for Options Used to Calculate Volatility Indexes*. Notwithstanding the requirements set forth in Rule 504(g) and Supplementary Material .01, .06, and .07 above, the Exchange may open for trading series at \$0.50 or greater strike price intervals where the strike price is less than \$75 and \$1.00 or greater strike price intervals where the strike price is between \$75 and \$150 for options that are used to calculate a volatility index.

.12 Notwithstanding the requirements set forth in this Rule 504 and any Supplementary Material thereto, the Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration Date at strike price intervals of (i) \$0.50 or greater where the strike price is less than \$100, and \$1 or greater where the strike price is between \$100 and \$150 for all option classes that participate in the Short Term Options Series Program; (ii) \$0.50 for option classes that trade in one dollar increments and are in the Short Term Option Series Program; or (iii) \$2.50 or greater where the strike price is above \$150.

.13 *Mini Option Contracts*.

(a) After an option class on a stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security with a 100 share deliverable has been approved for listing and trading on the Exchange, series of option contracts with a 10 share deliverable on that stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security may be listed for all expirations opened for trading on the Exchange. Mini Option contracts may currently be listed on SPDR S&P 500 ("SPY"), Apple Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Google Inc. ("GOOGL") and Amazon.com Inc. ("AMZN").

(b) Strike prices for Mini Options shall be set at the same level as for regular options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1250, and the strike price will be set at 125.

(c) No additional series of Mini Options may be added if the underlying security is trading at \$90 or less. The underlying security must trade above \$90 for five consecutive days prior to listing Mini Options contracts in an additional expiration month.

(d) The minimum trading increment for Mini Options shall be the same as the minimum trading increment permitted for standard options on the same underlying security. For example, if a security participates in the Penny Pilot Program, Mini Options in the same underlying security may be quoted and traded in the same minimum increments, e.g., \$0.01 for all quotations in series that are quoted at less than \$3 per contract and \$0.05 for all quotations in series that are quoted at \$3 per contract or greater, \$0.01 for all SPY option series.

(e) Exchange rules that have a minimum contract threshold shall be adjusted for Mini Options by a multiple of ten (10) and shall be as follows: (i) a block-size order in Mini Options for execution in the Block Order Mechanism must be for 500 or more Mini Option contracts; (ii) Mini Options executed in the Solicited Order Mechanism must be for 5,000 or more Mini Option contracts; and (iii) a Qualified Contingent Cross Order in Mini Options must be comprised of an originating order to buy or sell at least 10,000 Mini Option contracts coupled with a contra-side order or orders totaling an equal number of Mini Option contracts.

.14 Notwithstanding any other provision regarding the interval of strike prices of series of options on Exchange-Traded Fund Shares in this rule, the interval of strike prices on SPDR S&P 500 ETF ("SPY"), iShares Core S&P 500 ETF ("IVV"), PowerShares QQQ Trust ("QQQ"), iShares Russell 2000 Index Fund ("IWM"), and the SPDR Dow Jones Industrial Average ETF ("DIA") options will be \$1 or greater.

#### **Rule 504A. Select Provisions of Options Listing Procedures Plan**

(a) The provisions set forth in this Rule 504A were adopted by the Exchange as a quote mitigation strategy and are codified in the OLPP. A complete copy of the current OLPP may be accessed at:

[http://www.optionsclearing.com/products/options\\_listing\\_procedures\\_plan.pdf](http://www.optionsclearing.com/products/options_listing_procedures_plan.pdf).

(b) 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,

(i) Except as provided in subparagraphs (ii) through (iv) below, if the price of the underlying security is less than or equal to \$20, the Exchange shall not list new options 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 options class. Except as provided in Supplementary Material .02(d) to Rule 504, if the price of the underlying security is greater than \$20, the Exchange shall not list new options series with an exercise price more than 50% above or below the price of the underlying security.

The price of the underlying security is measured by:

(1) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges;

(2) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines its preliminary notification of new series; and

(3) for options series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 8:45 a.m. and 9:30 a.m. Eastern Time.

(ii) The series exercise price range limitations contained in subparagraph (i) above do not apply with regard to:

(1) the listing of \$1 strike prices in options classes participating in the \$1 Strike Program. Instead, the Exchange shall be permitted to list \$1 strike prices to the fullest extent as permitted under its rules for the \$1 Strike Program; or

(2) the listing of series of Flexible Exchange Options.

(iii) The Exchange may designate up to five options classes to which the series exercise price range may be up to 100% above and below the price of the underlying security (which underlying security price shall be determined in accordance with subparagraph (i) above). Such designations shall be made on an annual basis and shall not be removed during the calendar year unless the options class is delisted by the Exchange, in which case the Exchange may designate another options class to replace the delisted class. If a designated options class is delisted by the Exchange but continues to trade on at least one options exchange, the options class shall be subject to the limitations on listing new series set forth in subparagraph (i) above unless designated by another exchange.

(iv) If the Exchange that has designated five options classes pursuant to subparagraph (iii) above requests that one or more additional options classes be excepted from the limitations on listing new series set forth in subparagraph (i) above, the additional options class(es) shall be so designated upon the unanimous consent of all exchanges that trade the options class(es). Additionally, pursuant to the Exchange's request, the percentage range for the listing of new series may be increased to more than 100% above and below the price of the underlying security for an options class, by the unanimous consent of all exchanges that trade the designated options class.

Exceptions for an additional class or for an increase of the exercise price range shall apply to all standard expiration months existing at the time of the vote, plus the next standard expiration month to be added, and also to any non-standard expirations that occur prior to the next standard monthly expiration.

(v) The provisions of this subparagraph (b) shall not permit the listing of series that are otherwise prohibited by the rules of the Exchange or the OLPP. To the extent the rules of

the Exchange permit the listing of new series that are otherwise prohibited by the provisions of the OLPP, the provisions of the OLPP shall govern.

(vi) The Exchange may list an options series that is listed by another options exchange, provided that at the time such series was listed it was not prohibited under the provisions of the OLPP or the rules of the exchange that initially listed the series.

#### **Rule 505. Adjustments**

Options contracts shall be subject to adjustments in accordance with the Rules of the Clearing Corporation. When adjustments have been made, the Exchange will announce that fact, and such changes will be effective for all subsequent transactions in that series at the time specified in the announcement.

#### **Rule 506. Long-Term Options Contracts**

(a) Notwithstanding conflicting language in Rule 504, the Exchange may list long-term options contracts that expire from twelve (12) to thirty-nine (39) months from the time they are listed. There may be up to ten expiration months for options on the SPDR® S&P 500® exchange-traded fund (the "SPY ETF") and up to six (6) expiration months for options on all other securities. 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.

(b) After a new long-term options contract 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.

#### **Rule 507. Limitation on the Liability of Index Licensors for Options on Fund Shares**

(a) The term "index licensor" as used in this Rule refers to any entity that grants the Exchange a license to use one or more indexes or portfolios in connection with the trading of options on Fund Shares (as defined in Rule 502(h)).

(b) No index licensor with respect to any index or portfolio underlying an option on Fund Shares traded on the Exchange makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of such index or portfolio, any opening, intra-day or closing value therefor, or any data included therein or relating thereto, in connection with the trading of any option contract on Fund Shares based thereon or for any other purpose. The index licensor shall obtain information for inclusion in, or for use in the calculation of, such index or portfolio from sources it believes to be reliable, but the index licensor does not guarantee the accuracy or completeness of such index or portfolio, any opening, intra-day or closing value therefor, or any data included therein or related thereto. The index licensor hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any such index or portfolio, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Fund Shares based thereon. The index licensor 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 or portfolio, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Fund Shares based thereon, or arising out of any errors or delays in calculating or disseminating such index or portfolio.

**Rule 508. Back-up Trading Arrangements**

**(a) Nasdaq ISE is Disabled Exchange.**

**(1) Nasdaq ISE Exclusively Listed Options.**

**(i)** For purposes of this Rule 508, the term "exclusively listed option" means an option that is listed exclusively by an exchange (because the exchange has an exclusive license to use, or has proprietary rights in, the interest underlying the option).

**(ii)** The Exchange ("Nasdaq ISE") may enter into arrangements with one or more other exchanges (each a "Back-up Exchange") to permit Nasdaq ISE and its Members to use a portion of the Back-up Exchange's facilities to conduct the trading of some or all of Nasdaq ISE's exclusively listed options in the event that the functions of Nasdaq ISE are severely and adversely affected by an emergency or extraordinary circumstances (a "Disabling Event"). Such option classes shall trade as listings of Nasdaq ISE. The facility of the Back-up Exchange used by Nasdaq ISE for this purpose will be deemed to be a facility of Nasdaq ISE.

**(iii)** Trading of Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange shall be conducted in accordance with the rules of the Back-up Exchange, except that (A) such trading shall be subject to Nasdaq ISE rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements and position limits and (B) Nasdaq ISE Members that are trading on Nasdaq ISE's facility at the Back-up Exchange (not including members of the Back-up Exchange who become temporary Members of Nasdaq ISE pursuant to paragraph (a)(1)(vi)) will be subject to Nasdaq ISE rules governing or applying to the maintenance of a person's or a firm's status as a Member of Nasdaq ISE. In addition, Nasdaq ISE and the Back-up Exchange may agree that other Nasdaq ISE rules will apply to such trading. Nasdaq ISE and the Back-up Exchange have agreed to communicate to their members which rules apply in advance of trading. The Back-up Exchange rules that govern trading on Nasdaq ISE's facility at the Back-up Exchange shall be deemed to be Nasdaq ISE rules for purposes of such trading.

**(iv)** The Back-up Exchange has agreed to perform the related regulatory functions with respect to trading of Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange, in each case except as Nasdaq ISE and the Back-up Exchange may specifically agree otherwise. The Back-up Exchange and Nasdaq ISE have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange.

Nasdaq ISE shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to Nasdaq ISE's facility at the Back-up Exchange.

(v) Nasdaq ISE shall have the right to designate its Members that will be authorized to trade Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange and, if applicable, its Member(s) that will be a PMM or CMM in those options. If the Back-up Exchange is unable to accommodate all Nasdaq ISE Members that desire to trade on Nasdaq ISE's facility at the Back-up Exchange, Nasdaq ISE may determine which Members shall be eligible to trade at that facility. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the Member is a PMM or CMM in the applicable product(s), the number of contracts traded by the Member in the applicable product(s), market performance, and other factors relating to a Member's contribution to the market in the applicable product(s).

(vi) Members of the Back-up Exchange shall not be authorized to trade in any Nasdaq ISE exclusively listed options, except that (i) Nasdaq ISE may deputize willing brokers of the Back-up Exchange as temporary Nasdaq ISE Members to permit them to execute orders as brokers in Nasdaq ISE exclusively listed options traded on Nasdaq ISE's facility at the Back-up Exchange, and (ii) the Back-up Exchange has agreed that it will, at the instruction of Nasdaq ISE, select members of the Back-up Exchange that are willing to be deputized by Nasdaq ISE as temporary Nasdaq ISE Members authorized to trade Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange for such period of time following a Disabling Event as Nasdaq ISE determines to be appropriate, and Nasdaq ISE may deputize such members of the Back-up Exchange as temporary Nasdaq ISE Members for that purpose.

## (2) Nasdaq ISE Singly Listed Options.

(i) For purposes of this Rule 508, the term "singly listed option" means an option that is not an "exclusively listed option" but that is listed by an exchange and not by any other national securities exchange.

(ii) Nasdaq ISE may enter into arrangements with a Back-up Exchange under which the Back-up Exchange will agree, in the event of a Disabling Event, to list for trading singly listed option classes that are then singly listed only by Nasdaq ISE and not by the Back-up Exchange. Any such option classes listed by the Back-up Exchange shall trade on the Back-up Exchange and in accordance with the rules of the Back-up Exchange. Such option classes shall be traded by members of the Back-up Exchange and by Nasdaq ISE Members selected by Nasdaq ISE to the extent the Back-up Exchange can accommodate Nasdaq ISE Members in the capacity of temporary members of the Back-up Exchange. If the Back-up Exchange is unable to accommodate all Nasdaq ISE Members that desire to trade singly listed options at the Back-up Exchange, Nasdaq ISE may determine which Members shall be eligible to trade such options at the Back-up Exchange. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the Member is a PMM or CMM in the applicable

product(s), the number of contracts traded by the Member in the applicable product(s), market performance, and other factors relating to a Member's contribution to the market in the applicable product(s).

(iii) Any options class listed by the Back-up Exchange pursuant to paragraph (a)(2)(ii) that does not satisfy the standard listing and maintenance criteria of the Back-up Exchange will be subject, upon listing by the Back-up Exchange, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in the rules of the Back-up Exchange).

**(3) Multiply Listed Options.**

Nasdaq ISE may enter into arrangements with a Back-up Exchange to permit Nasdaq ISE Members to conduct trading on a Back-up Exchange of some or all of Nasdaq ISE's multiply listed options in the event of a Disabling Event. Such options shall trade as a listing of the Back-up Exchange and in accordance with the rules of the Back-up Exchange. Such options shall be traded by members of the Back-up Exchange and by Nasdaq ISE Members selected by Nasdaq ISE to the extent the Back-up Exchange can accommodate Nasdaq ISE Members in the capacity of temporary members of the Back-up Exchange. If the Back-up Exchange is unable to accommodate all Nasdaq ISE Members that desire to trade multiply listed options at the Back-up Exchange, Nasdaq ISE may determine which Members shall be eligible to trade such options at the Back-up Exchange. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the Member is a PMM or CMM in the applicable product(s), the number of contracts traded by the Member in the applicable product(s), market performance, and other factors relating to a Member's contribution to the market in the applicable product(s).

**(b) *Nasdaq ISE is Back-up Exchange.***

**(1) Disabled Exchange Exclusively Listed Options.**

(i) Nasdaq ISE may enter into arrangements with one or more other exchanges (each a "Disabled Exchange") to permit the Disabled Exchange and its members to use a portion of Nasdaq ISE's facilities to conduct the trading of some or all of the Disabled Exchange's exclusively listed options in the event of a Disabling Event. Such option classes shall trade as listings of the Disabled Exchange. The facility of Nasdaq ISE used by the Disabled Exchange for this purpose will be deemed to be a facility of the Disabled Exchange.

(ii) Trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Nasdaq ISE shall be conducted in accordance with Nasdaq ISE rules, except that (A) such trading shall be subject to the Disabled Exchange's rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements and position limits, and (B) members of the Disabled Exchange that are trading on the Disabled Exchange's facility at Nasdaq ISE (not including Nasdaq ISE

Members who become temporary members of the Disabled Exchange pursuant to paragraph (b)(1)(iv)) will be subject to the rules of the Disabled Exchange governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled Exchange. In addition, the Disabled Exchange and Nasdaq ISE may agree that other Disabled Exchange rules will apply to such trading. The Disabled Exchange and Nasdaq ISE have agreed to communicate to their members which rules apply in advance of trading.

**(iii)** Nasdaq ISE will perform the related regulatory functions with respect to trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Nasdaq ISE, in each case except as the Disabled Exchange and Nasdaq ISE may specifically agree otherwise. Nasdaq ISE and the Disabled Exchange have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Nasdaq ISE. The Disabled Exchange has agreed that it shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to the Disabled Exchange's facility at Nasdaq ISE.

**(iv)** Nasdaq ISE Members shall not be authorized to trade in any exclusively listed options of the Disabled Exchange, except (A) that the Disabled Exchange may deputize willing Nasdaq ISE Electronic Access Members as temporary members of the Disabled Exchange to permit them to execute orders as Electronic Access Members in exclusively listed options of the Disabled Exchange traded on the facility of the Disabled Exchange at Nasdaq ISE, and (B) at the instruction of the Disabled Exchange, Nasdaq ISE shall select Nasdaq ISE Members that are willing to be deputized by the Disabled Exchange as temporary members of the Disabled Exchange authorized to trade the Disabled Exchange's exclusively listed options on the facility of the Disabled Exchange at Nasdaq ISE for such period of time following a Disabling Event as the Disabled Exchange determines to be appropriate, and the Disabled Exchange may deputize such Nasdaq ISE Members as temporary members of the Disabled Exchange for that purpose.

## **(2) Disabled Exchange Singly Listed Options.**

**(i)** Nasdaq ISE may enter into arrangements with a Disabled Exchange under which Nasdaq ISE will agree, in the event of a Disabling Event, to list for trading singly listed option classes that are then singly listed only by the Disabled Exchange and not by Nasdaq ISE. Any such option classes listed by Nasdaq ISE shall trade on Nasdaq ISE and in accordance with Nasdaq ISE rules. Such option classes shall be traded by Nasdaq ISE Members and by members of the Disabled Exchange selected by the Disabled Exchange to the extent Nasdaq ISE can accommodate members of the Disabled Exchange in the capacity of temporary Members of Nasdaq ISE. Nasdaq ISE may allocate such option classes to a Nasdaq ISE PMM in advance of a Disabling Event, without utilizing the allocation process under Nasdaq ISE Rule 802, to enable Nasdaq ISE to quickly list such option classes upon the occurrence of a Disabling Event.



(ii) Any options class listed by Nasdaq ISE pursuant to paragraph (b)(2)(i) that does not satisfy the listing and maintenance criteria under Nasdaq ISE rules will be subject, upon listing by Nasdaq ISE, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in Nasdaq ISE rules).

**(3) Multiply Listed Options.**

Nasdaq ISE may enter into arrangements with a Disabled Exchange to permit the Disabled Exchange's members to conduct trading on Nasdaq ISE of some or all of the Disabled Exchange's multiply listed options in the event of a Disabling Event. Such options shall trade as a listing of Nasdaq ISE and in accordance with Nasdaq ISE rules. Such options shall be traded by Nasdaq ISE Members and by members of the Disabled Exchange to the extent Nasdaq ISE can accommodate members of the Disabled Exchange in the capacity of temporary Members of Nasdaq ISE.

**(c) Member Obligations.**

**(1) Temporary Members of the Disabled Exchange**

(i) A Nasdaq ISE Member acting in the capacity of a temporary member of the Disabled Exchange pursuant to paragraph (b)(1)(iv) shall be subject to, and obligated to comply with, the rules that govern the operation of the facility of the Disabled Exchange at Nasdaq ISE, including the rules of the Disabled Exchange to the extent applicable during the period of such trading. Additionally, (A) such Nasdaq ISE Member shall be deemed to have satisfied, and the Disabled Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled Exchange, including all dues, fees and charges imposed generally upon members of the Disabled Exchange based on their status as such, (B) such Nasdaq ISE Member shall have none of the rights of a member of the Disabled Exchange except the right to conduct business on the facility of the Disabled Exchange at Nasdaq ISE to the extent described in this Rule, (C) the Nasdaq ISE Member shall be responsible for all obligations arising out its activities on or relating to the Disabled Exchange, and (D) the Clearing Member of such Nasdaq ISE Member shall guarantee and clear the transactions of such Nasdaq ISE Member on the Disabled Exchange.

(ii) A member of a Back-up Exchange acting in the capacity of a temporary Member of Nasdaq ISE pursuant to paragraph (a)(1)(vi) shall be subject to, and obligated to comply with, the rules that govern the operation of the facility of Nasdaq ISE at the Back-up Exchange, including Nasdaq ISE rules to the extent applicable during the period of such trading. Additionally, (A) such temporary Member shall be deemed to have satisfied, and Nasdaq ISE will waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a Member of Nasdaq ISE, including all dues, fees and charges imposed generally upon Nasdaq ISE Members based on their status as such, (B) such temporary Member shall have none of the rights of a Nasdaq ISE Member except the right to conduct business on the facility of Nasdaq ISE at the Back-up

Exchange to the extent described in this Rule, (C) the member organization associated with such temporary Member, if any, shall be responsible for all obligations arising out of that temporary Member's activities on or relating to Nasdaq ISE, and (D) the Clearing Member of such temporary Member shall guarantee and clear the transactions on Nasdaq ISE of such temporary Member.

## (2) Temporary Members of the Back-up Exchange

(i) A Nasdaq ISE Member acting in the capacity of a temporary member of the Back-up Exchange pursuant to paragraphs (a)(2)(ii) or (a)(3) shall be subject to, and obligated to comply with, the rules of the Back-up Exchange that are applicable to the Back-up Exchange's own members. Additionally, (A) such Nasdaq ISE Member shall be deemed to have satisfied, and the Back-up Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Back-up Exchange, including all dues, fees and charges imposed generally upon members of the Back-up Exchange based on their status as such, (B) such Nasdaq ISE Member shall have none of the rights of a member of the Back-up Exchange except the right to conduct business on the Back-up Exchange to the extent described in this Rule, (C) the Nasdaq ISE Member shall be responsible for all obligations arising out of its activities on or relating to the Back-up Exchange, (D) the Clearing Member of such Nasdaq ISE Member shall guarantee and clear the transactions of such Nasdaq ISE Member on the Back-up Exchange, and (E) such Nasdaq ISE Member shall only be permitted (x) to act in those capacities on the Back-up Exchange that are authorized by the Back-up Exchange and that are comparable to capacities in which the Nasdaq ISE Member has been authorized to act on Nasdaq ISE, and (y) to trade in those option classes in which the Nasdaq ISE Member is authorized to trade on Nasdaq ISE.

(ii) A member of a Disabled Exchange acting in the capacity of a temporary Member of Nasdaq ISE pursuant to paragraphs (b)(2)(i) or (b)(3) shall be subject to, and obligated to comply with, Nasdaq ISE rules that are applicable to Nasdaq ISE's own Members. Additionally, (A) such temporary Member shall be deemed to have satisfied, and Nasdaq ISE will waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a Member of Nasdaq ISE, including all dues, fees and charges imposed generally upon Nasdaq ISE Members based on their status as such, (B) such temporary Member shall have none of the rights of a Nasdaq ISE Member except the right to conduct business on Nasdaq ISE to the extent described in this Rule, (C) the member organization associated with such temporary Member, if any, shall be responsible for all obligations arising out of that temporary Member's activities on or relating to Nasdaq ISE, (D) the Clearing Member of such temporary Member shall guarantee and clear the transactions of such temporary Member on the Nasdaq ISE, and (E) such temporary Member shall only be permitted (x) to act in those Nasdaq ISE capacities that are authorized by Nasdaq ISE and that are comparable to capacities in which the temporary Member has been authorized to act on the Disabled Exchange, and (y) to trade in those option classes in which the temporary Member is authorized to trade on the Disabled Exchange.

**(d) Member Proceedings.**

**(1)** If Nasdaq ISE initiates an enforcement proceeding with respect to the trading during a back-up period of the singly or multiply listed options of the Disabled Exchange by a temporary Member of Nasdaq ISE or the exclusively listed options of the Disabled Exchange by a member of the Disabled Exchange (other than a Nasdaq ISE Member who is a temporary member of the Disabled Exchange), and such proceeding is in process upon the conclusion of the back-up period, Nasdaq ISE may transfer responsibility for such proceeding to the Disabled Exchange following the conclusion of the back-up period. Arbitration of any disputes with respect to any trading during a back-up period of singly or multiply listed options of the Disabled Exchange or of exclusively listed options of the Disabled Exchange on the Disabled Exchange's facility at Nasdaq ISE will be conducted in accordance with Nasdaq ISE rules, unless the parties to an arbitration agree that it shall be conducted in accordance with the rules of the Disabled Exchange.

**(2)** If the Back-up Exchange initiates an enforcement proceeding with respect to the trading during a back-up period of Nasdaq ISE singly or multiply listed options by a temporary member of the Back-up Exchange or Nasdaq ISE exclusively listed options by a Nasdaq ISE Member (other than a member of the Back-up Exchange who is a temporary Member of Nasdaq ISE), and such proceeding is in process upon the conclusion of the back-up period, the Back-up Exchange may transfer responsibility for such proceeding to Nasdaq ISE following the conclusion of the back-up period. Arbitration of any disputes with respect to any trading during a back-up period of Nasdaq ISE singly or multiply listed options on the Back-up Exchange or of Nasdaq ISE exclusively listed options on the facility of Nasdaq ISE at the Back-up Exchange will be conducted in accordance with the rules of the Back-up Exchange, unless the parties to an arbitration agree that it shall be conducted in accordance with Nasdaq ISE rules.

**(e) Member Preparations.**

Nasdaq ISE Members are required to take appropriate actions as instructed by Nasdaq ISE to accommodate Nasdaq ISE's back-up trading arrangements with other exchanges and Nasdaq ISE's own back-up trading arrangements.

***Supplementary Material to Rule 508***

**.01** This Rule 508 reflects back-up trading arrangements that Nasdaq ISE has entered into or may enter into with one or more other exchanges. To the extent that this Rule provides that another exchange will take certain action, the Rule is reflecting what that exchange has agreed to do by contractual agreement with Nasdaq ISE, but the Rule itself is not binding upon the other exchange.]

**Rule 509. Authority to Take Action Under Emergency Conditions**

The Chairman of the Board, the President or such other person or persons as may be designated by the Board shall have the power to halt or suspend trading in some or all securities traded on the Exchange, to close some or all Exchange facilities, to determine

the duration of any such halt, suspension or closing, to take one or more of the actions permitted to be taken by any person or body of the Exchange under Exchange rules, or to take any other action deemed to be necessary or appropriate for the maintenance of a fair and orderly market or the protection of investors, or otherwise in the public interest, due to emergency conditions or extraordinary circumstances, such as (1) actual or threatened physical danger, severe climatic conditions, natural disaster, civil unrest, terrorism, acts of war, or loss or interruption of facilities utilized by the Exchange, or (2) a request by a governmental agency or official, or (3) a period of mourning or recognition for a person or event. The person taking the action shall notify the Board of actions taken pursuant to this Rule, except for a period of mourning or recognition for a person or event, as soon thereafter as is feasible.

## **[6. Doing Business With the Public**

### **Rule 600. Exchange Approval**

An Electronic Access Member may be approved by the Exchange to transact business with the public only if such Member is also 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 examining authority for the Member. Approval to transact business with the public shall be based on a Member's meeting the general requirements set forth in this Chapter and the net capital requirements set forth in Chapter 13 (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

### **Rule 601. Registration of Options Principals**

(a) No Member 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 supervision of options sales practices or a person to whom the designated general partner or executive officer (pursuant to Rule 609) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals.

(e) Individuals who are delegated responsibility pursuant to Rule 609 for the acceptance of discretionary accounts, for approving exceptions to a member's criteria or standards for uncovered options accounts, and for approval of communications, shall be designated as Options Principals and are required to qualify as an Options Principal by passing the Registered Options Principal Qualification Examination (Series 4).

### **Rule 602. Registration of Representatives**

(a) No Member 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 Member which are customarily performed by sales representatives or branch office managers shall be designated as Representatives of the Member.

(d) 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).

#### **Rule 605. Reserved**

#### **Rule 606. Discipline, Suspension, Expulsion of Registered Persons**

The Exchange may discipline, suspend or terminate the registration of any registered person for violation of the By-Laws or Rules of the Exchange or the Rules of the Clearing Corporation.

#### **Rule 607. Branch Offices**

(a) Every Member approved to do options business with the public under this Chapter shall file with the Exchange 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 a Member shall transact options business with the public unless the manager of such branch office has been qualified as an Options 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 Member can demonstrate that the options activities of such branch offices are appropriately supervised by an Options Principal.

(c) Definition of Branch Office. — A "branch office" is any location where one or more associated persons of a member regularly conduct the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security, or is held out as such, excluding:

(1) any location that is established solely for customer service and/or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;

(2) any location that is the associated person's primary residence; provided that: (i) only one associated person, or multiple associated persons, who reside at that location and are members of the same immediate family, conduct business at the location; (ii) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (iii) neither customer funds nor securities are handled at that location; (iv) the associated person is assigned to a designated branch office, and such branch office is reflected on all business cards, stationery, advertisements and other communications to the public by such associated person; (v) the associated person's correspondence and communications with the public are subject to all supervisory provisions of the Exchange's rules; (vi) electronic communications (*e.g.*, e-mail) are made through the member's electronic system; (vii) all orders are entered through the

designated branch office or an electronic system established by the member that is reviewable at the branch office; (viii) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the member; and (ix) a list of the locations is maintained by the member;

**(3)** any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided the member complies with the provisions of (ii) through (viii) of paragraph (2) above;

**(4)** an office of convenience, where the associated person occasionally and exclusively by appointment meets with customers, which is not held out to the public as a branch office (where such location is on bank premises, however, only signage required by the Interagency Statement (Statement on Retail Sales of Nondeposit Investment Products required under Banking Regulations) may be displayed);

**(5)** any location that is used primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year; provided that any advertisements or sales literature identifying such location also sets forth the address and telephone number of the location from which the associated person conducting business at the non-branch locations are directly supervised;

**(6)** the Floor of a registered national securities exchange where a member conducts a direct access business with public customers; or

**(7)** a temporary location established in response to the implementation of a business continuity plan.

**(d)** Notwithstanding the exclusions in subparagraphs (c) (1) - (7) above, any location that is responsible for supervising the activities of persons associated with a member at one or more non-branch locations of such member is considered to be a branch office.

**(e)** For purposes of this Rule, the term "business day" shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.

**(f)** For purposes of this Rule, the term "associated person of a member" is defined as a member or employee associated with a member.

**(g)** For purposes of (c)(2)(viii) above, written supervisory procedures shall include criteria for on-site for cause reviews of an associated person's primary residence. Such reviews must utilize risk-based sampling or other techniques designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

(h) For purposes of (c)(2)(viii) and (3) above, written supervisory procedures for such residences and other remote locations must be designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.

(i) Factors which should be considered when developing risk-based sampling techniques to determine the appropriateness of on-site for cause reviews of selected residences and other remote locations shall include, but not be limited to, the following: (i) the firm's size; (ii) the firm's organizational structure; (iii) the scope of business activities; (iv) the number and location of offices; (v) the number of associated persons assigned to a location; (vi) the nature and complexity of products and services offered; (vii) the volume of business done; (viii) whether the location has a Series 9/10-qualified person on-site; (ix) the disciplinary history of the registered persons or associated persons, including a review of such person's customer complaints and Forms U4 and U5; and (x) the nature and extent of a registered person's or associated person's outside business activities, whether or not related to the securities business.

#### **Rule 608. Opening of Accounts**

(a) *Approval Required.* No Member shall accept an order from a customer to purchase or write an options contract unless the 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 customer's account for options transactions, a Member shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information, which shall be retained in accordance with Rule 609. Based upon such information, the branch office manager or other Options Principal shall approve in writing the 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 with respect to options customers that are natural persons, a Member shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

(i) investment objectives (*e.g.*, safety of principal, income, growth, trading profits, speculation);

(ii) employment status (name of employer, self-employed or retired);

(iii) estimated annual income from all sources;

(iv) estimated net worth (exclusive of family residence);

(v) estimated liquid net worth (cash, securities, other);

(vi) marital status;

(vii) number of dependents;

(viii) age; and

(ix) 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 (1) above, the customer's account records shall contain the following information, if applicable:

(i) source or sources of background and financial information (including estimates) concerning the customer;

(ii) discretionary trading authorization, including agreement on file, name, relationship to customer and experience of person holding trading authority;

(iii) date(s) options disclosure document(s) furnished to customer;

(iv) nature and types of transactions for which account is approved (*e.g.*, buying, covered writing, uncovered writing, spreading, discretionary transactions);

(v) name of Representative;

(vi) name of Options Principal approving account;

(vii) date of approval; and

(viii) dates of verification of currency of account information.

(3) Refusal of a customer to provide any of the information called for in this paragraph shall be so noted on the 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 Customer Background and Financial Information.* The background and financial information upon which the account of every new customer that is a natural person has been approved for options trading, including all of the information required in paragraph (b)(2) of this Rule, unless the information is included in the customer's account agreement, shall be sent to the customer for verification or correction within fifteen (15) days after the customer's account has been approved for options transactions. A copy of the background and financial information on file with the Member shall also be sent to the customer for verification within fifteen (15) days after the Member becomes aware of any material change in the customer's financial situation. Absent advice from the customer to the contrary, the information will be deemed to be verified.



**(d) *Agreements to Be Obtained.*** Within fifteen (15) days after a customer's account has been approved for options transactions, a Member shall obtain from the 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 customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Rules 412 and 414.

**(e) *Options Disclosure Documents to Be Furnished.*** At or prior to the time a customer's account is approved for options transactions, a Member shall furnish the customer with one (1) or more current options disclosure documents in accordance with the requirements of Rule 616.

**(f) Every Member 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:**

**(1)** specific criteria and standards to be used in evaluating the suitability of uncovered short options transactions for a particular customer;

**(2)** 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 writing uncovered short options contracts), including written approval of such accounts by an Registered Options Principal;

**(3)** designation of a specific Registered Options Principal qualified individual(s) as the person(s) 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;

**(4)** establishment of specific minimum net equity requirements for initial approval and maintenance of accounts containing uncovered options; and

**(5)** requirements that customers approved for writing uncovered short options transactions be provided with a specific written description of the risks inherent in writing uncovered short options transactions, at or prior to the initial uncovered short options transaction pursuant to Rule 616(c).

#### **Rule 609. Supervision of Accounts**

**(a) *Duty to Supervise— Non-Member Accounts.*** The general partners or directors of each Member that conducts a non-member customer business shall provide for appropriate supervisory control and shall designate a general partner or executive officer, who shall be identified to the Exchange, to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person, who may be the same individual designated pursuant to substantially similar New York Stock Exchange or National Association of Securities Dealers rules, shall:

1. Delegate to qualified employees responsibilities and authority for supervision and control of each office, department or business activity, and shall provide for appropriate written procedures of supervision and control.
2. Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.
3. Develop and implement written policies and procedures reasonably designed to independently supervise the activities of accounts serviced by branch office managers, sales managers, regional/district sales managers or any person performing a similar supervisory function. Such supervisory reviews must be performed by a qualified Registered Options Principal who:
  - i. Is either senior to, or otherwise independent of, the producing manager under review. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the producing manager under review; must be situated in an office other than the office of the producing manager; must not otherwise have supervisory responsibility over the activity being reviewed; and must alternate such review responsibility with another qualified person every two years or less. Further, if a person designated to review a producing manager receives an override or other income derived from that producing manager's customer activity that represents more than 10% of the designated person's gross income derived from the member over the course of a rolling twelve-month period, the member must establish alternative senior or otherwise independent supervision of that producing manager to be conducted by a qualified Registered Options Principal other than the designated person receiving the income.
  - ii. If a member is so limited in size and resources that there is no qualified Registered Options Principal senior to, or otherwise independent of, the producing manager to conduct the reviews pursuant to paragraph (a)(3)(i) of this Rule (for instance, the member has only one office, or an insufficient number of qualified personnel who can conduct reviews on a two-year rotation), the reviews may be conducted by a Registered Options Principal in compliance with paragraph (a)(3)(i) of this Rule to the extent practicable.
  - iii. A member relying on paragraph (a)(3)(ii) of this Rule must document the factors used to determine that complete compliance with all of the provisions of paragraph (a)(3)(i) of this Rule is not possible, and that the required supervisory systems and procedures in place with respect to any producing manager comply with the provisions of paragraph (a)(3)(i) of this Rule to the extent practicable.

**(b) Maintenance of Customer Records.**

(1) Background and financial information of customers who have been approved for options transactions shall be maintained at both the branch office servicing the customer's account and the principal supervisory office having jurisdiction over that branch office. Copies of account statements of options customers shall be maintained at both the branch office supervising the accounts and the principal supervisory office having jurisdiction over that branch for the most recent six-month period. With respect to the record retention responsibility of principal supervisory offices, customer information and account statements may be maintained at a location off premises so long as the records are readily accessible and promptly retrievable. Other records necessary to the proper supervision of accounts shall be maintained at a place easily accessible both to the branch office servicing the customer's account and to the principal supervisory office having jurisdiction over that branch office.

(2) 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.

(3) 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 by the designated general partner or executive officer (pursuant to Rule 609). 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.

(4) For purposes of this paragraph (b)(3), a person(s) designated by the designated general partner or officer (pursuant to Rule 609) must be a Registered Options Principal.

*(c) Internal Controls.*

(1) Members must develop and maintain adequate controls over each of its business activities. Such controls must provide for the establishment of procedures for verification and testing of those business activities. An ongoing analysis, based upon appropriate criteria, may be employed to assess and prioritize those business activities requiring independent verification and testing. A review of each member's efforts with respect to internal controls, including a summary of tests conducted and significant exceptions identified, must be included in the annual report required by paragraph (g) of this Rule.

(2) A member that complies with requirements of the New York Stock Exchange or the National Association of Securities Dealers that are substantially similar to the

requirements in paragraph (c)(1) of this Rule will be deemed to have met such requirements.

**(d) Annual Branch Office Inspections.**

**1.** Each branch office that supervises one or more non-branch locations must be inspected no less often than once each calendar year unless:

- (i) it has been demonstrated to the satisfaction of the Exchange that because of proximity, special reporting or supervisory practice, other arrangements may satisfy this Rule's requirements for a particular branch office; or
- (ii) based upon the written policies and procedures of such member providing for a systematic risk-based surveillance system, the member submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to paragraph (e) of this Rule.

**2.** Every branch office, without exception, must be inspected at least once every three calendar-years. All required inspections must be conducted by a person who is independent of the direct supervision and control of the branch office in question ( i.e., not the branch office manager, or any person who directly or indirectly reports to such manager, or any person to whom such manager directly reports). Written reports reflecting the results of such inspections are to be maintained with the member for the longer of three years or until the next branch office inspection.

**3.** A member that complies with requirements of the New York Stock Exchange or the National Association of Securities Dealers that are substantially similar to the requirements in paragraph (d)(1) and (d)(2) of this Rule as well as to related requirements in paragraphs (e) and (f) of this Rule will be deemed to have met such requirements.

**(e) Risk -Based Surveillance and Branch Office Identification.**

**1.** Any member seeking an exemption, pursuant to Rule 609(d)(1)(ii), from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the member's business model and product mix. Such policies and procedures must also, at a minimum, provide for:

- (i) The inspection of branches where developments during the year require a reconsideration of such branch's exemption;
- (ii) A requirement that no less than half of the branch offices inspected each year on a cycle basis be done on an unannounced basis; and
- (iii) A system to enable employees to report compliance issues on a confidential basis outside of the branch office chain of command.

2. For purposes of paragraph (e)(1) of this Rule, the risk-based factors to be considered should include, but not necessarily be limited to, the following:

- (i) Number of Registered Representatives;
- (ii) A significant increase in the number of Registered Representatives;
- (iii) Number of customers and volume of transactions;
- (iv) A significant increase in branch office revenues;
- (v) Incidence of concentrated securities positions in customer's accounts;
- (vi) Aggregate customer assets held;
- (vii) Nature of the business conducted and the sales practice risk to investors associated with the products sold, and product mix (e.g. options, equities, mutual funds, annuities, etc.);
- (viii) Numbers of accounts serviced on a discretionary basis;
- (ix) Compliance and regulatory history of the branch, including:
  - (A) Registered Representatives subject to special supervision by the member, self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission in years other than the previous or current year;
  - (B) Complaints, arbitrations, internal discipline, or prior inspection findings; and
  - (C) Persons subject to recent disciplinary actions by self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission.
- (x) Operational factors, such as the number of errors and account designation changes per Registered Representative;
- (xi) Incidence of accommodation mailing addresses (e.g., post office boxes and "care of" accounts);
- (xii) Whether the branch office permits checks to be picked up by customers or hand delivery of checks to customers;
- (xiii) Experience, function (producing or non-producing) and compensation structure of branch office manager;
- (xiv) Branch offices recently opened or acquired; and

(xv) Changes in branch location, status or management personnel.

**3.** Notwithstanding any policies or procedures implemented pursuant to this Rule, branch offices that meet any of the following criteria must be inspected no less often than once each calendar year:

- (i) Offices with one or more Registered Representatives subject to special supervision as required by a self-regulatory authority or state regulatory authority during the current or immediately preceding year.
- (ii) Offices with 25 or more registered individuals;
- (iii) Offices in the top 20% of production or customer assets for the member organization;
- (iv) Any branch office not inspected within the previous two calendar years; and
- (v) Any branch office designated as exercising supervision over another branch office.

**(f) Criteria for Inspection Programs.** An annual branch office inspection program must include, but is not limited to, testing and independent verification of internal controls related to the following areas:

1. Safeguarding of customer funds and securities;
2. Maintaining books and records;
3. Supervision of customer accounts serviced by branch office managers;
4. Transmittal of funds between customers and Registered Representatives and between customers and third parties;
5. Validation of customer address changes; and
6. Validation of changes in customer account information.

**(g) Written Report.** By April 1 of each year, each member that conducts a non-member customer business shall submit to the Exchange a written report on the member's supervision and compliance effort during the preceding year and on the adequacy of the member's ongoing compliance processes and procedures. Each member that conducts a public customer options business shall also specifically include its options compliance program in the report. The report shall include, but not be limited to, the following:

1. A tabulation of customer complaints (including arbitrations and civil actions) and internal investigations.

2. Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the preceding year's efforts of this nature.
3. Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas: (i) antifraud and trading practices; (ii) investment banking activities; (iii) sales practices; (iv) books and records; (v) finance and operations; (vi) supervision; (vii) internal controls, and (viii) anti-money laundering. If any of these areas do not apply to the member organization, the report shall so state.
4. For each member, the designation of a general partner or principal executive officer as Chief Compliance Officer (which designation shall be updated on Schedule A of Form BD).
5. A certification signed by the member's Chief Executive Officer (or equivalent), that:
  - (i) The member has in place processes to:
    - (A) establish and maintain policies and procedures reasonably designed to achieve compliance with applicable Exchange Rules and federal securities laws and regulations,
    - (B) modify such policies and procedures as business, regulatory and legislative changes and events dictate, and
    - (C) test the effectiveness of such policies and procedures on a regular basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.
  - (ii) the Chief Executive Officer (or equivalent officer) conducted one or more meetings with the organization's Chief Compliance Officer during the preceding 12 months, and that they discussed and reviewed the matters described in this certification, including the organization's prior compliance efforts, and identified and addressed significant compliance problems and plans for emerging business areas.
  - (iii) the processes described in paragraph (g)(5)(i) of this Rule, are evidenced in a report reviewed by the Chief Executive Officer (or equivalent officer), Chief Compliance Officer and such other officers as the organization may deem necessary to make this certification, and submitted to the organization's board of directors and audit committee (if such committee exists) on or before April 1st of each year.

(iv) the Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in paragraph (g)(5)(iii) of this Rule and such other employees, outside consultants, lawyers and accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

(6) A member that specifically includes its options compliance program in a report that complies with substantially similar requirements of the New York Stock Exchange or the National Association of Securities Dealers will be deemed to have met the requirements of this Rule 609(g) and Rule 609(h).

**(h) Reports to Control Persons.** By April 1 of each year, each member shall submit a copy of the report that Rule 609(g) requires the member to prepare to its one or more control persons or, if the member has no control person, to the audit committee of its board of directors or its equivalent committee or group. In the case of a control person that is an organization (a "controlling organization"), the member shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization's board of directors or its equivalent committee or group. For the purpose of this paragraph, "control person" means a person who controls the member organization within the meaning of Rule 1.1(k).

**(i)** Each member that conducts a non-member customer business shall establish, maintain, and enforce written procedures which detail the specific methods used to supervise all non-member customer accounts, and all orders in such accounts. Such written procedures shall specifically identify the titles and positions of individuals who have been delegated authority and responsibility for an identified segment of the member organization's business, including option compliance functions. The procedures shall also include the registration status and location of all such supervisory and compliance personnel. Each member shall also develop and implement specific written procedures concerning the manner of supervision of customer accounts maintaining uncovered short option positions, and specifically providing for frequent supervisory review of such accounts.

**(j)** Each member shall maintain at the principal supervisory office having jurisdiction over the office servicing the customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each 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.

**(k)** Documentation evidencing the annual written report required by paragraph (g) of this rule, must be maintained in a place that is easily accessible and shall be provided to the Exchange upon request.



**Rule 610. Suitability of Recommendations**

(a) Every Member, Options Principal or Representative who recommends to a customer the purchase or sale (writing) of any options contract shall have reasonable grounds for believing that the recommendation is not unsuitable for such customer on the basis of the information furnished by such customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such Member, Options Principal or Representative.

(b) No Member, Options Principal or Representative shall recommend to a 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 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.

**Rule 611. Discretionary Accounts**

(a) *Authorization and Approval Required.* No Member shall exercise any discretionary power with respect to trading in options contracts in a customer's account unless such customer has given prior written authorization and the account has been accepted in writing by a Registered Options Principal.

(1) Each firm shall designate specific Registered Options Principal qualified individuals pursuant to Rule 609 to review discretionary accounts. A Registered Options Principal qualified person specifically delegated such responsibilities under Rule 609 (who is an individual other than the Registered Options Principal who accepted the account) shall review the acceptance of each discretionary account to determine that the Registered Options Principal accepting the account had a reasonable basis for believing that the customer was able to understand and bear the risks of the strategies or transactions proposed, and the individual 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 the System.

(3) Discretionary accounts shall receive frequent appropriate supervisory review by a Registered Options Principal qualified person specifically delegated such responsibilities under Rule 609 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 a Member is vested with any discretionary power, such record to include the name of the customer, options class and series, number of contracts, premium, and date and time when such transaction took place.

(c) *Excessive Transactions Prohibited.* No Member shall effect with or for any customer's account with respect to which such Member 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) *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 below, 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. As used in this paragraph (d) the term "institutional account" shall mean the account of: (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) 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 (iii) any other entity (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

**(e) *Options Programs.*** Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the customer shall be furnished with a written explanation (meeting the requirements of Rule 623) of the nature and risks of such programs.

**(f)** Any member 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 Principal qualified individuals who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

#### **Rule 612. Confirmation to Customers**

**(a)** Every Member shall promptly furnish to each 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 transactions and other transactions in options contracts though such confirmation does not need to specify the exchange or exchanges on which such option contracts were executed.

#### **Rule 613. Statement of Accounts to Customers**

**(a)** Every Member shall send to its 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 customers having a general (margin) account, the 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.

(1) For purposes of this paragraph, 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 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 customer, and that such information will be made available to the customer promptly upon request.

(d) Customer statements shall bear a legend requesting that the customer promptly advise the Member of any material change in the customer's investment objectives or financial situation.

(e) 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.

#### **Rule 614. Statements of Financial Condition to Customers**

Every Member shall send to each of its customers statements of the Member's financial condition as required by Rule 17a-5 under the Exchange Act.

#### **Rule 615. Reserved**

#### **Rule 616. Delivery of Current Options Disclosure Documents and Prospectus**

(a) *Options Disclosure Documents.* Every Member shall deliver a current options disclosure document to each customer at or prior to the time such customer's account is approved for options transactions. Where a customer is a broker or dealer, the Member 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 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 customer. The Exchange will advise Members when an options disclosure document is amended.

(b) *Prospectus*. Every Member shall furnish a copy of the current prospectus of the Clearing Corporation to each customer who requests one. The Exchange will advise Members when a new prospectus is available. The term "current prospectus of Clearing Corporation" means the prospectus portion of the most recent Form S-20, which prospectus portion then meets the delivery requirements of Rule 153b under the Securities Act.

(c) The written description of risks required by Rule 608(f)(5) shall be in a format prescribed by the Exchange or in a format developed by the Member, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

(d) Sample risk description for use by Members to satisfy the requirements of paragraph (c) 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 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.

**Rule 617. Restrictions on Pledge and Lending of Customers' Securities**

(a) No Member shall lend, either to itself or to others, securities carried for the account of any customer, unless such Member shall first have obtained a separate written authorization from such customer permitting the lending of the securities.

(b) Regardless of any agreement between a Member and a customer authorizing the Member to lend or pledge such securities, no Member shall lend or pledge more of such securities than is fair and reasonable in view of the indebtedness of the customer to such Member, except such lending as may be specifically authorized under paragraph (c) of this Rule.

(c) No Member shall lend securities carried for the account of any 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 customer, unless such Member first obtains from such customer a separate written authorization designating the particular securities to be loaned.

(d) No Member shall hold securities carried for the account of any 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 customer, unless such securities are segregated and identified by a method that clearly indicates the interest of such customer in those securities.

**Rule 618. Transactions of Certain Customers**

(a) No Member shall execute any transaction in securities or carry a position in any security in which:

(1) an officer or employee of the Exchange, or any other 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 Member is directly or indirectly interested, without the consent of such other Member.

(b) Where the required consent has been granted, duplicate reports of the transaction and position shall promptly be sent to the Exchange or Member, as the case may be.

**Rule 619. Guarantees**

No Member shall guarantee a customer against loss in his account or in any transaction effected with or for such customer.

**Rule 620. Profit Sharing**

(a) No Member, Options Principal, Representative, officer, partner or branch office manager of the Member shall share directly or indirectly in the profits or losses in any customer's account, whether carried by such Member, or any other Member, without the prior written consent of the Member carrying the account.

(b) Where such consent is obtained, the Member, Options Principal, Representative, officer, partner or branch office manager 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.

**Rule 621. Assuming Losses**

No Member shall assume for its own account any position established for a customer in a security traded on the Exchange after a loss to the customer has been established or ascertained, unless the position was created by the Member's mistake or unless approval of the Exchange has first been obtained.

**Rule 622. Transfer of Accounts**

(a) When a customer whose securities account is carried by a Member (the "Carrying Member") wants to transfer the entire account to another Member (the "Receiving Member") and gives written notice of that fact to the Receiving Member, both Members must expedite and coordinate activities with respect to the transfer. For purposes of this Rule, the term "securities account" shall be deemed to include any and all of the account's money market fund positions or the redemption value thereof.

(b)

(1) Upon receipt from the customer of a signed broker-to-broker transfer instruction to receive such customer's securities account, the Receiving Member will immediately submit such instruction to the Carrying Member. The Carrying Member must, within one (1) business day following receipt of such instruction, (i) validate and return the transfer instruction (with an attachment reflecting all positions and money balances as shown on its books) to the Receiving Member, or (ii) take exception to the transfer instruction for

reasons other than securities positions or money balance discrepancies and advise the Receiving Member of the exception taken. The time frame(s) set forth in this paragraph will change, as determined from time-to-time in any publication, relating to the ACATS facility, by the National Securities Clearing Corporation (NSCC).

(2) The Carrying Member and the Receiving Member must promptly resolve any exceptions taken to the transfer instruction.

(3) Within five (5) business days following the validation of a transfer instruction, the Carrying Member must complete the transfer of the customer's securities account to the Receiving Member. The Carrying Member and the Receiving Member must establish fail to receive and fail to deliver contracts at then current market values upon their respective books of account against the long/short positions (including options) in the customer's securities account that have not been physically delivered/received and the Receiving/Carrying Member must debit/credit the related money account. The customer's securities account shall thereupon be deemed transferred.

(c) Any fail contracts resulting from this account transfer procedure must be closed out within ten (10) business days after their establishment.

(d) Any discrepancies relating to positions or money balances that exist or occur after transfer of a customer's securities account must be resolved promptly.

(e) When both the Carrying Member and the Receiving Member are participants in a clearing corporation having automated customer securities account transfer capabilities, the account transfer procedure, including the establishing and closing out of fail contracts, must be accomplished in accordance with the provisions of this Rule and pursuant to the rules of and through the clearing corporation.

(f) The Exchange may exempt from the provisions of this Rule, either unconditionally or on specified terms and conditions, (i) any Member or type of Members, or (ii) any type of account, security or financial instrument.

(g) Unless an exemption has been granted pursuant to paragraph (f) of this Rule, the Exchange may impose upon a Member a fee of up to \$100 per securities account for each day such Member fails to adhere to the time frames or procedures required by this Rule.

(h) Transfer instructions and reports required by this Rule shall be in such form as may be prescribed by the Exchange.

### **Rule 623. Options Communications**

(a) Definitions. For purposes of this Rule and any interpretation thereof, "options communications" consist of:

**(1) Correspondence.** The term "correspondence" shall include any written (including electronic) communication distributed or made to: 25 or fewer retail customers within any 30 calendar-day period.

**(2) Institutional Communication.** The term "institutional communication" shall include any written (including electronic) communication concerning options that is distributed or made available only to institutional investors, but does not include a Member's internal communications. The term institutional investor shall mean any qualified investor as defined in Section 3(a)(54) of the Securities Exchange Act of 1934.

**(3) Retail Communication.** The term "retail communication" means any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period.

**(b) Approval by Registered Options Principal.**

**(1)** All retail communications (except completed worksheets) issued by a Member pertaining to options shall be approved in advance by a Registered Options Principal designated by the member's written supervisory procedures.

**(2)** Correspondence need not be approved by a Registered Options Principal prior to use. All correspondence is subject to the supervision and review requirements of Rule 609.

**(3)** Institutional communications. Each Member shall establish written procedures that are appropriate to its business, size, structure, and customers for review by a Registered Options Principal of institutional communications used by the member.

**(4)** Copies of the options communications shall be retained by the member in accordance with Rule Rule 17a-4 under the Securities Exchange Act of 1934. The names of the persons who prepared the options communications, the names of the persons who approved the options communications, and the source of any recommendations contained therein shall be retained by the member and kept in the form and for the time periods required for options communications by Rule 17a-4.

**(c) Exchange Approval Required.** In addition to the approval required by paragraph (b) of this Rule, retail communications of a Member pertaining to standardized options that is not accompanied or preceded by the applicable current options disclosure document ("ODD") shall be submitted to the Exchange at least ten (10) calendar days prior to use (or such shorter period as the Exchange may allow in particular instances) for approval, and if changed or expressly disapproved by the Exchange, shall be withheld from circulation until any changes specified by the Exchange have been made or, in the event of disapproval, until the communication has been resubmitted for, and has received, Exchange approval. The requirements of this paragraph shall not be applicable to:

**(1)** options communications submitted to another self-regulatory organization having comparable standards pertaining to such communications, and



(2) communications in which the only reference to options is contained in a listing of the services of the Member;

(3) the ODD; and

(4) the prospectus.

(d) General Rule. No member or associated person shall use any options communication which:

(1) Contains any untrue statement or omission of a material fact or is otherwise false or misleading.

(2) Contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events which are unwarranted or which are not clearly labeled as forecasts.

(3) Contains cautionary statements or caveats that are not legible, are misleading, or are inconsistent with the content of the materials.

(4) Contains statements suggesting the certain availability of secondary market for options.

(5) Fails to reflect the risks attendant to options transactions and the complexities of certain options investment strategies.

(6) Fails to include a warning to the effect that options are not suitable for all investors or contains suggestions to the contrary.

(7) Fails to include a statement that supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of sales persons), comparisons, recommendations, statistics, or other technical data, will be supplied upon request.

(8) would constitute a prospectus as that term is defined in the Securities Act of 1933, unless it meets the requirements of Section 10 of the Securities Act of 1933.

Paragraphs (6) and (7) shall not apply to institutional communications as defined in this Rule 623. Any statement in any options communications referring to the potential opportunities or advantages presented by options shall be balanced by a statement of the corresponding risks. The risk statement shall reflect the same degree of specificity as the statement of opportunities, and broad generalities must be avoided.

(e) Standards Applicable to Options Communications

(1) Unless preceded or accompanied by the ODD, options communications shall:

**(i)** Be limited to general descriptions of the options being discussed.

**(ii)** Contain contact information for obtaining a copy of the ODD.

**(iii)** Not contain recommendations or past or projected performance figures including annualized rates of return, or names of specific securities.

**(2)** Options communications used prior to ODD delivery may:

**(i)** Contain a brief description of options, including a statement that identifies registered clearing agencies for options. The text may also contain a brief description of the general attributes and method of operation of the exchanges on which options are traded, including a discussion of how an option is priced.

**(ii)** Include any statement required by any state law or administrative authority.

**(iii)** Include advertising designs and devices, including borders, scrolls, arrows, pointers, multiple and combined logos and unusual type faces and lettering as well as attention-getting headlines and photographs and other graphics, provided such material is not misleading.

**(f)** The Rule 623(e)(1)(B) requirement to include contact information for obtaining a copy of the ODD may be satisfied by providing a name and address or one or more telephone numbers from which the current options disclosure document may be obtained; directing existing clients to contact their registered representative; or including a response card through which a current options disclosure document may be obtained. An internet address may also be used, however, such an address must be accompanied by either a telephone number or mailing address for use by those investors who do not have access to the internet.

**(g)** Projections

**(1)** Options communications may contain projected performance figures (including projected annualized rates of return), provided that:

**(i)** all such communications are accompanied or preceded by the ODD.

**(ii)** no suggestion of certainty of future performance is made;

**(iii)** parameters relating to such performance figures are clearly established (*e.g.*, to indicate the exercise price of an options contract, the purchase price of the underlying stock and the options contract's market price, premium, anticipated dividends, etc.);

**(iv)** all relevant costs, including commissions, fees, and interest charges (if applicable with regard to margin transactions) are disclosed;

(v) such projections are plausible and intended as a source of reference or a comparative device to be used in the development of a recommendation;

(vi) all material assumptions made in such calculations are clearly identified (*e.g.*, "assume option expires", "assume option unexercised," "assume option exercised," etc.);

(vii) the risks involved in the proposed transactions are also discussed;

(viii) in communications relating to annualized rates of return, that such returns are not based upon any less than a sixty (60) day experience, any formulas used in making calculations are clearly displayed; and a statement is included to the effect that the annualized returns cited might be achieved only if the parameters described can be duplicated and that there is no certainty of doing so.

(h) Historical Performances. Options communications may feature records and statistics that portray the performance of past recommendations or of actual transactions, provided that:

(i) All such communications are accompanied or preceded by the ODD.

(ii) any such portrayal is done in a balanced manner, and consists of records or statistics that are confined to a specific "universe" that can be fully isolated and circumscribed and that covers at least the most recent twelve (12) month period;

(iii) such communications include the date of each initial recommendation or transaction, the price of each such recommendation or transaction as of such date, and the date and price of each recommendation or transaction at the end of the period or when liquidation was suggested or effected, whichever was earlier; provided that if the communications are limited to summarized or averaged records or statistics in lieu of the complete record, there may be included in the number of items recommended or transacted, the number that advanced and the number that declined, together with an offer to provide the complete record upon request;

(iv) all relevant costs, including commissions, fees, and interest charges (as applicable) are disclosed;

(v) whenever such communications contain annualized rated of return, all material assumptions used in the process of annualization are disclosed;

(vi) an indication is provided of the general market conditions during the period(s) covered, and any comparison made between such records and statistics and the overall market (*e.g.*, comparison to an index) is valid;

(vii) such communications state that the results presented should not and cannot be viewed as an indicator of future performance; and

(viii) a Registered Options Principal determines that the records or statistics fairly present the status of the recommendations or transactions reported upon and so initials the report.

(i) Options Programs. In communications regarding an options program (*i.e.*, an investment plan employing the systematic use of one or more options strategies), the cumulative history or unproven nature of the program and its underlying assumptions shall be disclosed.

**Rule 624. Brokers' Blanket Bonds**

(a) Every Electronic Access Member approved to transact business with the public under this Chapter and every Clearing Member shall carry Brokers' Blanket Bonds covering officers and employees of the Member in such form and in such amounts as the Exchange may require.

(b) All Members subject to paragraph (a) of this Rule shall maintain Brokers' Blanket Bonds as follows:

(1) Maintain a Brokers' Blanket Bond similar to the standard form established by the Surety Association of America, covering officers and employees which provides against loss and has agreements covering at least the following:

(i) Fidelity;

(ii) On Premises;

(iii) In Transit;

(iv) Misplacement;

(v) Forgery and Alteration (including check forgery);

(vi) Securities Loss (including securities forgery);

(vii) Fraudulent Trading; and

(viii) A Cancellation Rider providing that the insurance carrier will promptly notify the Exchange of cancellation, termination or substantial modification of the Bond.

(2) In determining the initial minimum coverage, the Member is to use the highest required net capital during the twelve (12) month period immediately preceding the issuance of the Brokers' Blanket Bond. Thereafter, a review for adequacy of coverage shall be made at least annually as of the anniversary date of issuance of the subject Bond, and the minimum requirement for the next twelve (12) months shall be established by reference to the highest net capital in the preceding twelve (12) months. Any necessary adjustments shall be made not more than sixty (60) days following the anniversary.

(c) The minimum required coverage for fraudulent trading shall be the greater of \$25,000 or fifty percent (50%) of the coverage required in paragraph (b)(2) up to a maximum of \$500,000.

(d) The minimum required coverage for securities forgery shall be the greater of \$25,000 or twenty-five percent (25%) of the coverage required in paragraph (b)(2) up to a maximum of \$250,000.

(e) A deductible provision of up to \$5,000 or ten percent (10%) of the minimum coverage requirement, whichever is greater, may be included in the Bond.

(1) A Member may choose to maintain coverage in excess of the minimum requirements as set forth above in paragraph (b)(2) of this Rule, and in such case, a deductible provision of up to \$5,000 or ten percent (10%) of the amount of the Blanket Bond coverage, whichever is greater, may be included in the Bond purchased. However, the excess of this greater deductible amount over the maximum permissible deductible amounts as described in this paragraph must be subtracted from the Member's net worth in the calculation of the Member's net capital under SEC Rule 15c3-1.

(2) Each Member shall report the cancellation, termination or substantial modification of the Bond to the Exchange within ten (10) business days of such occurrences.

(f) Members with no employees shall be exempt from this Rule.

(g) Members subject to a bonding rule of another registered national securities exchange, the SEC, or a registered national securities association that imposes requirements that are equal to or greater than the requirements imposed by the Rule shall be deemed to be in compliance with the provisions of this Rule.

#### **Rule 625. Customer Complaints**

(a) Every Member conducting a non-member 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 customer or person acting on behalf of a 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 Member or such other principal office as shall be designated by the Member.

(1) Each options-related complaint received by a branch office of a Member 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 Member with respect to the complaint.

**Rule 626. Telemarketing**

(a) *Telemarketing Restrictions.* No Member or associated person shall make an outbound telephone call to:

(1) any person's residence at any time other than between 8 a.m. and 9 p.m. local time at the called person's location, unless;

(i) the member has an established business relationship with the person pursuant to paragraph (n)(12)(i),

(ii) the member has received that person's prior express invitation or permission, or

(iii) the person called is a broker or dealer.

(2) any person that previously has stated that he or she does not wish to receive any outbound telephone calls made by or on behalf of the Member firm; or

(3) any person who has registered his or her telephone number on the Federal Trade Commission's national do-not-call registry.

(b) *Caller Disclosures.* No Member or associated person shall make an outbound telephone call to any person without disclosing truthfully, promptly and in a clear and conspicuous manner to the called person the following information:

(1) the identity of the caller and the Member firm;

(2) the telephone number or address at which the caller may be contacted; and

(3) that the purpose of the call is to solicit the purchase of securities or related services.

The telephone number provided may not be a 900 number or any other number for which charges exceed local or long-distance transmission charges.

**(c) Member's Firm-Specific Do-Not-Call List.** Each Member shall make and maintain a centralized list of persons who have informed the Member, or any employee thereof, that they do not wish to receive outbound telephone calls. Prior to engaging in telemarketing, a Member must institute procedures to comply with paragraphs (a) and (b). Such procedures must meet the following minimum standards:

- (1)** Members must have a written policy for maintaining the do-not-call list described under paragraph (c).
- (2)** Personnel engaged in any aspect of telemarketing must be informed and trained in the existence and use of the do-not-call list.
- (3)** If a Member receives a request from a person not to receive calls from that Member, the Member must record the request and place the person's name, if provided, and telephone number on the firm's do-not-call list at the time the request is made. Members must honor a person's do-not-call request within a reasonable time from the date such request is made. This period may not exceed 30 days from the date of such request. If such requests are recorded or maintained by a party other than the Member on whose behalf the outbound telephone call is made, the Member on whose behalf the outbound telephone call is made will be liable for any failures to honor the do-not-call request.
- (4)** A Member or person associated with a Member making an outbound telephone call must provide the called party with the name of the individual caller, the name of the Member, an address or telephone number at which the Member may be contacted, and that the purpose of the call is to solicit the purchase of securities or related service. The telephone number provided may not be a 900 number or any other number for which charges exceed local or long distance transmission charges.
- (5)** In the absence of a specific request by the person to the contrary, a person's do-not-call request shall apply to the Member making the call, and will not apply to affiliated entities unless the consumer reasonably would expect them to be included given the identification of the caller and the product being advertised.
- (6)** A Member making outbound telephone calls must maintain a record of a person's request not to receive further calls.

**(d) Do-Not-Call Safe Harbors.**

**(1)** A Member or person associated with a Member making outbound telephone calls will not be liable for violating paragraph (a)(3) if:

**(i)** the Member has an established business relationship with the called person. A person's request to be placed on the Member's firm-specific do-not-call list terminates the

established business relationship exception to the national do-not-call registry provision for that Member even if the person continues to do business with the Member;

**(ii)** the Member has obtained the person's prior express written consent. Such consent must be clearly evidenced by a signed, written agreement (which may be obtained electronically under the E-sign Act) between the person and the Member, which states that the person agrees to be contacted by the Member and includes the telephone number to which the calls may be placed;

**(iii)** the Member or associated person making the call has a personal relationship with the called person;

**(2)** A Member or associated person making outbound telephone calls will not be liable for violating paragraph (a)(3) if the Member or associated person demonstrates that the violation is the result of an error and that as part of the Member's routine business practice:

**(i)** The Member has established and implemented written procedures to comply with paragraphs (a) and (b);

**(ii)** The Member has trained its personnel, and any entity assisting in its compliance, in procedures established pursuant to paragraph (d)(2)(i);

**(iii)** The Member has maintained and recorded a list of telephone numbers that it may not contact in compliance with paragraph (c); and

**(iv)** The Member uses a process to prevent outbound telephone calls to any telephone number on the Member's firm-specific do-not-call list or the national do-not-call registry, employing a version of the national do-not-call registry obtained from the Federal Trade Commission no more than 31 days prior to the date any call is made, and maintains records documenting this process.

**(e)** *Wireless Communications.* The provisions set forth in this Rule are applicable to Members and persons associated with a Member making outbound telephone calls to wireless telephone numbers.

**(f)** *Outsourcing Telemarketing.* If a Member uses another appropriately registered or licensed entity or person to perform telemarketing services on its behalf, the Member remains responsible for ensuring compliance with all provisions contained in this Rule.

**(g)** *Billing Information.* For any telemarketing transaction, no Member or associated person shall cause billing information to be submitted for payment directly or indirectly, without the express informed consent of the consumer. Each Member or associated person must obtain the express informed consent of the person to be charged and to be charged using the identified account.



**(1)** In any telemarketing transaction involving preacquired account information and a free-to-pay conversion feature, the Member or person associated with a Member must:

**(i)** obtain from the customer, at a minimum, the last four digits of the account number to be charged;

**(ii)** obtain from the customer an express agreement to be charged and to be charged using the account number pursuant to paragraph (g)(1)(i); and

**(iii)** make and maintain an audio recording of the entire telemarketing transaction.

**(2)** In any other telemarketing transaction involving preacquired account information not described in paragraph (g)(1), the Member or person associated with a Member must:

**(i)** identify the account to be charged with sufficient specificity for the customer to understand what account will be charged; and

**(ii)** obtain from the customer an express agreement to be charged and to be charged using the account number identified pursuant to paragraph (h)(2)(i).

**(h)** *Caller Identification Information.*

**(1)** Any Member that engages in telemarketing, as defined in paragraph (n)(21) of this Rule, must transmit or cause to be transmitted the telephone number, and, when made available by the Member's telephone carrier, the name of the Member, to any caller identification service in use by a recipient of an outbound telephone call.

**(2)** The telephone number so provided must permit any person to make a do-not-call request during regular business hours.

**(3)** Any Member that engages in telemarketing, as defined in paragraph (n)(21) of this Rule, is prohibited from blocking the transmission of caller identification information.

**(i)** *Unencrypted Consumer Account Numbers.* No Member or person associated with a Member shall disclose or receive, for consideration, unencrypted consumer account numbers for use in telemarketing. The term "unencrypted" means not only complete, visible account numbers, whether provided in lists or singly, but also encrypted information with a key to its decryption. This paragraph shall not apply to the disclosure or receipt of a customer's billing information to process a payment pursuant to a telemarketing transaction.

**(j)** *Abandoned Calls.*

**(1)** No Member or person associated with a Member shall "abandon" any outbound telemarketing call. An outbound call is "abandoned" if a person answers it and the call is

not connected to a person associated with a Member within two seconds of the person's completed greeting.

**(2)** A Member or person associated with a Member shall not be liable for violating paragraph (j)(1) if:

**(i)** the Member or person associated with a Member employs technology that ensures abandonment of no more than three percent of all telemarketing calls answered by a person, measured over the duration of a single calling campaign, if less than 30 days, or separately over each successive 30-day period or portion thereof that the campaign continues;

**(ii)** the Member or person associated with a Member, for each telemarketing call placed, allows the telephone to ring for at least 15 seconds or four rings before disconnecting an unanswered call;

**(iii)** whenever a Member or person associated with a Member is not available to speak with the person answering the outbound telephone call within two seconds after the person's completed greeting, the Member or person associated with a Member promptly plays a prerecorded message that states the name and telephone number of the Member or person associated with the Member on whose behalf the call was placed; and

**(iv)** the Member retains records establishing compliance with paragraph (j)(2).

**(k)** *Prerecorded Messages.*

**(1)** No Member or person associated with a Member shall initiate any outbound telephone call that delivers a prerecorded message other than a prerecorded message permitted for compliance with the call abandonment safe harbor in (j)(2)(iii) unless:

**(i)** the Member has obtained from the recipient of the call an express agreement, in writing, that:

**(A)** the Member obtained only after a clear and conspicuous disclosure that the purpose of the agreement is to authorize the Member to place prerecorded calls to such person;

**(B)** the Member obtained without requiring, directly or indirectly, that the agreement be executed as a condition of opening an account or purchasing any good or service;

**(C)** evidences the willingness of the recipient of the call to receive calls that deliver prerecorded messages by or on behalf of the Member; and

**(D)** includes such person's telephone number and signature (which may be obtained electronically under the E-Sign Act);

(ii) the Member or person associated with a Member allows the telephone to ring for at least 15 seconds or four rings before disconnecting an unanswered call; and within two seconds after the completed greeting of the person called, plays a prerecorded message that promptly provides the disclosures in paragraph (b), followed immediately by a disclosure of one or both of the following:

(A) in the case of a call that could be answered by a person, that the person called can use an automated interactive voice and/or keypress-activated opt-out mechanism to assert a firm-specific do-not-call request pursuant to the Member's procedures instituted under paragraph (c)(3) at any time during the message. The mechanism must automatically add the number called to the Member's firm-specific do-not-call list; once invoked, immediately disconnect the call; and be available for use at any time during the message; and

(B) in the case of a call that could be answered by an answering machine or voicemail service, that the person called can use a toll-free telephone number to assert a firm-specific do-not-call request pursuant to the Member's procedures instituted under paragraph (c)(3). The number provided must connect directly to an automated interactive voice or keypress-activated opt-out mechanism that automatically adds the number called to the Member's firm-specific do-not-call list; immediately thereafter disconnects the call; and is accessible at any time throughout the duration of the telemarketing campaign; and

(C) the Member complies with all other requirements of this Rule and other applicable federal and state laws.

(2) Any call that complies with all applicable requirements of paragraph (k) shall not be deemed to violate paragraph (j).

(l) Reserved.

(m) *Credit Card Laundering*. Except as expressly permitted by the applicable credit card system, no Member or person associated with a Member shall:

(1) present to or deposit into, the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the Member;

(2) employ, solicit, or otherwise cause a merchant, or an employee, representative or agent of the merchant, to present to or to deposit into the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the merchant; or

(3) obtain access to the credit card system through the use of a business relationship or an affiliation with a merchant, when such access is not authorized by the merchant agreement or the applicable credit card system.

**(n) Definitions.** For purposes of this Rule:

- (1)** The term "account activity" includes, but not be limited to, purchases, sales, interest credits or debits, charges or credits, dividend payments, transfer activity, securities receipts or deliveries, and/or journal entries relating to securities or funds in the possession or control of the Member.
- (2)** The term "acquirer" means a business organization, financial institution, or an agent of a business organization or financial institution that has authority from an organization that operates or licenses a credit card system to authorize merchants to accept, transmit, or process payment by credit card through the credit card system for money, goods or services, or anything else of value.
- (3)** The term "billing information" means any data that enables any person to access a customer's or donor's account, for example a credit or debit card number, a brokerage, checking, or savings account number, or a mortgage loan account number.
- (4)** The term "broker-dealer of record" refers to the broker- dealer identified on a customer's account application for accounts held directly at a mutual fund or variable insurance product issuer.
- (5)** The term "caller identification service" means a service that allows a telephone subscriber to have the telephone number, and, where available, name of the calling party transmitted contemporaneously with the telephone call, and displayed on a device in or connected to the subscriber's telephone.
- (6)** The term "cardholder" means a person to whom a credit card is issued or who is authorized to use a credit card on behalf of or in addition to the person to whom the credit card is issued.
- (7)** The term "credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.
- (8)** The term "credit card" means any card, plate, coupon book, or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.
- (9)** The term "credit card sales draft" means any record or evidence of a credit card transaction.
- (10)** The term "credit card system" means any method or procedure used to process credit card transactions involving credit cards issued or licensed by the operator of that system.
- (11)** The term "customer" means any person who is or may be required to pay for goods or services offered through telemarketing.

**(12)** The term "established business relationship" means a relationship between a Member and a person if:

**(i)** the person has made a financial transaction or has a security position, a money balance, or account activity with the Member or at a clearing firm that provides clearing services to such Member within the previous 18 months immediately preceding the date of the outbound telephone call;

**(ii)** the Member is the broker-dealer of record for an account of the person within the previous 18 months immediately preceding the date of the outbound telephone call; or

**(iii)** the person has contacted the Member to inquire about a product or service offered by the Member within the previous three months immediately preceding the date of the outbound telephone call.

A person's established business relationship with a Member does not extend to the Member's affiliated entities unless the person would reasonably expect them to be included. Similarly, a person's established business relationship with a Member's affiliate does not extend to the Member unless the person would reasonably expect the Member to be included.

**(13)** The term "free-to-pay conversion" means, in an offer or agreement to sell or provide any goods or services, a provision under which a customer receives a product or service for free for an initial period and will incur an obligation to pay for the product or service if he or she does not take affirmative action to cancel before the end of that period.

**(14)** The term "merchant" means a person who is authorized under a written contract with an acquirer to honor or accept credit cards, or to transmit or process for payment credit card payments, for the purchase of goods or services or a charitable contribution. A "charitable contribution" means any donation or gift of money or any other thing of value, for example a transfer to a pooled income fund.

**(15)** The term "merchant agreement" means a written contract between a merchant and an acquirer to honor or accept credit cards, or to transmit or process or payment credit card payments, for the purchase of goods or services or a charitable contribution.

**(16)** The term "outbound telephone call" means a telephone call initiated by a telemarketer to induce the purchase of goods or services or to solicit a charitable contribution from a donor. A "donor" means any person solicited to make a charitable contribution.

**(17)** The term "person" means any individual, group, unincorporated association, limited or general partnership, corporation, or other business entity.

**(18)** The term "personal relationship" means any family member, friend, or acquaintance of the person making an outbound telephone call.

(19) The term "preacquired account information" means any information that enables a seller or telemarketer to cause a charge to be placed against a customer's or donor's account without obtaining the account number directly from the customer or donor during the telemarketing transaction pursuant to which the account will be charged.

(20) The term "telemarketer" means any person who, in connection with telemarketing, initiates or receives telephone calls to or from a customer or donor.

(21) The term "telemarketing" means consisting of or relating to a plan, program, or campaign involving at least one outbound telephone call, for example cold-calling. The term does not include the solicitation of sales through the mailing of written marketing materials, when the person making the solicitation does not solicit customers by telephone but only receives calls initiated by customers in response to the marketing materials and during those calls takes orders only without further solicitation. For purposes of the previous sentence, the term "further solicitation" does not include providing the customer with information about, or attempting to sell, anything promoted in the same marketing materials that prompted the customer's call.

*Supplementary Material to Rule 626*

.01 Members and associated persons that engage in telemarketing also are subject to the requirements of relevant state and federal laws and rules, including but not limited to the Telemarketing and Consumer Fraud and Abuse Prevention Act, as amended, the Telephone Consumer Protection Act, and the rules of the Federal Communications Commission relating to telemarketing practices and the rights of telephone consumers.

## **7. Doing Business On The Exchange**

### **Rule 700. Days and Hours of Business**

The Board shall determine the days the Exchange shall be open for business (referred to as "business days") and the hours of such days during which transactions may be made on the Exchange.

(a) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on a narrow-based index, as defined in Rule 2001, and individual stocks may be made on the Exchange shall correspond to the normal business days and hours for business established by the markets currently trading the stocks underlying Exchange options.

(b) Options on Fund Shares, as defined in Rule 502(h), may be traded on the Exchange until 4:15 p.m. each business day.

(c) Options on a broad-based index, as defined in Rule 2001, may be traded on the Exchange until 4:15 p.m. each business day, except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time) and 4:00 p.m. (Eastern time).

(d) Options on Index-Linked Securities, as defined in Rule 502(k)(1), may be traded on the Exchange until 4:15 p.m. each business day.

(e) The Exchange shall not be open for business on the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day or Christmas Day. When any holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday. When any holiday observed by the Exchange falls on a Sunday, the Exchange will not be open for business on the following Monday, unless unusual business conditions exist at the time.

### **Rule 701. Opening**

(a) Definitions. The Exchange conducts an electronic opening for all option series traded on the Exchange using its trading system ("system").

(1) The "ABBO" is the Away Best Bid or Offer.

(2) The "market for the underlying security" is either the primary listing market or the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), as determined by the Exchange by underlying and announced to the membership on the Exchange's web site.

(3) The Opening Price is described herein in sections (h) and (j).

(4) The Opening Process is described herein in section (c).

(5) The Potential Opening Price is described herein in section (g).

(6) The Pre-Market BBO is the highest bid and the lowest offer among Valid Width Quotes.

(7) A "Quality Opening Market" is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny Pilot versus non-Penny Pilot issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions.

(8) A "Valid Width Quote" is a two-sided electronic quotation submitted by a Market Maker that meets the following requirements: differentials shall be no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2, no more than \$.40 where the bid is at least \$2 but does not exceed \$5, no more than \$.50 where the bid is more than \$5 but does not exceed \$10, no more than \$.80 where the bid

is more than \$10 but does not exceed \$20, and no more than \$1 where the bid is \$20 or greater, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. The bid/ask differentials for in-the-money options series may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

**(9)** A "Zero Bid Market" is where the best bid for an options series is zero.

**(b)** Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. All-or-None Orders that can be satisfied, and the displayed and non-displayed portions of Reserve Orders, are considered for execution and in determining the Opening Price throughout the Opening Process. Only Public Customer interest is routable during the Opening Process.

**(1)** Opening Sweep.

**(i)** A Market Maker assigned in a particular option may only submit an Opening Sweep if, at the time of entry of the Opening Sweep, that Market Maker has already submitted and maintains a Valid Width Quote. All Opening Sweeps in the affected series entered by a Market Maker will be cancelled immediately if that Market Maker fails to maintain a continuous quote with a Valid Width Quote in the affected series.

**(ii)** Opening Sweeps may be entered at any price with a minimum price variation applicable to the affected series, on either side of the market, at single or multiple price level(s), and may be cancelled and re-entered. A single Market Maker may enter multiple Opening Sweeps, with each Opening Sweep at a different price level. If a Market Maker submits multiple Opening Sweeps, the system will consider only the most recent Opening Sweep at each price level submitted by such Market Maker in determining the Opening Price. Unexecuted Opening Sweeps will be cancelled once the affected series is open.

**(2)** The system will aggregate the size of all eligible interest for a particular participant category at a particular price level for trade allocation purposes pursuant to Rule 713.

**(c)** Market Maker Valid Width Quotes and Opening Sweeps received starting at 9:25 AM Eastern Time are included in the Opening Process. Orders entered at any time before an option series opens are included in the Opening Process.

**(1)** The Opening Process for an option series will be conducted pursuant to paragraphs (f) - (j) below on or after 9:30 AM Eastern Time if: the ABBO, if any, is not crossed; and the system has received, within two minutes (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) of the opening trade or quote on the market for the underlying security in the case of equity options or,



in the case of index options, within two minutes of the receipt of the opening price in the underlying index (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site), or within two minutes of market opening for the underlying security in the case of U.S. dollar-settled foreign currency options (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) any of the following:

(i) the Primary Market Maker's ("PMM") Valid Width Quote;

(ii) the Valid Width Quotes of at least two Competitive Market Makers ("CMM"); or

(iii) if neither the PMM's Valid Width Quote nor the Valid Width Quotes of two CMMs have been submitted within such timeframe, one CMM has submitted a Valid Width Quote.

(2) For all options, the underlying security, including indexes, must be open on the primary market for a certain time period as determined by the Exchange for the Opening Process to commence. The time period shall be no less than 100 milliseconds and no more than 5 seconds.

(3) The PMM assigned in a particular equity or index option must enter a Valid Width Quote, in 90% of their assigned series, not later than one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index. The PMM assigned in a particular U.S. dollar-settled foreign currency option must enter a Valid Width Quote, in 90% of their assigned series, not later than one minute after the announced market opening. Provided an options series has not opened pursuant to Rule 701(c)(1)(ii) or (iii), PMMs must promptly enter a Valid Width Quote in the remainder of their assigned series, which did not open within one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index or, with respect to U.S. dollar-settled foreign currency options, following the announced market opening. Once an options series has opened pursuant to Rule 701(c)(1)(i) - (iii), a PMM must submit intra-day, two-sided quotes in such options series pursuant to Rule 804(e)(2).

(4) A CMM that submits a quote pursuant to this Rule 701 in any option series when the PMM's quote has not been submitted shall be required, once an options series has opened, to submit intra-day, two-sided quotes in such option series pursuant to Rule 804(e)(1).

(5) The Opening Process will stop and an option series will not open if the ABBO becomes crossed or when a Valid Width Quote(s) pursuant to Rule 701(c)(1) is no longer present. Once each of these conditions no longer exist, the Opening Process in the affected option series will start again pursuant to paragraphs (e) - (j) below.

**(d) Reopening After a Trading Halt.** The procedure described in Rule 701 will be used to reopen an option series after a trading halt. If there is a trading halt or pause in the underlying security, the Opening Process will start again irrespective of the specific times listed in paragraph (c)(1).

**(e) Opening with a BBO (No Trade).** If there are no opening quotes or orders that lock or cross each other and no routable orders locking or crossing the ABBO, the system will open with an opening quote by disseminating the Exchange's best bid and offer among quotes and orders ("BBO") that exist in the system at that time, unless all three of the following conditions exist: (i) a Zero Bid Market; (ii) no ABBO; and (iii) no Quality Opening Market. If all three conditions exist, the Exchange will calculate an Opening Quote Range pursuant to paragraph (i) and conduct the Price Discovery Mechanism pursuant to paragraph (j) below.

**(f) Pre-Market BBO Calculation.** If there are opening Valid Width Quotes, or orders, that lock or cross each other, the system will calculate the Pre-Market BBO.

**(g) Potential Opening Price.** To calculate the Potential Opening Price, the system will take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders), except All-or-None Orders that cannot be satisfied, for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (h)(3)(i) and (i)(5) - (7) below contain additional provisions related to Potential Opening Price.

**(1) More Than One Potential Opening Price.** When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the system takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the system will round up to the minimum price variation to determine the Opening Price.

**(2)** If two or more Potential Opening Prices for the affected series would satisfy the maximum quantity criterion and leave contracts unexecuted, the Opening Price will be either the lowest executable bid or highest executable offer of the largest sized side.

**(3)** The Potential Opening Price calculation is bounded by the better away market price that may not be satisfied with the Exchange routable interest.

**(h) Opening with Trade.** The Exchange will open the option series for trading with a trade on Exchange interest only at the Opening Price, if any of these conditions occur:

**(1)** the Potential Opening Price is at or within the best of the Pre-Market BBO and the ABBO;

**(2)** the Potential Opening Price is at or within the non-zero bid ABBO if the Pre- Market BBO is crossed; or

**(3)** where there is no ABBO, the Potential Opening Price is at or within the Pre- Market BBO which is also a Quality Opening Market.

**(i)** If there is more than one Potential Opening Price which meets the conditions set forth in paragraphs (1) through (3) above where:

**(A)** no contracts would be left unexecuted and

**(B)** any value used for the mid-point calculation (which is described in paragraph (g) above) would cross either:

**(I)** the Pre-Market BBO, or

**(II)** the ABBO,

then, for the purposes of calculating the midpoint the Exchange will use the better of the Pre-Market BBO or ABBO as a boundary price and will open the option series for trading with an execution at the resulting Potential Opening Price. If these conditions are not met, an Opening Quote Range will be calculated pursuant to paragraph (i) below and thereafter, the Price Discovery Mechanism in paragraph (j) below will commence.

**(i)** The system will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above.

**(1)** Except as provided in paragraphs (3) and (4) below, to determine the minimum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be subtracted from the highest quote bid among Valid Width Quotes on the Exchange and on the away market(s), if any.

**(2)** Except as provided in paragraphs (3) and (4) below, to determine the maximum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be added to the lowest quote offer among Valid Width Quotes on the Exchange and on the away market(s), if any.

**(3)** If one or more away markets are disseminating a BBO that is not crossed, (the Opening Process will stop and an option series will not open if the ABBO becomes crossed pursuant to (c)(5)) and there are Valid Width Quotes on the Exchange that are executable against each other or the ABBO:

**(i)** The minimum value for the OQR will be the highest away bid.

**(ii)** The maximum value for the OQR will be the lowest away offer.

(4) If there are Valid Width Quotes on the Exchange that are executable against each other, and there is no away market disseminating a BBO in the affected option series:

(i) The minimum value for the OQR will be the lowest quote bid among Valid Width Quotes on the Exchange.

(ii) The maximum value for the OQR will be the highest quote offer among Valid Width Quotes on the Exchange.

(5) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted, any price used for the mid-point calculation (which is described in paragraph (g)(1) above) that is wider than the OQR will be restricted to the OQR price on that side of the market for the purposes of the mid-point calculation.

(6) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted, pursuant to paragraph (g)(3) above when contracts will be routed, the system will use the away market price as the Potential Opening Price.

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the system to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (g) above. The system will route Public Customer interest in price/time priority to satisfy the away market.

(j) Price Discovery Mechanism. If the Exchange has not opened pursuant to paragraphs (e) or (h) above, after the OQR calculation in paragraph (i), the Exchange will conduct the following Price Discovery Mechanism.

(1) First, the system will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance (unmatched contracts), size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds. The Imbalance Timer will be for the same number of seconds for all options traded on the Exchange. Each Imbalance Message is subject to an Imbalance Timer.

(2) Any new interest received by the system will update the Potential Opening Price. If during or at the end of the Imbalance Timer, the Opening Price is at or within the OQR, the Imbalance Timer will end and the system will open with a trade at the Opening Price if the executions consist of Exchange interest only without trading through the ABBO and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price. If no new interest comes in during the Imbalance Timer and the Potential Opening Price is at or within OQR and does not trade through the ABBO, the Exchange will open with a trade at the end of the Imbalance Timer at the Potential Opening Price.

**(3)** Next, provided the option series has not opened pursuant to paragraph (j)(2) above, the system will:

**(i)** send a second Imbalance Message with a Potential Opening Price that is bounded by the OQR (and would not trade through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price) and includes away market volume in the size of the imbalance to participants; and concurrently

**(ii)** initiate a Route Timer, not to exceed one second. The Route Timer operates as a pause before an order is routed to an away market. If during the Route Timer, interest is received by the system which would allow the Opening Price to be within OQR without trading through away markets and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price, the system will open with trades at the Opening Price and the Route Timer will simultaneously end. The system will monitor quotes received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.

**(iii)** If no trade occurred pursuant to (ii) above, when the Route Timer expires, if the Potential Opening Price is within OQR (and would not trade through the limit price(s) of interest within OQR that is unable to be fully executed at the Opening Price), the system will determine if the total number of contracts displayed at better prices than the Exchange's Potential Opening Price on away markets ("better priced away contracts") would satisfy the number of marketable contracts available on the Exchange. The Exchange will open the option series by routing and/or trading on the Exchange, pursuant to paragraphs (A)-(C) below.

**(A)** If the total number of better priced away contracts would satisfy the number of marketable contracts available on the Exchange on either the buy or sell side, the system will route all marketable contracts on the Exchange to such better priced away markets as an ISO designated as an Immediate-or-Cancel ("IOC") order(s), and determine an opening BBO that reflects the interest remaining on the Exchange. The system will price any contracts routed to away markets at the Exchange's Opening Price; or

**(B)** If the total number of better priced away contracts would not satisfy the number of marketable contracts the Exchange has, the system will determine how many contracts it has available at the Exchange Opening Price. If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price would satisfy the number of marketable contracts on the Exchange on either the buy or sell side, the system will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Opening Price and trade available contracts on the Exchange at the Exchange Opening Price. The system will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price pursuant to this sub-paragraph; or

(C) If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price plus the contracts available at away markets at the Exchange Opening Price would satisfy the number of marketable contracts the Exchange has on either the buy or sell side, the system will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price (pricing any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price), trade available contracts on the Exchange at the Exchange Opening Price, and route a number of contracts that will satisfy interest at away markets at prices equal to the Exchange Opening Price.

(4) The system may send up to two additional Imbalance Messages (which may occur while the Route Timer is operating) bounded by OQR and reflecting away market interest in the volume. After the Route Timer has expired, the processes in paragraph (3) will repeat (except no new Route Timer will be initiated).

(5) Forced Opening. After all additional Imbalance Messages have occurred pursuant to paragraph (4) above, the system will open the series by executing as many contracts as possible by routing to away markets at prices better than the Exchange Opening Price for their disseminated size, trading available contracts on the Exchange at the Exchange Opening Price bounded by OQR (without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price), and routing contracts to away markets at prices equal to the Exchange Opening Price at their disseminated size. In this situation, the system will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted contracts from the imbalance not traded or routed will be cancelled back to the entering participant if they remain unexecuted and priced through the Opening Price, otherwise orders will remain in the Order Book.

(6) The system will execute orders at the Opening Price that have contingencies (such as, without limitation, All-or-None and Reserve Orders) and non-routable orders, such as a "Do-Not-Route" or "DNR" Orders, to the extent possible. The system will only route non-contingency Public Customer orders, except that only the full volume of Public Customer Reserve Orders may route.

(i) The system will cancel (1) any portion of a Do-Not-Route order that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur, or (2) any order that is priced through the Opening Price will be cancelled. All other interest will be eligible for trading after opening.

(k) During the opening of the option series, where there is an execution possible, the system will give priority to Market Orders first, then to resting Limit Orders and quotes. The allocation provisions of Rule 713 and the Supplementary Material thereto apply with respect to other orders and quotes with the same price.

(1) Upon opening of the option series, regardless of an execution, the system disseminates the price and size of the Exchange's best bid and offer (BBO).

**Rule 702. Trading Halts**

(a) *Halts.* An Exchange official designated by the Board may halt trading in any stock option in the interests of a fair and orderly market.

(1) The following are among the factors that may be considered in determining whether the trading in a stock option should be halted:

(i) trading in the underlying security has been halted or suspended in one or more of the markets trading the underlying security.

(ii) the opening of such underlying security has been delayed because of unusual circumstances.

(iii) other unusual conditions or circumstances are present.

(2) Reserved.

(3) A designated Exchange official may halt trading (including a rotation) for a class or classes of options contracts whenever there is a halt of trading in an underlying security in one or more of the markets trading the underlying security. In such event, without the need for action by the Primary Market Maker, all trading in the effected class or classes of options may be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol in respect of such class or 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. During a halt, the Exchange will maintain existing orders on the book (but not existing quotes prior to the halt), accept orders and quotes, and process cancels and modifications, except existing quotes are cancelled.

(4) No Member or person associated with a Member shall effect a trade on the Exchange 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.

(b) *Resumptions.* Trading in a stock option that has been the subject of a halt under paragraph (a)(1) above, may be resumed upon the determination by an Exchange official designated by the Board 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.

(c) *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. 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.

(d) This paragraph shall be in effect during a pilot period that expires at the close of business on October 18, 2019. 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 Exchange will not open an affected option.

(2) Provided the Exchange has opened an affected option for trading, the Exchange shall reject Market Orders, as defined in Rule 715(a), and Market Complex Orders as defined in Rule 722(b), and shall notify Members of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System, if the Market Complex Order becomes marketable while the affected underlying is in a Limit or Straddle State. Market Orders exposed at the NBBO pursuant to Supplementary Material .02 to ISE Rule 1901 or Market Complex Orders exposed for price improvement pursuant to Supplementary Material .01 to Rule 722, pending in the System, will continue to be processed. If at the end of the exposure period the affected underlying is in a Limit or Straddle State, the Market Order or the Market Complex Order will be cancelled. If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Order or the Market Complex Order will be processed with normal handling.

(3) Provided the Exchange has opened an affected option for trading, the Exchange shall elect Stop Orders if the condition as provided in Rule 715(d) is met, and, because they become Market Orders, shall cancel them back and notify Members of the reason for such rejection.

(4) When the security underlying an option class is in a Limit State or Straddle State, the maximum quotation spread requirements for market maker quotes contained in Rule 803(b)(4) and the intra-day quotation requirements contained in Rule 804(e) shall be suspended. The time periods associated with Limit States and Straddle States will not be considered by the Exchange when evaluating whether a market maker complied with the intra-day quotation requirements contained in Rule 804(e).

#### ***Supplementary Material to Rule 702***

.01 The Exchange shall nullify any transaction that occurs:

(a) during a trading halt in the affected option on the Exchange; or

(b) with respect to equity options (including options overlying ETFs), during a regulatory halt as declared by the primary listing market for the underlying security.

#### **Rule 703. Trading Halts Due To Extraordinary Market Volatility**



The Exchange shall halt trading in all securities whenever a marketwide trading halt (commonly known as a circuit breaker) is initiated on the New York Stock Exchange in response to extraordinary market conditions.

**Rule 704. Collection and Dissemination of Quotations**

(a) Each market maker shall communicate to the Exchange its bid and offers in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act and the Rules of the Exchange.

(b) The Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available to Public Customer Orders, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act.

(c) *Unusual Market Conditions.*

(1) An Exchange official designated by the Board shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange 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 the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be "fast." When a market for an option is declared fast, the Exchange will provide notice that its quotations are not firm by appending an appropriate indicator to its quotations.

(2) If a market is declared fast, designated Exchange officials shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Rule 701; (ii) suspend the minimum size requirement of Rule 804(b); or (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(3) The Exchange will monitor the activity or conditions that caused a fast market to be declared, and a designated Exchange official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a designated Exchange official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations.

(4) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then a designated Exchange official shall halt trading in the class or classes so affected.

**Rule 705. Limitation of Liability**

(a) The Exchange, its Directors, officers, committee members, employees, contractors or agents shall not be liable to Members nor any persons associated with Members for any loss, expense, damages or claims arising out of the use of the facilities, systems or equipment afforded by the Exchange, nor any interruption in or failure or unavailability

of any such facilities, systems or equipment, whether or not such loss, expense, damages or claims result or are alleged to result from negligence or other unintentional errors or omissions on the part of the Exchange, its Directors, officers, committee members, employees, contractors, agents or other persons acting on its behalf, or from systems failure, or from any other cause within or outside the control of the Exchange. Without limiting the generality of the foregoing, the Exchange shall have no liability to any person for any loss, expense, damages or claims which result from any error, omission or delay in calculating or disseminating any current or closing index value or any reports of transactions in or quotations for options or other securities, including underlying securities.

**(b)** The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of any data transmitted or disseminated by or on behalf of the Exchange or any reporting authority designated by the Exchange, including but not limited to, reports of transactions in or quotations for securities traded on the Exchange or underlying securities, or reports of interest rate measures or index values or related data, and the Exchange makes no express or implied warranties of merchantability or fitness for a particular purpose or use with respect to any such data.

**(c)** No Member or person associated with a Member shall institute a lawsuit or other legal proceeding against the Exchange or any Director, officer, employee, contractor, agent or other official of the Exchange or any subsidiary of the Exchange, for actions taken or omitted to be taken in connection with the official business of the Exchange or any subsidiary, except to the extent such actions or omissions constitute violations of the federal securities laws for which a private right of action exists. This provision shall not apply to appeals of disciplinary actions or other actions by the Exchange as provided for in the Rules.

**(d)** Notwithstanding paragraph (a) above, the Exchange, subject to the express limits set forth below, may compensate users of the Exchange for losses directly resulting from the actual failure of the System, or any other Exchange quotation, transaction reporting, execution, order routing or other systems or facility to correctly process an order, quote, message, or other data, provided that the Exchange has acknowledged receipt of the order, quote, message, or data.

**(1)** For the aggregate of all claims made by all market participants related to the use of the Exchange during a single calendar month, the Exchange's payments shall not exceed the larger of \$500,000, or the amount of the recovery obtained by the Exchange under any applicable insurance policy.

**(2)** In the event that all of the claims arising out of the use of the Exchange cannot be fully satisfied because in the aggregate they exceed the limitations provided for in this Rule, then the maximum permitted amount will be proportionally allocated among all such claims arising during a single calendar month.

(3) All claims for compensation pursuant to this Rule shall be in writing and must be submitted no later than 12:00 P.M. ET on the next business day following the day on which the use of the Exchange gave rise to such claims. Nothing in this rule shall obligate the Exchange to seek recovery under any applicable insurance policy.

**Rule 706. Access to and Conduct on the Exchange**

(a) *Access to Exchange.* Unless otherwise provided in the Rules, no one but a Member or a person associated with a Member shall effect any Exchange Transactions. The Exchange may share any Member-designated risk settings in the trading system with the Clearing Member that clears transactions on behalf of the Member.

(b) *Exchange Conduct.* Members and persons employed by or associated with any Member, while using the facilities of the 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 may 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 Rule 804;

(2) failure of a market maker to bid or offer within the ranges specified by Rule 803(b)(4);

(3) failure of a Member to supervise a person employed by or associated with such Member adequately to ensure that person's compliance with this paragraph (b);

(4) failure to abide by a determination of the Exchange;

(5) refusal to provide information requested by the Exchange; and

(6) failure to abide by the provisions of Rule 717.

***Supplementary Material to Rule 706***

.01 (a) General. The Exchange shall be available for entry and execution of orders by Sponsored Customers with authorized access. Sponsored Access shall mean an arrangement whereby a Member permits its customers to enter orders into the System that bypass the Member's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider.

.01 (b) Sponsored Customers. A Sponsored Customer may obtain authorized access to the Exchange only if such access is authorized in advance by one or more Sponsoring Members as follows:

(1) Sponsored Customers must enter into and maintain customer agreements with one or more Sponsoring Members establishing proper relationship(s) and account(s) through

which the Sponsored Customers may trade on the Exchange ("Customer Agreement"). Such Customer Agreement(s) must incorporate the sponsorship provisions set forth in paragraph (2) below.

(2) For a Sponsored Customer to obtain and maintain authorized access to the Exchange, a Sponsored Customer and its Sponsoring Member must agree in writing to the following sponsorship provisions:

(i) The authorized access must comply with Rule 15c3-5 under the Securities Exchange Act of 1934.

(ii) Sponsoring Member acknowledges and agrees that

(A) All orders entered by the Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member, and

(B) Sponsoring Member is responsible for any and all actions taken by such Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer.

(iii) Sponsoring Member shall comply with the Exchange's Certificate of Formation, By-Laws, Rules and procedures with regard to the Exchange and Sponsored Customer shall comply with Exchange's Certificate of Formation, By-Laws, Rules and procedures with regard to the Exchange, as if Sponsored Customer were a Nasdaq ISE Member.

(iv) Sponsored Customer shall maintain, keep current and provide to the Sponsoring Member a list of persons who have been granted access to the Exchange on behalf of the Sponsored Customer ("Authorized Traders").

(v) Sponsored Customer shall familiarize its Authorized Traders with all of the Sponsored Customer's obligations under this Rule and will assure that they receive appropriate training prior to any use or access to the Exchange.

(vi) Sponsored Customer may not permit anyone other than Authorized Traders to use or obtain access to the Exchange.

(vii) Sponsored Customer shall take reasonable security precautions to prevent unauthorized use or access to the Exchange, including unauthorized entry of information into the Exchange's System, or the information and data made available therein. Sponsored Customer understands and agrees that Sponsored Customer is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of Authorized Traders, and for the trading and other consequences thereof.

(viii) Sponsored Customer acknowledges its responsibility to establish adequate procedures and controls that permit it to effectively monitor its employees, agents and customers' use and access to the Exchange for compliance with this rule.

(ix) Sponsored Customer shall pay when due all amounts, if any, payable to Sponsoring Member, the Exchange or any other third parties that arise from the Sponsored Customer's access to and use of the Exchange. Such amounts include, but are not limited to applicable exchange and regulatory fees.

### **Rule 707. Clearing Member Give Up**

(a) General. For each transaction in which a Member participates, the Member may indicate, at the time of the trade or through post-trade allocation, any Options Clearing Corporation ("OCC") number of a Clearing Member through which a transaction will be cleared ("Give Up"), provided the Clearing Member 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 Member may Give Up a Restricted OCC Number provided the Member has written authorization as described in paragraph (b)(ii) below ("Authorized Member").

(b) *Opt In*. Clearing Members may request the Exchange restrict one or more of their OCC clearing numbers ("Opt In") as described in subparagraph (i) below. If a Clearing Member Opt In, the Exchange will require written authorization from the Clearing Member permitting a Member to Give Up a Clearing Member's Restricted OCC Number. An Opt In would remain in effect until the Clearing Member terminates the Opt In as described in subparagraph (iii) below. If a Clearing Member does not Opt In, that Clearing Member's OCC number would be subject to Give Up by any Member.

(i) *Clearing Member Process to Opt In*. A Clearing Member may Opt In by sending a completed "Clearing Member Restriction Form" listing all Restricted OCC Numbers and Authorized Members. A Clearing Member may elect to restrict one or more OCC clearing numbers that are registered in its name at OCC. The Clearing Member 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) *Member Give Up Process for Restricted OCC Numbers*. A Member desiring to Give Up a Restricted OCC Number must become an Authorized Member. The Clearing Member will be required to authorize a Member as described in subparagraph (i) or (iii), unless the Restricted OCC Number is already subject to a Letter of Guarantee that the Member is a party to, as set forth in paragraph (d) below.

(iii) *Amendments to Authorized Members or Restricted OCC Numbers*. A Clearing Member may amend its Authorized Members 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 Member to authorize, or remove authorization for, a Member 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 Members if they are no longer authorized to Give Up a Clearing Member's Restricted OCC Number. If a Clearing Member removes a Restricted OCC Number, any Member 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 Member to Give Up a Restricted OCC Number. If an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Member's default OCC clearing number.

(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 Member that is party to the arrangement.

(e) An intentional misuse of this Rule is impermissible, and may be treated as a violation of Rule 400 or Rule 401.

#### **Rule 708. Units of Trading**

The unit of trading in each series of options traded on the Exchange 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 the Exchange with the Clearing Corporation.

#### **Rule 709. Meaning of Premium Quotes and Orders**

(a) *General.* Except as provided in paragraph (b), orders and quotations 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.

(b) *Special Cases.* Orders and quotations for an options contract for which the Exchange has established an adjusted unit of trading in accordance with Rule 708 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) *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.

**Rule 710. Minimum Trading Increments**

(a) The Board may establish minimum trading increments for options traded on the Exchange. Such changes by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Rule 710 within the meaning of subparagraph (3)(A) of Section 19(b) 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 contract is trading at less than \$3.00 per option, \$.05; and

(2) if the options contract is trading at \$3.00 per option or higher, \$.10.

(b) Minimum trading increments for dealings in options contracts other than those specified in paragraph (a) may be fixed by the Exchange from time to time for options contracts of a particular series.

(c) Notwithstanding the above, the Exchange may trade in the minimum variation of the primary market in the underlying security.

***Supplementary Material to Rule 710***

.01 Notwithstanding any other provision of this Rule 710, the Exchange will operate a pilot program, scheduled to expire on June 30, 2019, to permit options classes to be quoted and traded in increments as low as one cent (\$0.01). The Exchange will specify which options trade in such pilot, and in what increments, in Options Trader Alerts distributed to Members.

The Exchange may replace any penny pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the penny pilot, based on trading activity in the previous six months. The replacement issues may be added to the penny pilot on the second trading day in the first month of each quarter.

.02 Notwithstanding any other provision of this Rule 710, the Exchange will permit foreign currency options and options on a Foreign Currency Index to be quoted and traded in one-cent increments.

.03 Notwithstanding any other provision of this Rule 710, the minimum trading increment for Mini Options shall be determined in accordance with Supplementary Material .13(d) to Nasdaq ISE Rule 504.

.04 Notwithstanding any other provision of this Rule 710, complex strategies may be quoted and traded in the increments described in Rule 722(c)(1).

**Rule 711. Acceptance of Quotes and Orders**

(a) All bids or offers made and accepted on the Exchange in accordance with the Rules shall constitute binding contracts, subject to applicable requirements of the By-Laws and the Rules and the rules of the Clearing Corporation.

(b) A trade 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.

(c) Kill Switch enables Members to initiate a message to the System to promptly cancel orders and restrict entry of new orders until re-entry has been enabled. Members may submit a request to the System to cancel orders for that Member. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange's System.

(1) If orders are cancelled by the Member utilizing the Kill Switch, it will result in the cancellation of all orders for the Member. The Member will be unable to enter additional orders until re-entry has been enabled pursuant to section (d)(2).

(2) After orders are cancelled by the Member utilizing the Kill Switch, the Member will be unable to enter additional orders until the Member 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 Member. The applicable Clearing Member also will be notified of the re-entry into the System after orders are cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

#### **(d) Detection of Loss of Communication**

##### **(i) Definitions**

(A) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF, OTTO, or FIX Port and the Client Application. The Heartbeat message sent by the Member and subsequently received by the Exchange allows the SQF, OTTO, or FIX Port to continually monitor its connection with the Member.

(B) SQF Port is the Exchange's proprietary system component through which ISE Market Makers communicate their quotes from the Client Application.

(C) OTTO Port is the Exchange's proprietary system component through which Members communicate their orders from the Client Application.

(D) FIX Port is the Exchange's universal system component through which Members communicate their orders from the Client Application.

(E) Client Application is the system component of the Member through which the Exchange Member communicates its quotes and orders to the Exchange.



**(F)** Session of Connectivity shall mean each time the Member connects to the Exchange's system. Each new connection, intra-day or otherwise, is a new Session of Connectivity.

**(ii)** When the SQF Port detects the loss of communication with a Member'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 Member's affected Client Application and automatically cancel all of the Member's open quotes pursuant to Rule 711(d)(v). Quotes will be cancelled across all Client Applications that are associated with the same ISE Market Maker ID and underlying issues.

**(iii)** When the OTTO Port detects the loss of communication with a Member'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 Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Rule 711(d)(vi) automatically cancel all orders.

**(iv)** When the FIX Port detects the loss of communication with a Member'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 Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Rule 711(d)(vii) automatically cancel all orders.

**(v)** The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (ii) 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 Member and may not be disabled.

**(A)** If the Member 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 Member may change the default setting 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 Member shall persist for each subsequent Session of Connectivity until the Member either contacts Exchange operations by phone and changes the setting or the Member selects another time period through the Client Application prior to the next Session of Connectivity.

**(vi)** The default period of "nn" seconds for OTTO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. A Member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (iii) above, to trigger the disconnect and, if so elected, the 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 Member will be disconnected.

**(A)** If the Member 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 Member may change the default setting 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 Member shall persist for each subsequent Session of Connectivity until the Member either contacts Exchange operations by phone and changes the setting or the Member selects another time period through the Client Application prior to the next Session of Connectivity.

**(vii)** The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. A Member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (iv) above, to trigger the disconnect and, if so elected, the 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 Member will be disconnected.

**(A)** If the Member 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 Member may change the default setting 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 Member shall persist for each subsequent Session of Connectivity until the Member either contacts Exchange operations by phone and changes the setting or the Member selects another time period through the Client Application prior to the next Session of Connectivity.

**(viii)** The trigger for the SQF, OTTO, and FIX Ports is Client Application specific. The automatic cancellation of the ISE Market Maker's quotes for SQF Ports and open orders, if elected by the Member, for OTTO and FIX Ports entered into the respective SQF, OTTO, or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other ISE Market Makers entered into SQF Ports or orders of the same or other Members entered into OTTO or FIX Ports via a separate and distinct Client Application.

## **Rule 712. Submission of Orders and Clearance of Transactions**

**(a) Order Identification.** When entering orders on the Exchange, each Member shall submit trade information in such form as may be prescribed by the Exchange in order to

allow the Exchange to properly prioritize and match orders and quotations pursuant to Rule 713 and report resulting transactions to the Clearing Corporation.

**(b)** All transactions made on the Exchange 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 Member shall be responsible for the clearance of the Exchange Transactions of such Clearing Member and of each Member who gives up such Clearing Member's name pursuant to a Letter of Guarantee, written authorization to become an Authorized Member under Rule 707, or other authorization given by such Clearing Member to such Member, which authorization must be submitted to the Exchange.

**(c)** On each business day at or prior to such time as may be prescribed by the Clearing Corporation, the Exchange shall furnish the Clearing Corporation a report of each Clearing Member's matched trades.

### **Rule 713. Priority of Quotes and Orders**

**(a) Definitions.** As provided in Rule 100(a)(6) and (a)(37), a "bid" is a quotation or limit order to buy options contracts and an "offer" is a quotation or limit order to sell options contracts. "Quotations," which are defined in Rule 100(a)(56), may only be entered on the Exchange by market makers in the options classes to which they are appointed under Rule 802. Limit orders may be entered by market makers in certain circumstances as provided in the Rules and Electronic Access Members (either as agent or as principal). "Priority Customer Orders" and "Professional Orders" are defined in Rule 100(a)(49) and (51).

**(b) Priority on the Exchange.** The highest bid and lowest offer shall have priority on the Exchange. In the case where the bid price for any options contract is \$0.00, a market order to sell that series shall be considered a limit order to sell at a price equal to the minimum trading increment as defined in Rule 710.

**(c) Priority.** Except as provided under Rule 715(g), Priority Customer Orders on the Exchange shall have priority over Professional Orders and market maker quotes at the same price in the same options series.

**(d) Precedence of Priority Customer Orders.** Except as provided under Rule 715(g), if there are two (2) or more Priority Customer Orders for the same options series at the same price on the Exchange, priority shall be afforded to such Priority Customer Orders in the sequences in which they are received by the Exchange (i.e., in time priority).

**(e) Precedence of Professional Orders and Market Maker Quotes.** Except as provided under Rule 715(g), if there are two (2) or more Professional Orders or market maker quotes at the Exchange's best bid or offer, after all Priority Customer Orders (if any) at that price have been filled, executions at that price will be allocated between the Professional Orders and market maker quotes pursuant to an allocation procedure to be determined by the Exchange from time to time; provided, however, that if the Primary

Market Maker is quoting at the Exchange's best bid or offer, it shall have precedence over Professional Orders and Competitive Market Maker quotes for execution of orders that are for a specified number of contracts or fewer, which number shall be determined by the Exchange from time to time.

***Supplementary Material to Rule 713***

.01 Rule 713(e) (Priority of Quotes and Orders) states that Priority Customer Orders have priority on the Exchange. That rule further provides that the Exchange will determine a procedure for allocating executions among Professional Orders and market maker quotes in cases where all Priority Customer Orders have been executed and there are two or more Professional Orders or market maker quotes at the best price. This procedure is as follows:

(a) Subject to the two limitations in subparagraphs (b) and (c) below and subject to paragraph .03 (Preferred Orders), Professional Orders and market maker quotes at the best price receive allocations based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Order or quote;

(b) If the Primary Market Maker is quoting at the best price, it has participation rights equal to the greater of (i) the proportion of the total size at the best price represented by the size of its quote, or (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or market maker quotation at the best price, forty percent (40%) if there are two (2) other Professional Orders and/or market maker quotes at the best price, and thirty percent (30%) if there are more than two (2) other Professional Orders and/or market maker quotes at the best price; and

(c) Orders for five (5) contracts or fewer will be executed first by the Primary Market Maker; provided however, that on a quarterly basis the Exchange will evaluate what percentage of the volume executed on the Exchange (excluding volume resulting from the execution of orders in the Facilitation Mechanism (see Rule 716(d))) is comprised of orders for five (5) contracts or fewer executed by Primary Market Makers, and will reduce the size of the orders included in this provision if such percentage is over forty percent (40%).

This procedure only applies to the allocation of executions among Professional Orders and market maker quotes existing in the Exchange's central order book at the time the order is received by the Exchange. No market participant is allocated any portion of an execution unless it has an existing interest at the execution price. Moreover, no market participant can execute a greater number of contracts than is associated with the price of its existing interest. Accordingly, the Primary Market Maker participation rights and the small order preference contained in this allocation procedure are not guarantees; the Primary Market Maker (i) must be quoting at the execution price to receive an allocation of any size, and (ii) cannot execute a greater number of contracts than the size that is associated with its quote.

.02 Reserved.

.03 Preferred Orders. An Electronic Access Member may designate a "Preferred Market Maker" on orders it enters into the System ("Preferred Orders").

(a) A Preferred Market Maker may be the Primary Market Maker appointed to the options class or any Competitive Market Maker appointed to the options class.

(b) If the Preferred Market Maker is not quoting at a price equal to the NBBO at the time the Preferred Order is received, the allocation procedure contained in paragraph .01 shall be applied to the execution of the Preferred Order.

(c) If the Preferred Market Maker is quoting at the NBBO at the time the Preferred Order is received, the allocation procedure contained in paragraph .01 shall be applied to the execution of the Preferred Order except that the Primary Market Maker will not receive the participation rights described in paragraphs .01(b) and (c), and instead the Preferred Market Maker shall have participation rights equal to the greater of:

(i) the proportion of the total size at the best price represented by the size of its quote,

(ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or market maker quotation at the best price and forty percent (40%) if there are two (2) or more other Professional Orders and/or market maker quotes at the best price, or

(iii) the full size of a Preferred Order for five (5) contracts or fewer if the Primary Market Maker appointed to the options class is designated as the Preferred Market Maker.

(d) Preferred Competitive Market Makers are subject to enhanced quoting requirements as provided in Rule 804(e)(3).

.04 Notification of Public Customer Interest on the Book. The Exchange shall make available to Members the quantity of Public Customer contracts included in the Exchange's highest bid and lowest offer.

#### **Rule 714. Automatic Execution of Orders**

Incoming single leg orders that are executable against orders and quotes in the System will be executed automatically by the System subject to the following:

(a) NBBO Price Protection. Orders, other than Intermarket Sweep Orders (as defined in Rule 1900(h)), will not be automatically executed by the System at prices inferior to the NBBO (as defined in Rule 1900(j)).

(1) Orders that are not automatically executed will be handled as provided in Supplementary Material .02 to Rule 1901; provided that Members may specify that a

Non-Customer order should instead be rejected automatically by the System at the time of receipt.

(2) There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Rule 1900(k)).

(b) Other Single Leg Risk Protections. Subject to the NBBO price protection in (a) above, the following additional risk protections are automatically enforced by the System. In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.

(1) The following are order risk protections on ISE:

(A) **Limit Order Price Protection.** There is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%. Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.

(B) **Market Order Spread Protection.** Market Orders will be rejected if the NBBO 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.

(C) **Size Limitation.** There is a limit on the number of contracts an incoming order may specify. Orders that exceed the maximum number of contracts are rejected. The maximum number of contracts, which shall not be less than 10,000, is established by the Exchange from time-to-time.

(D) **Market Wide Risk Protection.** All Members must provide parameters for the order entry and execution rate protections described in this Rule 714(b)(1)(D). The Exchange will also establish default values for each of these parameters that apply to Members that do not submit the required parameters, and will announce these default values in a circular to be distributed to Members. The System will maintain one or more counting programs for each Member that count orders entered and contracts traded on Nasdaq ISE or across both Nasdaq ISE and Nasdaq GEMX. Members can use multiple counting programs to separate risk protections for different groups established within the Member. The counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of orders entered in the complex order book with only options legs; (3) the total number of orders entered in the complex order book with both

stock and options legs; (4) the total number of contracts traded in regular orders; and (5) the total number of contracts traded in complex orders with only options legs. The minimum and maximum duration of the applicable time period will be established by the Exchange and announced via circular.

(i) If, during the applicable time period, the member exceeds thresholds that it has set for any of the order entry or execution counts described above on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, in either case as set by the member, the System will automatically reject all subsequent incoming orders entered by the Member on Nasdaq ISE or, if applicable, across both Nasdaq ISE and Nasdaq GEMX, including both regular and Complex Orders.

(ii) Members may also choose to have the System automatically cancel all of their existing orders on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, in either case as set by the member, when the Market Wide Risk Protection is triggered.

(iii) The Market Wide Risk Protection will remain engaged until the Member manually notifies the Exchange to enable the acceptance of new orders. For Members that still have open orders on the order book that have not been cancelled pursuant to Rule 714(b)(1)(D)(ii) above, the System will continue to allow those Members to interact with existing orders entered before the protection was triggered, including sending cancel order messages and receiving trade executions for those orders.

(2) The following are order and quote risk protections on ISE:

**(A) Acceptable Trade Range.**

(i) The system will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote 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/quotes and the reference price + (x) for buy orders or quotes). The Acceptable Trade Range will not be available for all-or-none orders.

(ii) The reference price is the NBB for sell orders/quotes and the NBO for buy orders/quotes. The reference price is calculated upon receipt of a new order or quote, provided that if the applicable NBB or NBO price is improved at the time an order is routed to an away market, a new reference price is calculated based on the NBB or NBO at that time.

(iii) If an order or quote reaches the outer limit of the Acceptable Trade Range without being fully executed then any unexecuted balance will be cancelled.

(iv) There will be three categories of options for Acceptable Trade Range: (1) Penny Pilot Options trading in one cent increments for options trading at less than \$3.00 and

increments of five cents for options trading at \$3.00 or more, (2) Penny Pilot Options trading in one-cent increments for all prices, and (3) Non-Penny Pilot Options.

(3) The following are Market Maker risk protections on ISE:

**(A) Anti-Internalization.** Quotes and orders entered by Market Makers will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same Market Maker identifiers, or alternatively, if selected by the Member, the same Exchange account number or member firm identifier. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction or with respect to Complex Order transactions.

**(B) Automated Quotation Adjustments.**

(i) Market Makers are required to utilize the Percentage, Volume, Delta and Vega Thresholds, each a Threshold, described in (a) - (d) below. For each of these features, the System will automatically remove a Market Maker's quotes in all series in an options class when any of the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, as described below, has been exceeded. A Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the System will automatically remove a Market Maker's quotes in all series of an options class. The Specified Time Period will commence for an options class every time an execution occurs in any series in such option class and will continue until the System removes quotes as described in (ii) or (iii) or the Specified Time Period expires. The Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. The Specified Time Periods will be the same value for each protection described in (a) - (d) below.

**(a) Percentage Threshold.** A Market Maker must provide a specified percentage ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each series in an options class, the System will determine (i) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Market Maker's quote size available at the time of execution plus the total number of the Market Maker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (ii) the sum of the Series Percentage in the options class ("Issue Percentage") during a Specified Time Period. The System tracks and calculates the net impact of positions in the same options class; 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 exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class during the Specified Time Period.



**(b) Volume Threshold.** A Market Maker must provide a Volume Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class when the Market Maker executes a number of contracts which exceeds the designated number of contracts in all series in an options class.

**(c) Delta Threshold.** A Market Maker must provide a Delta Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (i) purchased call contracts plus sold put contracts and (ii) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

**(d) Vega Threshold.** A Market Maker must provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

**(ii)** The System will automatically remove quotes in all series of an options class when the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected series when the above thresholds have been exceeded.

**(a)** The Percentage Threshold, Volume Threshold, Delta Threshold and Vega Threshold are considered independently of each other.

**(b)** Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution would cause the Market Maker to exceed the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold

**(iii)** Notwithstanding Rule 714(b)(3)(B)(i) and (ii) above, if a Market Maker requests the System to remove quotes in all series of an options class, the System will automatically reset all Thresholds.

**(iv)** When the System removes quotes as a result of exceeding the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, the Market Maker must send a re-entry indicator to re-enter the System.

**(v)** If a Market Maker does not provide a parameter for each of the automated quotation removal protections described in (B)(i)(a) - (d) above, the Exchange will apply default parameters, which are announced to Members.

**(vi)** In addition to the automated quotation removal protections described in (B)(i)(a) - (d) above, a Market Maker must provide a market wide parameter by which the Exchange

will automatically remove a Market Maker's quotes in all classes when, during a time period established by the Market Maker, the total number of quote removal events specified in (B)(i)(a) - (d) above and in Supplementary Material .04 to Rule 722 exceeds the market wide parameter provided to the Exchange by the Market Maker. Market Makers may request the Exchange to set the market wide parameter to apply to just Nasdaq ISE or across Nasdaq ISE and Nasdaq GEMX. Market Makers must request the Exchange enable re-entry by contacting the Exchange's Operations Department.

**Rule 715. Types of Orders**

- (a) *Market Orders*. A market order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange.
- (b) *Limit Orders*. A limit order is an order to buy or sell a stated number of options contracts at a specified price or better.
  - (1) *Marketable Limit Orders*. A marketable limit order is a limit order to buy (sell) at or above (below) the best offer (bid) on the Exchange.
  - (2) *Fill-or-Kill Orders*. A fill-or-kill order is a limit order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled.
  - (3) *Immediate-or-Cancel Orders*. An immediate-or-cancel order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. An immediate-or-cancel order entered by a Market Maker through the Specialized Quote Feed protocol will not be subject to the (i) Limit Order Price Protection and Size Limitation Protection as defined in ISE Rule 714(b)(2) and (3); or (ii) Limit Order Price Protection as defined in Supplementary Material .07(d) to ISE Rule 722.
  - (4) Reserved.
  - (5) *Intermarket Sweep Orders*. An Intermarket Sweep Order (ISO) is a limit order that meets the requirements of Rule 1900(h).
  - (6) *Stopped Order*. A stopped order is a limit order that meets the requirements of Rule 1901(b)(8). To execute stopped orders, Members must enter them into the Facilitation Mechanism or Solicited Order Mechanism pursuant to Rule 716.
- (c) *All-Or-None Orders*. An All-Or-None order is a limit or market order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.
- (d) *Stop Orders*. A stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on

the Nasdaq ISE at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price.

(e) *Stop Limit Orders.* A stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop limit order to sell becomes a sell limit order when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price.

(f) Reserved.

(g) *Reserve Orders.* A Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion.

1. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book.
2. The displayed portion of a Reserve Order shall be ranked at the specified limit price and the time of order entry.
3. The displayed portion of a Reserve Order will trade in accordance with Rule 713(c) and (d) for Priority Customer Orders, and Rule 713(e) and Supplementary Material .01, for Professional Orders.
4. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Rule 713(c) and (d) for Priority Customer Orders, and Rule 713(e) and Supplementary Material .01, for Professional Orders.
5. The initial non-displayed portion of a Reserve Order rests on the order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in subparagraph 4 above. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order will trade in accordance with Rule 713(c) and (d) for Priority Customer Orders, and Rule 713(e) and Supplementary Material .01, for Professional Orders.

- (h) *Attributable Order*. An Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange systems. The Exchange will issue a Regulatory Information Circular specifying the systems and the class of securities for which the Attributable Order type shall be available.
- (i) *Customer Cross Orders*. A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity.
- (j) *Qualified Contingent Cross Order*. A Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order or orders totaling an equal number of contracts.
- (k) *Legging Orders*. A legging order is a limit order on the regular limit order book that represents one side of a Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer.
- (1) A legging order may be automatically generated for one leg of a Complex Options Order at a price: (i) that matches or improves upon the best displayed bid or offer on the regular limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the regular limit order book. A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange.
  - (2) A legging order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a legging order is executed, the other portion of the Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange.
  - (3) A legging order is automatically removed from the regular limit order book if: (i) the price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the Complex Options Order is executed in full or in part on the Complex Order Book, or (iv) the Complex Options Order is cancelled or modified.

- (l) *Day Order*. An order to buy or sell which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified.
- (m) *Do-Not-Route Orders*. A do-not-route order is a market or limit order that is to be executed in whole or in part on the Exchange only. Due to prices available on another options exchange (as provided in Chapter 19 (Order Protection; Locked and Crossed Markets)), any balance of a do-not-route order that cannot be executed upon entry, or placed on the Exchange's limit order book, will be automatically cancelled.
- (n) *Add Liquidity Order*. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Rule 713.
- (o) *Opening Only Order*. An Opening Only order is a limit order that can be entered for the opening rotation only. Any portion of the order that is not executed during the opening rotation is cancelled.
- (p) *Good-Till-Date Order*. A Good-Till-Date Order is a limit order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series.
- (q) Reserved.
- (r) *Good-Till-Canceled Order (GTC Order)*. An order to buy or sell that remains in force until the order is filled, canceled or the option contract expires; provided, however, that GTC Orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract.
- (s) *Sweep Order*. A Sweep Order is a limit order that is to be executed in whole or in part on the Exchange and the portion not so executed shall be routed pursuant to Supplementary Material .05 to Rule 1901 to Eligible Exchange(s) for immediate execution as soon as the order is received by the Eligible Exchange(s).

Any portion not immediately executed by the Eligible Exchange(s) shall be canceled. If a Sweep Order is not marketable when it is submitted to the Exchange, it shall be canceled.

(t) QCC with Stock Orders. A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Rule 715(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Rule 721(c).

(u) Opening Sweep. An Opening Sweep is a Market Maker order submitted for execution against eligible interest in the System during the Opening Process pursuant to Rule 701(b)(1).

### ***Supplementary Material to Rule 715***

.01 A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where:

(a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;

(b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(c) the execution of one component is contingent upon the execution of all other components at or near the same time;

(d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

.02 Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. 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 retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Rule 714(b)(1)(A); Rule 714(b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Rule 722) the existing order shall be cancelled and not replaced.

.03 The Exchange offers Members the following protocols for entering orders and quotes respectively:

(a) "**Financial Information eXchange**" or "**FIX**" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders to the Exchange. Features include the following: (1) execution messages; (2) order messages; (3) risk protection triggers and cancel notifications; and (4) post trade allocation messages.

(b) "**Ouch to Trade Options**" or "**OTTO**" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex 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) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages.

(c) "**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 to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex 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 requests from the market maker.

(d) "**Nasdaq Precise**" or "**Precise**" is a front-end interface that allows Electronic Access Members and their Sponsored Customers to send orders to the Exchange and perform other related functions. Features include the following: (1) order and execution management: enter, modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders, inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g., NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g., order history and done away trade reports).

**Rule 716. Auction Mechanisms**

For purposes of this Rule, a "broadcast message" means an electronic message that is sent by the Exchange to all Members, and a "Response" means an electronic message that is sent by Members in response to a broadcast message. Also for purposes of this rule, the time given to Members to enter Responses for any of the below auction mechanisms shall be designated by the Exchange via circular, but no less than 100 milliseconds and no more than 1 second.

**(a) *Block Order Mechanism.*** The Block Order Mechanism is a process by which a Member can obtain liquidity for the execution of block-size orders. The Block Order Mechanism is for single leg transactions only. Block-size orders are orders for fifty (50) contracts or more.

**(1)** Upon the entry of an order into the Block Order Mechanism, a broadcast message will be sent that includes the series, and may include price, size and/or side, as specified by the Member entering the order, and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to trade with a block-size order.

**(2)** At the conclusion of the time given Members to enter Responses, either an execution will occur automatically, or the order will be cancelled.

**(i)** Responses, orders, and quotes will be executed at a single block execution price that is the price for the block-size order at which the maximum number of contracts can be executed consistent with the Member's instruction. Bids (offers) on the Exchange at the time the block order is executed that are priced higher (lower) than the block execution price, as well as Responses that are priced higher (lower) than the block execution price, will be executed in full at the block execution price.

**(ii)** At the block execution price, Priority Customer Orders and Priority Customer Responses will be executed first and in time priority, and then quotes, Professional Orders, and Professional Responses will participate in the execution of the block-size order based upon the percentage of the total number of contracts available at the block execution price that is represented by the size of the quote, Professional Order, or Professional Response.

**(3)** If a trading halt is initiated after an order is entered into the Block Order Mechanism, such auction will be automatically terminated without execution.

**(b) *Facilitation Mechanism.*** The Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size order it represents as agent. Electronic Access Members must be willing to execute the entire size of orders entered into the Facilitation Mechanism.



(1) Upon the entry of an order into the Facilitation Mechanism, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they want to participate in the facilitation of the order.

(2) Responses may be priced at the price of the order to be facilitated or at a better price and must not exceed the size of the order to be facilitated.

(3) At the end of the period given for the entry of Responses, the facilitation order will be automatically executed.

(i) Unless there is sufficient size to execute the entire facilitation order at a better price, Priority Customer bids (offers) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Professional Orders and market maker quotes at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the order being facilitated a better price for the number of contracts associated with such higher bids (lower offers).

(ii) The facilitating Electronic Access Member will execute at least forty percent (40%) of the original size of the facilitation order, but only after better-priced Responses, orders and quotes, as well as Priority Customer Orders at the facilitation price, are executed in full. Thereafter, Responses, quotes and Professional Orders at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Response, Professional Order or quote.

(iii) Upon entry of an order into the Facilitation Mechanism, the facilitating Electronic Access Member can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the facilitating Electronic Access Member will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating Member shall be allocated at least forty percent (40%) of the original size of the facilitation order, but only after Priority Customer interest at such price point. Thereafter, all other orders, Responses, and quotes at the price point will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the order, Response or quote. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(iv) If a trading halt is initiated after an order is entered into the Facilitation Mechanism, such auction will be automatically terminated without execution.

**(c) Complex Facilitation Mechanism.** Electronic Access Members may use the Facilitation Mechanism in sub-paragraph (b) above to execute block-size Complex Orders at a net price. Each options leg of a Complex Order entered into the Complex

Facilitation Mechanism must meet the minimum contract size requirement. The Complex Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size Complex Order it represents as agent. Electronic Access Members must be willing to execute the entire size of Complex Orders entered into the Complex Facilitation Mechanism.

**(1)** Complex Orders entered into the Complex Facilitation Mechanism must be priced within the parameters described below. Complex Orders that do not meet these requirements are not eligible for the Complex Facilitation Mechanism and will be rejected.

**(2)** Complex Options Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on the same side of the market as the Agency Order; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on the same side of the market as the Agency Order; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Rule 722(c)(2).

**(3)** Stock-Option Orders and Stock-Complex Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on the same side of the market as the Agency Order; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on both sides of the market; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Rule 722(c)(2).

**(4)** A Complex Order entered into the Complex Facilitation Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Facilitation Mechanism, such auction will be automatically terminated without execution.

**(5)** Upon the entry of a Complex Order into the Complex Facilitation Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and Members will be given an opportunity to enter Responses with the net prices and sizes at which they want to participate in the facilitation of the Agency Complex Order. The time given to Members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second.

**(6)** Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Complex Order to be

facilitated. Responses must be entered in the increments provided in Rule 722(c)(1) at the facilitation price or at a price that is at least one cent better for the Agency Order.

**(7)** Responses submitted by Members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the facilitation order will be automatically executed.

**(A)** Unless there is sufficient size to execute the entire facilitation order at a better net price, Priority Customer Complex Orders and Responses to buy (sell) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Professional Complex Orders and Responses to buy (sell) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the Complex Order being facilitated a better price for the number of contracts associated with such higher bids (lower offers).

**(B)** The facilitating Electronic Access Member will execute at least forty percent (40%) (or such lower percentage requested by the Member) of the original size of the facilitation order, but only after better-priced Responses, Complex Orders, as well as Priority Customer Complex Orders and Responses at the facilitation price, are executed in full. Thereafter, Professional Complex Orders and Responses at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Professional Complex Order or Response.

**(C)** Upon entry of a Complex Order into the Complex Facilitation Mechanism, the facilitating Electronic Access Member can elect to automatically match the net price and size of Complex Orders, Responses received during the exposure period up to a specified limit price or without specifying a limit price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to Members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a Member elects to auto-match, the facilitating Electronic Access Member will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating Member will be allocated at least forty percent (40%) (or such lower percentage requested by the Member) of the original size of the facilitation order, but only after Priority Customer Orders and Responses at such price point. Thereafter, Professional Complex Orders and Responses at the price point will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Professional Complex Order or Response. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

**(D)** With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Facilitation Mechanism, the priority rules applicable to the execution of Complex Orders contained in Rule 722(c)(2) will continue to be applicable and may prevent the execution of a Complex Order entered into the Facilitation Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Responses on the Complex Order Book and, for Complex Options Orders, the ISE best bids and offers on the individual legs, the facilitation order will be executed against such interest.

**(d) *Solicited Order Mechanism.*** The Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute orders of 500 or more contracts it represents as agent (the "Agency Order") against contra orders that it solicited. Each order entered into the Solicited Order Mechanism shall be designated as all-or-none.

**(1)** Upon entry of both orders into the Solicited Order Mechanism at a proposed execution price, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to participate in the execution of the Agency Order.

**(2)** At the end of the period given Members to enter Responses, the Agency Order will be automatically executed in full or cancelled.

**(i)** If at the time of execution there is insufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed against the solicited order at the proposed execution price so long as, at the time of execution: (A) the execution price is equal to or better than the best bid or offer on the Nasdaq ISE, and (B) there are no Priority Customer Orders on the Exchange that are priced equal to the proposed execution price. If there are Priority Customer Orders on the Exchange on the opposite side of the Agency Order at the proposed execution price and there is sufficient size to execute the entire size of the Agency Order, the Agency Order will be executed against the bid or offer, and the solicited order will be cancelled. The aggregate size of all orders, quotes and Responses at the bid or offer will be used to determine whether the entire Agency Order can be executed. Both the solicited order and Agency Order will be cancelled if an execution would take place at a price that is inferior to the best bid or offer on the Nasdaq ISE, or if there is a Priority Customer on the book at the proposed execution price but there is insufficient size on the Exchange to execute the entire Agency Order.

**(ii)** If at the time of execution there is sufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed at the improved price(s), subject to the condition in (i)(A), and the solicited order will be cancelled. The aggregate size of all orders, quotes and Responses at each price will be used to determine whether the entire agency order can be executed at an improved price (or prices).

**(iii)** When executing the Agency Order against the bid or offer in accordance with paragraph (i) above, or at an improved price in accordance with paragraph (ii) above,

Priority Customer Orders will be executed first. Professional Orders and market maker quotes participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Order or market maker quote.

(iv) If a trading halt is initiated after an order is entered into the Solicited Order Mechanism, such auction will be automatically terminated without execution.

(3) Prior to entering Agency Orders into the Solicited Order Mechanism on behalf of a customer, EAMs must deliver to the customer a written notification informing the customer that its order may be executed using the Nasdaq ISE's Solicited Order Mechanism. Such written notification must disclose the terms and conditions contained in this Rule and must be in a form approved by the Exchange.

**(e) Complex Solicited Order Mechanism.** The Complex Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute Complex Orders it represents as agent (the "Agency Complex Order") against contra orders that it solicited according to sub-paragraph (d) above. Each Complex Order entered into the Solicited Order Mechanism shall be designated as all-or-none, and each options leg must meet the minimum contract size requirement contained in sub-paragraph (d) above.

(1) Complex Orders must be entered into the Complex Solicited Order Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on both sides of the market; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on both sides of the market; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Rule 722(c)(2). Complex Orders that do not meet these requirements are not eligible for the Complex Solicited Order Mechanism and will be rejected.

(2) A Complex Order entered into the Complex Solicited Order Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Solicited Order Mechanism, such auction will be automatically terminated without execution.

(3) Upon entry of both orders into the Complex Solicited Order Mechanism at a proposed execution net price, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and Members will be given an opportunity to enter Responses with the net prices and sizes at which they would be willing to participate in the execution of the Agency Complex Order. The time given to Members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second. Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order. Responses must be entered in

the increments provided in Rule 722(c)(1) at the proposed execution net price or at a price that is at least one cent better for the Agency Order.

**(4)** Responses submitted by Members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the Agency Complex Order will be automatically executed in full pursuant to paragraphs (A) through (D) below, or cancelled.

**(A)** If at the time of execution there is insufficient size to execute the entire Agency Complex Order at an improved net price(s) pursuant to paragraph (e)(4)(C) below, the Agency Complex Order will be executed against the solicited Complex Order at the proposed execution net price so long as, at the time of execution: (i) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, (ii) the Complex Order can be executed in accordance with Rule 722(c)(2) with respect to the individual legs, (iii) the execution net price is equal to or better than the best bid or offer on the Complex Order Book, and (iv) there are no Priority Customer Complex Orders or Responses that are priced equal to the proposed execution price.

**(B)** If there are Priority Customer Complex Orders or Responses on the opposite side of the Agency Complex Order at the proposed execution net price and there is sufficient size to execute the entire size of the Agency Complex Order, the Agency Complex Order will be executed against such interest, and the solicited Complex Order will be cancelled, provided that: (i) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, and (ii) the Complex Order can be executed in accordance with Rule 722(c)(2) with respect to the individual legs. The aggregate size of all Complex Orders, Responses and, for Complex Options Orders, the aggregate size available from the best bids and offers for the individual legs, will be used to determine whether the entire Agency Complex Order can be executed pursuant to this paragraph.

**(C)** If at the time of execution there is sufficient size to execute the entire Agency Complex Order at an improved net price(s), the Agency Complex Order will be executed at the improved net price(s), and the solicited Complex Order will be cancelled, provided that: (i) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, and (ii) the Complex Order can be executed in accordance with Rule 722(c)(2) with respect to the individual legs. The aggregate size of all Complex Orders, Responses, and the aggregate size available from the best bids and offers for the individual legs for a Complex Options Order, will be used to determine whether the entire Agency Complex Order can be executed at an improved net price(s).

**(D)** When executing the Agency Complex Order against other interest in accordance with Rule 722(d)(2)(ii), Priority Customer Complex Orders and Responses will be executed first. Professional Complex Orders and Responses participate next in the execution of the

Agency Complex Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Complex Order or Response. Finally, for Complex Options Orders, bids and offers for the individual legs will be executed pursuant to Rule 713 and the Supplementary Material thereto.

(5) Prior to entering Agency Orders into the Complex Solicited Order Mechanism on behalf of a customer, EAMs must deliver to the customer a written notification informing the customer that its order may be executed using Nasdaq ISE's Solicited Order Mechanism. Such written notification must disclose the terms and conditions contained in this Rule and must be in a form approved by the Exchange.

**(f) Limitation on Concurrent Complex Strategy Auctions.** Only one Exposure Auction at Supplementary Material .01 to Rule 722, Complex Price Improvement Mechanism auction at Rule 723(e), Complex Facilitation Mechanism auction at 716(c), or Complex Solicited Order Mechanism auction at 716(e), respectively, will be ongoing at any given time in a Complex Strategy, and such auctions will not queue or overlap in any manner. The Exchange will not initiate an Exposure Auction, Complex Price Improvement Mechanism auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction in a Complex Strategy while another Exposure Auction, Complex Price Improvement Mechanism auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction in that Complex Strategy is ongoing. If a Complex Price Improvement Mechanism auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction for a Complex Strategy has been initiated, an Exposure Auction for that Complex Strategy will not be initiated, and an Exposure Only Complex Order for the Complex Strategy will be cancelled back to the Member. An Exposure Order for the Complex Strategy will be processed as an order that is not marked for price improvement.

**(g) Concurrent Complex Order and single leg auctions.** An auction in the Block Order Mechanism at 716(a), Facilitation Mechanism at 716(b), Solicited Order Mechanism at 716(d), or Price Improvement Mechanism at 723(d), respectively, or an exposure period as provided in Supplementary Material .02 to Rule 1901, for an option series may occur concurrently with a Complex Order Exposure Auction at Supplementary Material .01 to Rule 722, Complex Facilitation Auction at 716(c), Complex Solicited Order Auction at 716(e), or Complex Price Improvement Mechanism auction at 723(e), respectively, for a Complex Order that includes that series. To the extent that there are concurrent Complex Order and single leg auctions involving a specific option series, each auction will be processed sequentially based on the time the auction commenced. At the time an auction concludes, including when it concludes early, the auction will be processed pursuant to Rules 716(a), (b), (d), or 723(a) or Supplementary Material .02 to Rule 1901, as applicable, for the single option, or pursuant to Supplementary Material .01 to Rule 722, 716(c), 716(e), 723(e), as applicable, for the Complex Order, except as provided for at Rule 723(e)(4)(vi).

***Supplementary Material to Rule 716***

.01 It will be a violation of a Member's duty of best execution to its customer if it were to cancel a facilitation order to avoid execution of the order at a better price. The availability of the Facilitation Mechanism does not alter a Member's best execution duty to get the best price for its customer. Accordingly, while facilitation orders can be canceled during the time period given for the entry of Responses, if a Member were to cancel a facilitation order when there was a superior price available on the Exchange and subsequently re-enter the facilitation order at the same facilitation price after the better price was no longer available without attempting to obtain that better price for its customer, there would be a presumption that the Member did so to avoid execution of its customer order in whole or in part by other brokers at the better price.

.02 Responses represent non-firm interest that can be canceled at any time prior to execution. Responses are not displayed to any market participants.

.03 Under paragraph (d) above, Members may enter contra orders that are solicited. The Solicited Order Mechanism provides a facility for Members that locate liquidity for their customer orders. Members may not use the Solicited Order Mechanism to circumvent Exchange Rule 717(d) limiting principal transactions. This may include, but is not limited to, Members entering contra orders that are solicited from (1) affiliated broker-dealers, or (2) broker-dealers with which the Member has an arrangement that allows the Member to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal. Additionally, any solicited contra orders entered by Members to trade against Agency Orders may not be for the account of a Nasdaq ISE market maker that is assigned to the options class.

.04 Split Prices. Orders and Responses may be entered into the Facilitation and Solicitation Mechanisms and receive executions at the mid-price between the standard minimum trading increments for the options series ("Split Prices"). This means that orders and Responses for options with a minimum increment of 5 cents may be entered into the Facilitation and Solicitation Mechanisms and receive executions in 2.5 cent increments (e.g., \$1.025, \$1.05, \$1.075, etc.), and that orders and Responses for options with a minimum increment of 10 cents may be entered into the Facilitation and Solicitation Mechanism and receive executions at 5 cent increments (e.g., \$4.05, \$4.10, \$4.15, etc.). Orders and quotes in the market that receive the benefit of the facilitation price under paragraph (b)(3)(i) may also receive executions at Split Prices.

.07 Penny Prices. Orders and Responses may be entered into the Block Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price under paragraph (a)(2)(i) may also receive executions at penny increments.

#### **Rule 717. Limitations on Orders**

(a) Reserved.

(b) Limit Orders.



Electronic Access Members shall not enter Priority 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) Reserved.

(d) Principal Transactions.

Electronic Access Members may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, (ii) the Electronic Access Member has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Member utilizes the Facilitation Mechanism pursuant to Rule 716(d), or (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Rule 723.

(e) Solicitation Orders.

Electronic Access Members may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-member broker-dealers to transact with such orders unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, (ii) the Member utilizes the Solicited Order Mechanism pursuant to Rule 716(e), (iii) the Member utilizes the Facilitation Mechanism pursuant to Rule 716(d) or (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Rule 723.

(f) Reserved.

(g) Orders for the Account of Another Member.

Electronic Access Members shall not cause the entry of orders for the account of a Nasdaq ISE market maker that is exempt from the provisions of Regulation T of the Board of Governors of the Federal Reserve System pursuant to Section 7(c)(2) of the Exchange Act unless such orders are identified as orders for the account of a Nasdaq ISE market maker in the manner prescribed by the Exchange.

### ***Supplementary Material to Rule 717***

.01 Rule 717(d) prevents an Electronic Access Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the agency order or to

trade at the execution price when the Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Electronic Access Member to establish a relationship with a customer or other person (including affiliates) 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 will be a violation of Rule 717(d) for an Electronic Access Member to be a party to any arrangement designed to circumvent Rule 717(d) by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the Electronic Access Member immediately upon their entry into the System.

.02 It will be a violation of Rule 717(e) for an Electronic Access Member to cause the execution of an order it represents as agent on the Exchange by orders it solicited from Members and non-member broker-dealers to transact with such orders, whether such solicited orders are entered into the System directly by the Electronic Access Member or by the solicited party (either directly or through another Member), if the Member fails to expose orders on the Exchange as required by Rule 717(e).

.03 Reserved.

.04 Reserved.

.05 With respect to the non-displayed reserve portion of a reserve order, the exposure requirement of paragraphs (d) and (e) are satisfied if the displayable portion of the reserve order is displayed at its displayable price for one second.

.06 The exposure requirement of paragraph (d) and (e) of Rule 717 applies to the entry of orders with knowledge that there is a pre-existing unexecuted agency, proprietary, or solicited order on the Exchange. Members may demonstrate that orders were entered without knowledge by providing evidence that effective information barriers between the persons, business units and/or systems entering the orders onto the Exchange were in existence at the time the orders were entered. Such information barriers must be fully documented and provided to the Exchange upon request.

### **Rule 718. Data Feeds and Trade Information**

(a) The following data feeds contain ISE trading information offered by ISE:

(1) Nasdaq ISE Depth of Market Data Feed ("Depth of Market Feed") provides aggregate quotes and orders at the top five price levels on ISE, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for ISE traded 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 ISE and identifies if the series is available for closing transactions only. In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This

information is provided for each of the top five price levels on the Depth Feed. The feed also provides order imbalances on opening/reopening.

**(2)** Nasdaq ISE Order Feed ("Order Feed") provides information on new orders resting on the book (e.g. price, quantity and market participant capacity). In addition, the feed also announces all auctions. The data provided for each option 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 ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

**(3)** Nasdaq ISE Top Quote Feed ("Top Quote Feed") calculates and disseminates ISE's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option 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 ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

**(4)** Nasdaq ISE Trades Feed ("Trades Feed") displays last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option 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 ISE and identifies if the series is available for closing transactions only.

**(5)** Nasdaq ISE Spread Feed ("Spread Feed") is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) data aggregated at the top five price levels (BBO) on both the bid and offer side of the market; (3) last trades information. The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the ISE Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options. The feed also provides Complex Order auction notifications.

**(b)** The following order and execution information is available to Members:

**(1)** Clearing Trade Interface ("CTI") is a real-time cleared trade update message that is sent to a Member after an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement ("CMTA") or The Options Clearing Corporation ("OCC") number; (ii) badge or mnemonic; (iii) account number; (iv) information which

identifies the transaction type (e.g. auction type) for billing purposes; and (v) market participant capacity.

(2) TradeInfo, a user interface, permits a Member 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) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo.

(3) FIX DROP is a real-time order and execution update message that is sent to a Member after an order been received/modified or an execution has occurred and contains trade details specific to that Member. 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.

#### **Rule 719. 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.

#### **Rule 720. 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 Member 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, Customer has the same definition as Priority Customer in Rule 100(a)(49).

(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, an Official is an Officer of the Exchange or such other employee designee of the Exchange that is trained in the application of this Rule.

**(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 - 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 the Exchange's receipt of the order. The Exchange will rely on this paragraph (b) and Commentary .06 of this Rule when determining Theoretical Price.

**(1) Transactions at the Open.** For a transaction occurring during the opening rotation (see Rule 701) 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.

<b>Bid Price at Time of Trade</b>	<b>Minimum Amount</b>
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 Market Control in the manner specified from time to time by the Exchange in a circular distributed to Members. Such notification must be received by the Exchange's Market Control 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) Official Acting on Own Motion.** An Official 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 Official 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 Official 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 Official 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 Official not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Official'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.

<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 sub-paragraph (C) below.

**(C)** If any Member submits requests to the Exchange for review of transactions pursuant to this rule, and in aggregate that Member 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:

<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 Market Control in the manner specified from time to time by the Exchange in a circular distributed to Members. Such notification must be received by the Exchange's Market Control 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 Market Control 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
Above \$5.00 to \$10.00	\$1.50	\$1.50
Above \$10.00 to \$20.00	\$2.00	\$2.00
Above \$20.00 to \$50.00	\$2.50	\$2.50

Above \$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 sub-paragraph (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 Rule 702.

**(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 Market Control 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 Market Control 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 sub-paragraph (c)(4) this Rule, provided a party notifies the Exchange's Market Control 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 Market Control in accordance with sub-paragraph (c)(2) above.

**(i) *Stop (and Stop-Limit) Order Trades Triggered by Erroneous Trades.*** Transactions resulting from the triggering of a stop or stop-limit order by an erroneous trade in an option contract shall be nullified by the Exchange, provided a party notifies the Exchange's Market Control in a timely manner as set forth below. If a party believes that it participated in an erroneous transaction pursuant to this paragraph it must notify the Exchange's Market Control within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification of the nullification of transaction(s) that triggered the stop or stop-limit order.

**(j) *Linkage Trades.*** If the Exchange routes an order pursuant to the Plan (as defined in Rule 1900(n)) 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) *Appeals.*** If a Member affected by a determination made under this Rule requests within the time permitted below, an Exchange Review Council panel will review decisions made by the Official under this Rule, including whether an obvious error occurred and whether the correct determination was made.

(1) An 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) A request for review on appeal must be made in writing via e-mail or other electronic means specified from time to time by the Exchange in a circular distributed to Members within thirty (30) minutes after the party making the appeal is given notification of the initial determination being appealed. The Exchange Review Council panel shall review the facts and render a decision as soon as practicable, but generally on the same trading day as the execution(s) under review. On requests for appeal received after 3:00 p.m. Eastern Time, a decision will be rendered as soon as practicable, but in no case later than the trading day following the date of the execution under review.

(3) The Exchange Review Council panel may overturn or modify an action taken by the Official under this Rule. All determinations by the Exchange Review Council panel shall constitute final action by the Exchange on the matter at issue.

(4) If the Exchange Review Council panel votes to uphold the decision made pursuant to paragraph (k) above, the Exchange will assess a \$5,000.00 fee against the Member(s) who initiated the request for appeal. In addition, in instances where the Exchange, on behalf of a Member, requests a determination by another market center that a transaction is clearly erroneous, the Exchange will pass any resulting charges through to the relevant Member.

(5) Any determination by an Official or by the Exchange Review Council panel shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.

#### ***Supplementary Material to Rule 720***

.01 Limit Up-Limit Down State. During a pilot period that expires at the close of business on October 18, 2019, an execution will not be subject to review as an Obvious Error or Catastrophic Error pursuant to paragraph (c) or (d) of this Rule if it occurred while the underlying security was in a "Limit State" or "Straddle State," as defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the "Limit Up-Limit Down Plan"). Nothing in this provision shall prevent such execution from being reviewed on an Official's own motion pursuant to sub-paragraph (c)(3) of this Rule, or a bust or adjust pursuant to paragraphs (e) through (j) of this Rule.

.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 When Market Control determines that an Error has occurred and action is warranted under paragraphs (c) or (d) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.

.04 Complex Order Executions. If both parties to a trade that is one component of a complex order execution are parties to all of the trades that together comprise the execution of a complex order at a single net debit or credit, then if one of those component trades can be nullified under this Rule 720, all component trades that were part of the same complex order shall be nullified as well.

.05 Complex Orders and Stock-Option Orders.

(a) If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) 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 on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

(b) If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of Rule 720, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or

Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) 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 on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

.06 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 an 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 .06. 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.

**Rule 720A. Erroneous Trades due to System Disruptions and Malfunctions**

**(a) Verifiable Disruptions or Malfunctions of Exchange Systems.**

(1) Transactions arising out of a "verifiable disruption or malfunction" in the use or operation of any Exchange automated quotation, dissemination, execution, or communication system may either be nullified or adjusted by Market Control. Transactions that qualify for price adjustment will be adjusted in accordance with the guidelines contained in Rule 720(b)(2)(i)(A) and (B).

(2) Absent extraordinary circumstances, any such action by Market Control pursuant to this Rule shall be initiated within sixty (60) minutes of the occurrence of the erroneous transaction that resulted from a verifiable disruption or malfunction. Each member involved in the transaction shall be notified as soon as practicable.

(3) Any member aggrieved by the action of Market Control taken pursuant to paragraph (1) above may appeal such action in accordance with the provisions of subsection (b).

**(b) Procedures for Review of Decisions Made Pursuant to Rule 720A(a).**

(1) If a party to a ruling by Market Control made pursuant to subsection (a) of this Rule requests within the time permitted below, an Exchange Review Council panel will be utilized to review decisions made by Market Control under this Rule.

(i) An 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.

(ii) A request for review on appeal must be made via facsimile or e-mail within thirty (30) minutes after the party making the appeal is given notification of the initial determination being appealed. The Exchange Review Council panel shall review the facts and render a decision within the time frame prescribed by the Exchange.

(iii) The Exchange Review Council panel may overturn or modify an action taken by the Exchange under this Rule. All determinations by the Exchange Review Council panel shall constitute final action by the Exchange on the matter at issue.

**Rule 721. Crossing Orders**

**(a) Customer Cross Orders.** Customer Cross Orders are automatically executed upon entry provided that the execution is at or between the best bid and offer on the Exchange and (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) will not trade through the NBBO.



(1) Customer Cross Orders will be automatically canceled if they cannot be executed.

(2) Customer Cross Orders may only be entered in the regular trading increments applicable to the options class under Rule 710.

(3) Supplementary Material .01 to Rule 717 applies to the entry and execution of Customer Cross Orders.

**(b) Complex Customer Cross Orders.** Complex Orders may be entered as Customer Cross Orders, as defined in Rule 715(i). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Rule 722(c)(2). Complex Customer Cross Orders will be rejected if they cannot be executed. Supplementary Material .01 to Rule 717 applies to Complex Customer Cross Orders.

**(c) Qualified Contingent Cross Orders.** Qualified Contingent Cross Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the NBBO.

(1) Qualified Contingent Cross Orders will be automatically canceled if they cannot be executed.

(2) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Rule 710.

**(d) Complex Qualified Contingent Cross Orders.** Complex Options Orders may be entered as Qualified Contingent Cross Orders, as defined in Rule 715(j). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Options Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that (A) are at or between the NBBO for the individual series, and (B) comply with the provisions of Rule 722(c)(2)(i), provided that no legs of the Complex Options Order can be executed at the same price as a Priority Customer Order on the Exchange in the individual options series. Complex Qualified Contingent Cross Orders will be rejected if they cannot be executed. Complex Qualified Contingent Cross Orders may be entered in one cent increments. Each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for Qualified Contingent Cross Orders.

**(e) Qualified Contingent Cross ("QCC") with Stock.** QCC with Stock Orders are processed as follows:

(1) When a Member enters a QCC with Stock Order, a Qualified Contingent Cross Order is entered on the Exchange pursuant to Rule 721(c).

(2) If the Qualified Contingent Cross Order is executed, the Exchange will automatically communicate the stock component to the Member's designated broker-dealer for execution.

(3) If the Qualified Contingent Cross Order cannot be executed, the entire QCC with Stock Order, including both the stock and options components, is cancelled.

(4) QCC with Stock Orders can be entered with separate prices for the stock and options components, or with a net price for both.

(5) QCC with Stock Orders are available to Members on a voluntary basis. Members that enter QCC with Stock Orders must enter into a brokerage agreement with one or more broker-dealers designated by the Exchange. The Member must designate a specific broker-dealer on each order if the Member has entered into an agreement with more than one. The Exchange will have no financial arrangements with the designated broker-dealers with respect to communicating stock orders to them.

(6) Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if they do not receive an execution from their designated broker-dealer.

**(f) Complex QCC with Stock Orders.** Complex QCC with Stock Orders are processed as follows:

(1) When a Member enters a Complex QCC with Stock Order, a Qualified Contingent Cross Complex Order is entered on the Exchange pursuant to (d) above.

(2) If the Qualified Contingent Cross Complex Order is executed, the Exchange will automatically communicate the stock component to the Member's designated broker-dealer for execution.

(3) If the Qualified Contingent Cross Complex Order cannot be executed, the entire Complex QCC with Stock Order, including both the stock and options components, is cancelled.

## **Rule 722. Complex Orders**

**(a) Definitions.**

(1) *Complex Options Strategy.* A Complex Options Strategy is the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. Only those Complex Options Strategies with no more than the applicable

number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

**(2) *Stock-Option Strategy.*** A Stock-Option Strategy is the purchase or sale of 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 options 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 necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.

**(3) *Stock-Complex Strategy.*** A Stock-Complex Strategy is the purchase or sale of 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 a Complex Options Strategy 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 necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

**(4)** The term "complex strategy" includes Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies.

**(5)** The terms "Complex Options Order," "Stock-Option Order," and "Stock-Complex Order" refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. The term "Complex Order" includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders.

**(b) *Types of Complex Orders.*** Unless otherwise specified, the definitions used below have the same meaning contained in Rule 715. Complex Orders may be entered using the following orders or designations:

**(1) Market Complex Order.** A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the Complex Order Book unless designated as fill-or-kill or immediate-or-cancel.

**(2) Limit Complex Order.** A Limit Complex Order is a Complex Order to buy or sell a complex strategy that is entered with a limit price expressed as a net purchase or sale price for the components of the order.

**(3) All-Or-None Complex Order.** A Complex Order may be designated as an All-or-None Order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.

**(4) Attributable Complex Order.** A Market or Limit Complex Order may be designated as an Attributable Order as provided in Rule 715(h).

**(5) Customer Cross Complex Order.** A Customer Cross Complex Order is comprised of a Priority Customer Complex Order to buy and a Priority Customer Complex Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Rule 721(b).

**(6) Qualified Contingent Cross Complex Order.** A Complex Options Order may be entered as a Qualified Contingent Cross Order, as defined in Rule 715(j). Qualified Contingent Cross Complex Orders will trade in accordance with Rule 721(d).

**(7) Day Complex Order.** A Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered.

**(8) Fill-or-Kill Complex Orders.** A Complex Order may be designated as a Fill-or-Kill Order that is to be executed in its entirety as soon as it is received and, if not so executed, cancelled.

**(9) Immediate-or-Cancel Complex Orders.** A Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

**(10) Opening Only Complex Order.** An Opening Only Complex Order is a Limit Complex Order that may be entered for execution during the Complex Opening Process described in Supplementary Material .04 to Rule 722. Any portion of the order that is not executed during the Complex Opening Process is cancelled.

**(11) Good-Till-Date Complex Order.** A Good-Till-Date Complex Order is an order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the Complex Order, or the expiration of any individual series comprising the order.

**(12) Good-Till-Cancel Complex Order.** A Good-Till-Cancel Complex Order is an order to buy or sell that remains in force until the order is filled, canceled or any series of the order expires; provided, however, that a Good-Till-Cancel Complex Order will be cancelled in the event of a corporate action that results in an adjustment to the terms of any series underlying the Complex Order.

**(13) Exposure Complex Order.** An Exposure Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or entered on the Complex Order Book if not eligible. Any unexecuted balance

of an Exposure Complex Order remaining upon the completion of the exposure process will be entered on the Complex Order Book.

**(14) Exposure Only Complex Order.** An Exposure Only Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule 722 if eligible, or cancelled if not eligible. Any unexecuted balance of an Exposure Only Complex Order remaining upon the completion of the exposure process will be cancelled.

**(15) Complex QCC with Stock Orders.** A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in Rule 722(b)(6), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Rule 721(e).

**(c) *Applicability of Exchange Rules.*** Except as otherwise provided in this Rule 722, complex strategies shall be subject to all other Exchange Rules that pertain to orders and quotes generally.

**(1) *Minimum Increments.*** Bids and offers for Complex Options Strategies may be expressed in one cent (\$0.01) increments, and the options leg of Complex Options Strategies may be executed in one cent (\$0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent (\$0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order.

**(2) *Complex Order.*** Complex strategies will not be executed at prices inferior to the best net price achievable from the best ISE bids and offers for the individual legs. Notwithstanding the provisions of Rule 713:

- (i) a Complex Options Strategies may be executed at a total credit or debit price with one other Member without giving priority to bids or offers established on the Exchange that are no better than the bids or offers in the individual options series comprising such total credit or debit; provided, however, that if any of the bids or offers established on the Exchange consist of a Priority Customer Order, the price of at least one leg of the complex strategy must trade at a price that is better than the corresponding bid or offer on the Exchange by at least one minimum trading increment for the series as defined in Rule 710.
- (ii) The option leg of a Stock-Option Strategy has priority over bids and offers for the individual options series established on the Exchange by Professional Orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders.

(iii) The options legs of a Stock-Complex Strategy are executed in accordance with subparagraph (c)(2)(i) above.

**(3) Internalization.** Complex Orders represented as agent may be executed (i) as principal as provided in Rule 717(d), or (ii) against orders solicited from Members and non-member broker-dealers as provided in Rule 717(e). The exposure requirements of Rules 717(d) or (e) must be met on the Complex Order Book unless the order is executed in one of the mechanisms described in Rules 716, 721 and 723.

**(d) Execution of Complex Strategies.** Complex strategies will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts. Complex strategies are not executable unless all of the terms of the strategy can be satisfied and the options legs can be executed at prices that comply with the provisions of paragraph (c)(2) above. Complex strategies, other than those that are executed as crossing transactions pursuant to Rules 716, 721 and 723, are automatically executed as follows:

**(1)** Each Complex Order must specify upon entry whether it should be exposed upon entry if eligible, or whether such Complex Order should be processed without being exposed. Eligible incoming Complex Orders that are designated for exposure will be exposed for price improvement pursuant to Supplementary Material .01 to this Rule 722.

**(2)** Complex Options Orders will be executed at the best net price available from Complex Order Exposure pursuant to Supplementary Material .01 to Rule 722, executable Complex Orders on the Complex Order Book, and bids and offers for the individual options series; provided that at each price, executable Complex Options Orders will be automatically executed first against executable bids and offers on the Complex Order book prior to legging in the single leg order book. Notwithstanding the foregoing, executable Complex Options Orders will execute against Priority Customer interest on the single leg book at the same price before executing against the Complex Order Book. Thus, Priority Customer Orders on the single leg order book shall retain priority and will execute prior to any other Complex Order or non-Priority Customer single leg interest at the same price. Stock Option Orders and Stock Complex Orders will be executed at the best net price available from Complex Order Exposure pursuant to Supplementary Material .01 to Rule 722 and executable Complex Orders on the Complex Order Book. The Exchange may designate on a class basis whether bids and offers at the same price on the Complex Order Book will be executed:

(i) in time priority; or

(ii) pro-rata based on size.

**(3)** If there is no executable contra-side complex interest on the Complex Order Book at a particular price, executable Complex Options Orders up to a maximum number of legs (determined by the Exchange on a class basis as either two legs, three legs or four legs) may be automatically executed against bids and offers on the Exchange for the individual

options series provided the Complex Order can be executed in full or in a permissible ratio by such bids and offers. Legging orders may be automatically generated on behalf of Complex Options Orders so that they are represented at the best bid and/or offer on the Exchange for the individual legs of the Complex Options Order as provided in Rule 715(k). Notwithstanding the foregoing:

(A) Complex Orders with 2 option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other Complex Orders in the Complex Order Book. The System will not generate legging orders for these Complex Orders.

(B) Complex Orders with 3 or 4 option legs where all legs are buying or all legs are selling may only trade against other Complex Orders in the Complex Order Book.

(4) Complex strategies that are not executable may rest on the Complex Order Book until they become executable.

#### ***Supplementary Material to Rule 722***

.01 Complex Order Exposure. If designated by a Member for exposure, eligible Complex Orders are exposed upon entry for a period of up to one (1) second pursuant to Rule 722(d)(1) as follows:

(a) A Complex Order that improves upon the best price for the same complex strategy on the Complex Order Book (i.e., a limit order to buy priced higher than the best bid, a limit order to sell priced lower than the best offer, and a market order to buy or sell) is eligible to be exposed upon entry for a period of up to one (1) second as provided in Supplementary Material .01 to this Rule 722. Incoming orders will not be eligible to be exposed if there are market orders on the Complex Order Book on the same side of the market for the same complex strategy.

(b) Upon entry of an eligible Complex Order, a broadcast message that includes net price or at market, size, and side will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they are willing to participate in the execution of the Complex Order.

(i) Responses are only executable against the Complex Order with respect to which they are entered, can be modified or withdrawn at any time prior to the end of the exposure period, and will be considered up to the size of the Complex Order being exposed. During the exposure period, the Exchange will broadcast the best Response price, and the aggregate size of Responses available at that price. At the conclusion of the exposure period, any unexecuted balance of a Response is automatically cancelled.

(ii) The exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order for the same complex strategy on either side of the market that is

marketable against the Complex Order Book or bids and offers for the individual legs; (B) upon the receipt of a non-marketable Complex Order for the same complex strategy on the same side of the market that would cause the price of the exposed Complex Order to be outside of the best bid or offer for the same complex strategy on the Complex Order Book; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.

(iii) A Complex Order Exposure in a complex strategy may be ongoing in a complex strategy at the same time as a Price Improvement Auction pursuant to Rule 723 or during an exposure period pursuant to Supplementary Material .02 to Rule 1901 in a component leg(s) of such complex strategy. If a Complex Order Exposure is early terminated pursuant to paragraph (ii) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the subject of a concurrent ongoing Price Improvement Auction pursuant to Rule 723 or an exposure period pursuant to Supplementary Material .02 to Rule 1901, then the concurrent Complex Order and component leg auction(s) are processed in the following sequence: (1) the Complex Order exposure is early terminated; (2) the component leg auction(s), which are early terminated and processed; and (3) legging of residual incoming Complex Order interest occurs.

(c) At the end of the exposure period, if the Complex Order still improves upon the best price for the complex strategy on the same side of the market, it is automatically executed to the greatest extent possible pursuant to Rule 722(d)(2)-(3), taking into consideration: (i) bids and offers on the Complex Order Book (including interest received during the exposure period), (ii) bids and offers on the Exchange for the individual options series (including interest received during the exposure period), and (iii) Responses received during the exposure period, provided that when allocating pursuant to 722(d)(2)(ii), Responses are allocated pro-rata based on size. Thereafter, any unexecuted balance will be placed on the Complex Order Book (or cancelled in the case of an Exposure Only Complex Order). Notwithstanding the foregoing, Supplementary Material .01(c)(ii) shall not be applicable with respect to Stock Option Orders and Stock Complex Orders.

(d) If a trading halt is initiated during the exposure period in any series underlying the Complex Order, the Complex Order exposure process will be automatically terminated without execution.

.02 Stock-Option and Stock-Complex Orders. The Exchange will electronically communicate the stock leg of an executable Stock-Option Order and Stock-Complex Order to a broker-dealer for execution. To execute Stock-Option Orders and Stock-Complex Orders on the Exchange, Members must enter into a brokerage agreement with a broker-dealer designated by the Exchange. The Member may also enter into a brokerage agreement with one or more other broker-dealers to which the Exchange is able to route stock orders. The Exchange will automatically transmit the stock leg of a trade to one-or more broker-dealer(s) with which a Member has an agreement for execution on behalf of the Member using routing logic that takes into consideration



objective factors such as execution cost, speed of execution and fill-rates. The Exchange will have no financial arrangements with the brokers with respect to routing stock orders to them. Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed.

*.03 Trade Value Allowance.* To facilitate the execution of the stock leg and options leg(s) of Stock-Option Strategies and Stock-Complex Strategies at valid increments pursuant to Rule 722(c)(1), Stock-Option Strategies and Stock-Complex Strategies may trade outside of their expected notional trade value by a specified amount ("Trade Value Allowance"). The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the Member, or a default value determined by the Exchange and announced to Members; provided that any amount of Trade Value Allowance is permitted in mechanisms pursuant to Rule 716 when auction orders do not trade solely with their contra-side order.

*.04 Complex Opening Process.* After each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to Rule 722, and Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to Rule 722.

*.05 Complex Opening Price Determination.*

(a) *Definitions.*

(1) "Boundary Price" is described herein in paragraph (d)(1).

(2) "Opening Price" is described herein in paragraph (d)(4).

(3) "Potential Opening Price" is described herein in paragraph (d)(2).

(b) *Eligible Interest.* Eligible interest during the Complex Opening Price Determination includes Complex Orders on the Complex Order Book. Bids and offers for the individual legs of the complex strategy are not eligible to participate in the Complex Opening Price Determination.

(c) If the best bid for a complex strategy does not lock or cross the best offer, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to Rule 722.

(d) If the best bid for a complex strategy locks or crosses the best offer, the System will open the complex strategy as follows:

(1) *Boundary Prices.* The System calculates Boundary Prices at or within which Complex Orders may be executed during the Complex Opening Price Determination based on the NBBO for the individual legs; provided that, if the NBBO for any leg includes a Priority Customer Order on the Exchange, the System adjusts the Boundary Prices according to Rule 722(c)(2).

(2) *Potential Opening Price.* The System will calculate the Potential Opening Price by identifying the price(s) at which the maximum number of contracts can trade ("maximum quantity criterion") taking into consideration all eligible interest pursuant to Supplementary Material .06(b) to Rule 722.

(3) *More Than One Potential Opening Price.* When two or more Potential Opening Prices would satisfy the maximum quantity criterion: (A) without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders to be traded at those prices, the system takes the highest and lowest of those prices and takes the mid-point; provided that (1) if the highest and/or lowest price described above is through the price of a bid or offer that is priced to not allocate in the Complex Opening Price Determination, the highest and/or lowest price will be rounded to the price of such bid or offer that is priced to not allocate before taking the mid-point, and (2) if the midpoint is not expressed as a permitted minimum trading increment, it will be rounded down to the nearest permissible minimum trading increment; or (B) leaving unexecuted contracts on the bid (offer) side of the market of Complex Orders to be traded at those prices, the Potential Opening Price is the highest (lowest) executable bid (offer) price. Notwithstanding the foregoing: (C) if there are Market Complex Orders on the bid (offer) side of the market that would equal the full quantity of Complex Orders on offer (bid) side of the market, the limit price of the highest (lowest) priced Limit Complex Order is the Potential Opening Price; and (D) if there are only Market Complex Orders on both sides of the market, or if there are Market Complex Orders on the bid (offer) side of the market for greater than the total size of Complex Orders on the offer (bid) side of the market, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to Rule 722.

(4) *Opening Price.* If the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price. If the Potential Opening Price is not at or within the Boundary Prices, the Opening Price will be the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within

the Boundary Prices. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to Rule 722.

(5) *Allocation*. During the Complex Opening Price Determination, where there is an execution possible, the System will give priority to Market Complex Orders first, then to resting Limit Complex Orders on the Complex Order Book. The allocation provisions of Rule 722(d)(2) apply with respect to Complex Orders with the same price with priority given first to better priced interest.

(6) *Uncrossing*. If the Complex Order Book remains locked or crossed following paragraphs (d)(1) - (5), the System will process any remaining Complex Orders, including Opening Only Complex Orders in accordance with the Complex Uncrossing Process described in Supplementary Material .06(b) to Rule 722. Bids and offers for the individual legs of the Complex Option Order will also be eligible to trade in the Complex Uncrossing Process..

*.06 Complex Uncrossing Process.*

(a) The Complex Order Book will be uncrossed using the Complex Uncrossing Process described in paragraph (b) below if a resting Complex Order that is locked or crossed with other interest becomes executable during regular trading or as part of the Complex Opening Process.

(b) Complex Strategies are uncrossed using the following procedure:

(1) The System identifies the oldest Complex Order among the best priced bids and offers on the Complex Order Book. A Complex Order entered with an instruction that it must be executed at a price that is equal to or better than the national best bid or offer pursuant to paragraph (a) above is considered based on its actual limit or market price and not the price of the national best bid or offer for the component legs.

(2) The selected Complex Order is matched pursuant to Rule 722(d)(2)-(3) with resting contra-side interest on the Complex Order Book and, for Complex Option Orders, bids and offers for the individual legs of the complex strategy.

(3) The process described in (1) through (2) is repeated until the Complex Order Book is no longer executable.

**.07 Qualified Contingent Trade Exemption.** Members may only submit Complex Orders in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Exchange Act. Members submitting Complex Orders in Stock-Option Strategies and Stock-Complex Strategies represent that they comply with the Qualified

Contingent Trade Exemption. In addition, the stock leg of a stock-option order must be marked "buy," "sell," "sell short," or "sell short exempt" in compliance with Regulation SHO under the Exchange Act.

**Rule 723. Price Improvement Mechanism for Crossing Transactions**

**(a)** The Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate an order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against an order it represents as agent (a "Crossing Transaction").

**(b)** Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

- (1) If the Agency 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 Crossing Transaction must be entered at one minimum price improvement increment better than the NBBO on the opposite side of the market from the Agency Order and better than the limit order or quote on the Nasdaq ISE order book on the same side of the Agency Order.
- (2) If the Agency Order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, a Crossing Transaction must be entered only at a price that is equal to or better than the national best bid or offer ("NBBO") and better than the limit order or quote on the Nasdaq ISE order book on the same side of the Agency Order.
- (3) The Crossing Transaction may be priced in one-cent increments.
- (4) The Crossing Transaction may not be canceled, but the price of the Counter-Side Order may be improved during the exposure period.

**(c)** Exposure Period. Upon entry of a Crossing Transaction into the Price Improvement Mechanism, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent to all Members. This broadcast message will not be included in the Nasdaq ISE disseminated best bid or offer and will not be disseminated through OPRA.

**(1)** The Exchange will designate via circular a time of no less than 100 milliseconds and no more than 1 second for Members to indicate the size and price at which they want to participate in the execution of the Agency Order ("Improvement Orders").

(2) Improvement Orders may be entered by all Members in one-cent increments at the same price as the Crossing Transaction or at an improved price for the Agency Order, and for any size up to the size of the Agency Order.

(3) During the exposure period, Improvement Orders may not be canceled, but may be modified to (1) increase the size at the same price, or (2) improve the price of the Improvement Order for any size up to the size of the Agency Order.

(4) During the exposure period, responses (including the Counter-Side Order, Improvement Orders, and any changes to either) submitted by Members shall not be visible to other auction participants.

(5) The exposure period will automatically terminate (i) at the end of the time period designated by the Exchange pursuant to Rule 723(c)(1) above, (ii) upon the receipt of a market or marketable limit order on the Exchange in the same series, or (iii) upon the receipt of a non-marketable limit order in the same series on the same side of the market as the Agency Order that would cause the price of the Crossing Transaction to be outside of the best bid or offer on the Exchange.

(d) Execution. At the end of the exposure period the Agency Order will be executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, and the Counter-Side Order. The Agency Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

(1) At a given price, "Priority Customer Interest" (Priority Customer Orders and Improvement Orders from Priority Customers) is executed in full before "Professional Interest" (Professional Orders, Improvement Orders from non-Priority Customers and Market Maker quotes).

(2) After Priority Customer Interest at a given price, Professional Interest will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

(3) In the case where the Counter-Side Order is at the same price as Professional Interest in (d)(2), the Counter-Side order will be allocated the greater of one (1) contract or forty percent (40%) of the initial size of the Agency Order before Professional Interest is executed. Upon entry of Counter-Side orders, Members can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the Counter-Side order will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side order shall be allocated the greater of one contract or forty percent (40%) of the original size of the Agency Order, but only after Priority Customer Interest at such price point are executed in full. Thereafter, all Professional Interest at the price point will participate in the execution of

the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Interest. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(4) When a market order or marketable limit order on the opposite side of the market from the Agency Order ends the exposure period, it will participate in the execution of the Agency Order at the price that is mid-way between the best counter-side interest and the NBBO, so that both the market or marketable limit order and the Agency Order receive price improvement. Transactions will be rounded, when necessary, to the \$.01 increment that favors the Agency Order.

(5) If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated without execution.

**(e) Complex Price Improvement Mechanism.** Electronic Access Members may use the Price Improvement Mechanism according to Rule 723 to execute Complex Orders at a net price. The Complex Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate a Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a Complex Order it represents as agent (a "Crossing Transaction").

(1) Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

(2) Complex Orders must be entered into the Complex Price Improvement Mechanism at a price that is better than the best net price (i) available on the Complex Order Book on both sides of the market; and (ii) achievable from the best ISE bids and offers for the individual legs on both sides of the market (an "improved net price"). Complex Orders will be rejected unless they are entered at an improved net price.

(3) A Complex Order entered into the Complex Price Improvement Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Price Improvement Mechanism, such auction will be automatically terminated without an execution.

(4) Exposure Period. Upon entry of a Complex Order into the Complex Price Improvement Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent to Members.

(i) The Exchange will designate via Options Trader Alert a time of no less than 100 milliseconds and no more than 1 second for Members to indicate the size and net price at which they want to participate in the execution of the Agency Complex Order ("Improvement Complex Orders"). Improvement Complex Orders may be entered by all Members for their own account or for the account of a Public Customer. Improvement Complex Orders are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order. Improvement Complex Orders must be entered in the increments provided in Rule 722(c)(1) at the same price as the Crossing Transaction or at a price that is at least one cent better for the Agency Complex Order.

(ii) During the exposure period, Improvement Complex Orders may not be canceled, but may be modified to (1) increase the size at the same price, or (2) improve the price of the Improvement Complex Order for any size.

(iii) During the exposure period, responses (including the Counter-Side Order, Improvement Complex Orders, and any changes to either) submitted by Members shall not be visible to other auction participants.

(iv) The exposure period will automatically terminate (A) at the end of the time period designated by the Exchange pursuant to subparagraph (4)(i) above, (B) upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs, or (C) upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the Agency Complex Order that would cause the execution of the Agency Complex Order to be outside of the best bid or offer on the Complex Order Book.

(v) Pursuant to Supplementary Material .04 to Rule 723, only one Complex Price Improvement Mechanism may be ongoing at any given time in a given complex strategy. However, a price improvement auction may be ongoing concurrently in series of individual legs of a complex strategy.

(vi) A Complex Price Improvement Mechanism in a complex strategy may be ongoing at the same time as a Price Improvement Auction pursuant to Rule 723 or during an exposure period pursuant to Supplementary Material .02 to Rule 1901 in a component leg(s) of such Complex Order. If a Complex Price Improvement Mechanism is early terminated pursuant to paragraph (iv) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the subject of a concurrent ongoing Price Improvement Auction pursuant to Rule 723 or an exposure period pursuant to Supplementary Material .02 to Rule 1901, then the concurrent Complex Price Improvement Mechanism and component leg auction(s) are processed in the following sequence: (1) the Complex Price Improvement Mechanism is early terminated; (2) the component leg auction(s) are early terminated and processed; and (3) legging of residual

incoming Complex Order interest occurs, except with respect to Stock Option Orders and Stock Complex Orders.

**(5) Execution.** At the end of the exposure period the Agency Complex Order will be executed in full at the best prices available, taking into consideration Complex Orders in the Complex Order Book, Improvement Complex Orders, the Counter-Side Order, and, for Complex Options Orders, the ISE best bids and offers on the individual legs. The Agency Complex Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

**(i)** At a given net price, Priority Customer interest on the Complex Order Book (i.e., Priority Customer Complex Orders and Improvement Complex Orders) is executed in full before Professional interest (i.e., Professional Complex Orders and Improvement Complex Orders) on the Complex Order Book.

**(ii)** After Priority Customer interest on the Complex Order Book at a given net price, Professional interest on the Complex Order Book will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

**(iii)** In the case where the Counter-Side Complex Order is at the same net price as Professional interest on the Complex Order Book in (ii) above, the Counter-Side Complex Order will be allocated the greater of one (1) contract or forty percent (40%) (or such lower percentage requested by the Member) of the initial size of the Agency Complex Order before other Professional interest on the Complex Order Book are executed. Upon entry of Counter-Side Complex Orders, Members can elect to automatically match the price and size of Complex Orders, Improvement Complex Orders received on the Complex Order Book during the exposure period up to a specified limit net price or without specifying a limit net price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to Members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a Member elects to auto-match, the Counter-Side Complex Order will be allocated its full size at each price point, or at each price point within its limit net price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side Complex Order shall be allocated the greater of one contract or forty percent (40%) (or such lower percentage requested by the Member) of the original size of the Agency Complex Order, but only after Priority Customer Complex Orders and Improvement Complex Orders at such price point are executed in full. Thereafter, all Professional Complex Orders and Improvement Complex Orders at the price point will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Complex Order or Improvement Complex Order on the Complex Order Book.



(iv) When a marketable Complex Order on the opposite side of the Agency Complex Order ends the exposure period, it will participate in the execution of the Agency Complex Order at the price that is mid-way between the best counter-side interest and the same side best bid or offer on the Complex Order Book or net price from ISE best bid or offer on individual legs, whichever is better, so that both the marketable Complex Order and the Agency Complex Order receive price improvement.

(v) With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Price Improvement Mechanism, the priority rules applicable to the execution of Complex Orders contained in Rule 722(c)(2) will continue to be applicable and may prevent the execution of a Complex Order entered into the Complex Price Improvement Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Improvement Complex Orders on the Complex Order Book and, for Complex Options Orders, the ISE best bids and offers on the individual legs, the Agency Complex Order will be executed against such interest.

***Supplementary Material to Rule 723***

.01 It shall be considered conduct inconsistent with just and equitable principles of trade for any Member to enter orders, quotes, Agency Orders, Counter-Side Orders or Improvement Orders for the purpose of disrupting or manipulating the Price Improvement Mechanism. Such conduct includes, but is not limited to, engaging in a pattern of conduct where the Member submitting the Agency Order into the PIM breaks-up the Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Member would have otherwise received in accordance with the allocation procedures contained in paragraph (d) above.

.02 The Price Improvement Mechanism may only be used to execute bona fide Crossing Transactions.

.03 There will be no minimum size requirements for orders to be eligible for the Price Improvement Mechanism.

.04 Only one PIM may be ongoing at any given time in a series. PIMs will not queue or overlap in any manner.

.05 Pursuant to Rule 723(c)(2), Electronic Access Members may enter Improvement Orders for the account of Public Customers.

.06 Any solicited Counter-Side Orders submitted by an Electronic Access Member to trade against Agency Orders may not be for the account of a Nasdaq ISE market maker assigned to the options class.

.07 Counter-Side Orders and Improvement Orders entered into the Price Improvement Mechanism only will execute against the Agency Order, and any unexecuted interest will be automatically cancelled.

.08 PIM ISO Order. A PIM ISO order (PIM ISO) is the transmission of two orders for crossing pursuant to Rule 723 without regard for better priced Protected Bids or Protected Offers (as defined in Rule 1900) because the Member transmitting the PIM ISO to the Exchange has, simultaneously with the routing of the PIM ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or Protected Offer that is superior to the starting PIM auction price and has swept all interest in the Exchange's book priced better than the proposed auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIM order.

#### **Rule 724. Complex Order Risk Protections**

The following are Complex Order risk protections on ISE:

**(a) Price limits for Complex Orders.** As provided in Rule 722(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO for the options series or any stock component, as applicable.

**(1)** The System will reject orders for a complex strategy where all legs are to buy if entered at a price that is less than the minimum net price, which is calculated as the sum of the ratio on each leg of the complex strategy multiplied by the minimum increment applicable to that leg pursuant to Rule 722(c)(1).

**(b) Strategy Protections.** The following protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and will not apply to Customer Cross Orders pursuant to Rule 721(a).

**(1) Vertical Spread Protection.** The Vertical Spread Protection will apply to a vertical spread. A vertical spread is an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price).

**(A)** The System will reject a Vertical Spread order when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is less than zero (minus a pre-set value) when entered as a Market

Order to sell. The Exchange will set a pre-set value not to exceed \$1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

**(B)** The System will reject a Vertical Spread order when entered with a net price greater than the value of the higher strike price minus the lower strike price (plus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a Market Order to buy. The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed \$1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

**(2) Calendar Spread Protection.** The Calendar Spread Protection will apply to a Calendar Spread. A calendar spread is an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price.

**(A)** The System will reject a Calendar Spread order when entered with a net price of less than zero (minus a preset value), and will prevent the execution of a Calendar Spread order at a price that is less than zero (minus a pre-set value) when entered as a Market Complex Order to sell. The Exchange will set a pre-set value not to exceed \$1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

**(3) Butterfly Spread Protection.** The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

**(A)** A Butterfly Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a net price inside the Butterfly Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

**(i)** The Initial Maximum Value is the distance between the strike price of the leg with the mid-point strike and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

**(4) Box Spread Protection.** The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

**(A)** A Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

**(c) Other Price Protections which apply to Complex Orders.**

**(1) Limit Order Price Protection.** There is a limit on the amount by which the net price of an incoming Limit Complex Order to buy may exceed the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg, and by which the net price of an incoming Limit Complex Order to sell may be below the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg. Limit Complex Orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for Limit Complex Orders to buy (sell) as the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg plus (minus) the greater of: (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg not to exceed 10%.

**(2) Size Limitation.** There is a limit on the number of contracts (and shares in the case of a Stock-Option Strategy or Stock-Complex Strategy) any single leg of an incoming Complex Order may specify. Orders that exceed the maximum number of contracts (or shares) are rejected. The maximum number of contracts (or shares), which shall not be less than 10,000 (or 100,000 shares), is established by the Exchange from time-to-time.

**(3) Price Level Protection.** There is a limit on the number of price levels at which an incoming Complex Order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex Orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be from one (1) to ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.

## **8. Market Makers**

### **Rule 800. Registration of Market Makers**

**(a)** A market maker is a Member with Designated Trading Representatives registered pursuant to Rule 801. Market makers are registered with the Exchange for the purpose of making transactions as dealer-specialist in accordance with the provisions of this Chapter. Registered market makers are designated as specialists on the Exchange for all purposes under the Exchange Act and the rules and regulations thereunder.

**(b)** To register as a Competitive or Primary Market Maker, a Member shall file an application in writing on such forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's market making ability and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Competitive or Primary Market Maker.

**(c)** The registration of any Member as a Competitive or Primary Market Maker may be suspended or terminated by the Exchange upon a determination that such Member has failed to properly perform as a market maker.

### **Rule 801. Designated Trading Representatives**

**(a)** Market maker quotations and orders may be submitted to the Exchange's System only by Designated Trading Representatives ("DTRs"). A DTR is permitted to enter quotes and orders only for the account of the market maker with which he is associated.

**(b) *Registration of Designated Trading Representatives.*** The Exchange may, upon receiving an application in writing from a market maker on a form prescribed by the Exchange, approve a person as a DTR.

**(1)** DTRs may be:

- (i) individual Members registered with the Exchange as market makers, or
  - (ii) officers, partners, employees or associated persons of Members that are registered with the Exchange as market makers.
- (2) The Exchange may require a market maker to provide additional information the Exchange considers necessary to establish whether a person should be approved.
- (3) A person may be conditionally approved as a DTR subject to any conditions the Chief Regulatory Officer considers appropriate in the interests of maintaining a fair and orderly market.

*(c) Suspension or Withdrawal of Registration.*

(1) The Exchange may suspend or withdraw the registration previously given to a person to be a DTR if the Exchange determines that:

- (i) the person has caused the market maker to fail to comply with the Rules of the Exchange;
- (ii) the person is not properly performing the responsibilities of a DTR;
- (iii) the person has failed to meet the conditions set forth under paragraph (b) above; or
- (iv) the Exchange believes it is in the best interest of fair and orderly markets.

(2) If the Exchange suspends the registration of a person as a DTR, the market maker must not allow the person to submit quotes and orders into the Exchange's System.

(3) The registration of a DTR will be withdrawn upon the written request of the Member for which the DTR is registered. Such written request shall be submitted on the form prescribed by the Exchange.

**Rule 802. Appointment of Market Makers**

(a) In the manner prescribed by the Exchange, a market maker may seek appointment to one or more options classes traded on the Exchange. The Exchange or a committee designated by the Board shall appoint classes of options contracts traded on the Exchange to market makers taking into consideration: (i) the financial resources available to the market maker, (ii) the market maker's experience and expertise in market making or options trading, and (iii) the maintenance and enhancement of competition among market makers in each class of options contracts to which they are appointed. The Exchange or designated committee shall make appointments in the best interest of the Exchange to provide competitive markets. No appointment of a market maker shall be without the market maker's consent to such appointment, provided that refusal to accept an appointment may be deemed sufficient cause for termination or suspension of a market maker's registration.

**(b)** Appointments to Primary Market Makers. A Primary Market Maker shall be appointed to each options class traded on the Exchange.

**(1)** A Primary Market Maker seeking appointment to options on equity indexes, foreign currency indexes, foreign currency options and Fund Shares (collectively " Index-Based Products") shall provide, at the discretion of the Exchange, and upon its request, specific performance commitments, which shall include, at a minimum, commitments regarding (i) the average quotation size it will disseminate in the Index-Based Product, and (ii) the maximum quotation spread it will disseminate in such product at least ninety percent of the time.

**(2)** So long as a Primary Market Maker fulfills its obligations as a Primary Market Maker under these Rules, the Exchange will not reallocate the options classes to which such Primary Market Maker is appointed pursuant to this Rule, unless otherwise requested by the Primary Market Maker. The foregoing will not limit or affect the Exchange's responsibility under Rule 802(d) to reallocate any options classes in the interests of a fair and orderly market.

**(c)** Appointments to Competitive Market Makers. Competitive market makers may request appointments to options classes traded on the Exchange, subject to the trading licensing requirements of Rule 2013 with respect to index options and Rule 2213 with respect to foreign currency options.

**(1)** On a quarterly basis, the Exchange shall assign points to each options class equal to its percentage of overall industry volume (not including exclusively traded index options), rounded down to the nearest one hundredth of a percentage with a maximum of 15 points. New listings will be assigned a point value of zero for the remainder of the quarter in which it was listed.

**(2)** A Competitive Market Maker may seek appointments to options classes that total: (A) 20 points for the first CMM Right it owns or leases; and (B) 10 points for the second and each subsequent CMM Right it owns or leases.

**(3)** A Competitive Market Maker may request changes to its appointments at any time upon advance notification to the Exchange in a form and manner prescribed by the Exchange.

**(d)** The Exchange may suspend or terminate any appointment of a market maker under this Rule and may make additional appointments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action. In the case of an Index-Based Product, during the term of that appointment, the Exchange may also base a decision to suspend or terminate a Primary Market Maker's appointment on the failure of the Primary Market Maker to meet the terms of its commitments under paragraph (b)(1) above.

(e) **Market Maker Performance.** In making appointments to market makers, the Exchange may evaluate the performance of market makers relating to, among other things, quality of markets, competition among market makers, observance of ethical standards, and administrative factors. The Exchange may consider any relevant information, including but not limited to the results of a market maker evaluation questionnaire, trading data, a market maker's regulatory history and such other factors and data as may be pertinent in the circumstances. Moreover, failure by a market maker to meet minimum performance standards may result in, among other things: (1) suspension, termination or restriction of an appointment to one or more of the options classes appointed to the market maker; (2) restriction of appointments to additional options classes; or (3) suspension, termination, or restriction of the market makers registration.

*Supplementary Material to Rule 802*

.01 **Index-Based Options.** Pursuant to paragraph (b)(1) of Rule 802, a Primary Market Maker shall specify the average size and maximum quotation spread to which it will commit on a quarterly basis for four successive calendar quarters. The Primary Market Maker may specify differing size and quotation commitments for different series of an options class, such as by committing to a larger size and narrower quotations for the at-the-money series or series nearer to expiration. A Primary Market Maker also may, but is not required to, provide commitments regarding marketing or other support with respect to the Index-Based Product. In addition, a Primary Market Maker may, but is not required to, provide information regarding order flow arrangements with order flow providers. When an Index-Based Product is allocated to a Primary Market Maker, that Primary Market Maker's size and spread quotations for the fourth quarter following listing shall remain in effect thereafter on a quarter-to-quarter basis unless the Primary Market Maker has requested, and the Exchange or designated committee has approved, a change in such commitments. Any other commitments that a Primary Market Maker has made also shall remain in effect until modified by the Exchange or designated committee upon the request of the Primary Market Maker.

.02 A Member that is approved to act in the capacity of a Competitive Market Maker with respect to one or more CMM Rights may voluntarily be appointed to act as an "Alternative Primary Market Maker," so long as the Exchange has determined that such Member has the appropriate systems and procedures in place to undertake the responsibilities of a Primary Market Maker.

(a) The Exchange may appoint an Alternative Primary Market Maker to an options class only in the event that no Primary Market Makers seek allocation of the security.

(b) If no Primary Market Makers seek allocation of an options class, all eligible Competitive Market Makers will be given notice and an opportunity to seek allocation of the security as an Alternative Primary Market Maker. Such allocations will be made by the Allocation Committee according to the guidelines contained in Rule 802.



(c) An Alternative Primary Market Maker shall have all of the responsibilities and privileges of a Primary Market Maker under the Rules with respect to all appointed options classes.

(d) If an Alternative Primary Market Maker ceases trading of an options class, the class will be reallocated by the Exchange to a Primary Market Maker or another Alternative Primary Market Maker, as appropriate.

.03 There is no restriction on a Competitive Market Maker seeking appointment to options classes in which it or an affiliated market-maker holds a Competitive Market Maker or Primary Market Maker appointment, provided that such Member has sufficient Competitive Market Maker points for each such appointment.

### **Rule 803. Obligations of Market Makers**

(a) *General.* Transactions of a market maker should 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 a course of dealings. Ordinarily, market makers are expected to:

(1) Refrain from purchasing a call option or a put option at a price more than \$0.25 below parity, although a larger amount may be appropriate considering the particular market conditions. In the case of calls, parity is measured by the bid in the underlying security, and in the case of puts, parity is measured by the offer in the underlying security. The \$0.25 amount above may be increased, or the provisions of this Rule may be waived, by the Exchange on a series-by-series basis.

(b) *Appointment.* With respect to each options class to which a market maker is appointed under Rule 802, the market maker has a continuous obligation 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 options contract, or a temporary distortion of the price relationships between options contracts of the same class. Without limiting the foregoing, a market maker is expected to perform the following activities in the course of maintaining a fair and orderly market:

(1) To compete with other market makers to improve the market in all series of options classes to which the market maker is appointed.

(2) To make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange's System in all series of options classes to which the market maker is appointed.

(3) To update market quotations in response to changed market conditions in all series of options classes to which the market maker is appointed.

(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options.

(i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security.

(ii) The Exchange or its authorized agent may calculate bids and asks for various indices for the sole purpose of determining permissible bid/ask differentials on options on these indices. These values will be calculated by determining the weighted average of the bids and asks for the components of the corresponding index. These bids and asks will be disseminated by the Exchange at least every fifteen (15) seconds during the trading day solely for the purpose of determining the permissible bid/ask differential that market-makers may quote on an in-the-money option on the indices. For in-the-money series in index options where the calculated bid/ask differential is wider than the applicable differential set out in subparagraph (b)(4) of this Rule, the bid/ask differential in the index options series may be as wide as the calculated bid/ask differential in the underlying index. The Exchange will not make a market in the basket of stock comprising the indices and is not guaranteeing the accuracy or the availability of the bid/ask values.

(c) Reserved.

(d) Classes of Options To Which Not Appointed. With respect to classes of options to which a market maker is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (b) above with respect to those classes of options to which it is appointed. Market makers should not:

(1) Individually or as a group, intentionally or unintentionally, dominate the market in options contracts of a particular class, or

(2) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

*Supplementary Material to Rule 803*

.01 A Primary Market Maker must act with due diligence in handling orders of Public Customers and must accord priority to such orders addressed pursuant to paragraph (c) of this Rule over the Primary Market Maker's principal orders.

.02 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 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 pursuant to the standards established in paragraph (a) of this rule and require participation by such designated Members 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 that are designated for mandatory testing, and participation of such Members is a condition of membership.

#### **Rule 804. Market Maker Quotations**

(a) *Options Classes.* A quotation only may be entered by a market maker, and only in the options classes to which the market maker is appointed under Rule 802.

(b) *Price and Size Associated with Quotes.* A market maker's bid and offer for a series of options contracts shall state a price accompanied by the number of contracts at that price the market maker is willing to buy or sell upon receipt of an order or upon interaction with a quotation entered by another market maker on the Exchange.

(1) Price. The price of market maker quotes shall be in the minimum trading increments applicable to the security under Rule 710.

(2) Size. Unless the Exchange has declared a fast market pursuant to Rule 704, the initial size of a market maker's opening quote must be for the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract.

(c) *Two-Sided Quotes.* A market maker that enters a bid (offer) on the Exchange must enter an offer (bid) within the spread allowable under Rule 803(b)(4).

(d) *Firm Quotes.*

(1) Market maker bids and offers are firm for orders and Exchange market maker quotations both under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602 of Reg NMS") for the number of contracts specified according to the requirements of paragraph (b) above. Market maker bids and offers are not firm under this Rule and Rule 602 of Reg NMS if:

(i) a system malfunction or other circumstance impairs the Exchange's ability to disseminate or update market quotes in a timely and accurate manner;

(ii) the level of trading activities or the existence of unusual market conditions is such that the Exchange 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 the Exchange, and as a result, the market in the option is declared to be "fast" pursuant to Rule 704;

(iii) during trading rotations; or

(iv) any of the circumstances provided in paragraph (c)(3) of Rule 602 of Reg NMS exist.

(2) Notwithstanding Paragraph (1) above, if a market maker's bid (offer) can trade with the offer (bid) of another market maker, the Exchange shall have the authority to implement a delay so that no execution shall occur between such quotations for a period of no more than one second. During such period, the System will update quotations that may be received; provided however, that during such period all quotations shall otherwise remain firm and the System shall automatically execute all incoming orders against such quotations.

(e) *Intra-day Quotes.* A market maker must enter bids and offers for the options to which it is appointed, 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. A Member will be required to meet each market making obligation separately. A Competitive Market Maker who is also the Primary Market Maker will be held to the Primary Market Maker obligations in the options series in which the Primary Market Maker is assigned and will be held to Competitive Market Maker obligations in all other options series where assigned. A Competitive Market Maker who receives a Preferred Order, as described in Supplementary Material .03 to Rule 713, ("Preferred CMM") shall be held to the standard of a Preferred CMM in the options series of any options class in which it receives the Preferred Order.

(1) On any given day, a Competitive Market Maker is not required to enter quotations in the options classes to which it is appointed. A Competitive Market Maker may initiate quoting in options classes to which it is appointed intra-day. If a Competitive Market Maker initiates quoting in an options class, the Competitive Market Maker, associated with the same Member, is collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Member's assigned options class is open for trading. Notwithstanding the foregoing, a Competitive Market Maker shall not be required to make two-sided markets pursuant to this Rule 804(e)(1) in any Quarterly Options Series, any adjusted options series, and any option series with an expiration of nine months or greater for options on equities and exchange-traded funds ("ETFs") or with an expiration of twelve months or greater for index options. Competitive Market Makers may choose to quote such series in addition to regular series in the options class, but such quotations will not be considered when determining whether a Competitive Market Maker has met the obligation contained in this paragraph (e)(1).

(i) An adjusted options series is an options series wherein, as a result of a corporate action by the issuer of the underlying security, 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").

(ii) A Competitive Market Maker may be called upon by an Exchange official designated by the Board to submit a single quote or maintain intra-day quotes in one or more of the series of an options class to which the Competitive Market Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of fair and orderly markets.

(2) Primary Market Makers, associated with the same Member, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Member's assigned options class is open for trading. Primary Market Makers shall be required to make two-sided markets pursuant to this rule in any Quarterly Options Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of twelve months or greater for index options.

(3) Preferred CMMs, associated with the same Member, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Member's assigned options class is open for trading. A Member shall be considered preferenced in an assigned options class once the Member receives a Preferred Order in any option class in which they are assigned and shall be considered preferenced for that day in all series for that option class in which it received the Preferred Order. Notwithstanding the foregoing, a Preferred CMM shall not be required to make two-sided markets pursuant to this Rule 804(e)(3) in any Quarterly Options Series, any Adjusted Options Series, and any options series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of twelve months or greater for index options. Preferred CMMs may choose to quote such series in addition to regular series in the options class, but such quotations will not be considered when determining whether a Preferred CMM has met the obligation contained in this paragraph (e)(3). A Preferred CMM may be preferenced in such series and receive enhanced allocations pursuant to Nasdaq ISE Rule 713, Supplementary Material .03, only if it complies with the heightened 90% quoting requirement contained in this paragraph (e)(3).

(4) Specifically, the Exchange will calculate subparagraphs (1) - (3) above by (i) taking the total number of seconds the Member disseminates quotes in each assigned options series, excluding, for Competitive Market Makers and Preferred CMMs, Quarterly Options Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of twelve months or greater for index options; and (ii) dividing that time by the eligible total number of seconds each assigned option series in the options class 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 Member.

(5) ISE Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of Member compliance with this rule, the Exchange will determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a Member of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Member for failing to meet the quoting obligation each trading day.

(6) If a technical failure or limitation of a System of the Exchange prevents a market maker from maintaining, or prevents a Member from communicating to the Exchange, timely and accurate quotes, the Member shall promptly notify the Exchange and the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (e) with respect to the affected quotes.

(f) *Temporary Withdrawal of Quotations by Primary Market Makers.* A Primary Market Maker may apply to the Exchange to withdraw temporarily from its Primary Market Maker status in an options class. The Primary Market Maker must base its request on demonstrated legal or regulatory requirements that necessitate its temporary withdrawal, or provide the Exchange an opinion of counsel certifying that such legal or regulatory basis exists. The Exchange will act promptly on such a request, and, if the request is granted, the Exchange will temporarily reassign the options class to another Primary Market Maker.

(1) The Exchange Review Council shall have jurisdiction over proceedings brought by Primary Market Makers seeking review of the denial of an excused withdrawal pursuant to this Rule or the conditions imposed on their reentry.

(g) Reserved.

(h) In order to control the number of quotations the Exchange disseminates, the Exchange shall utilize a mechanism so that newly-received quotations and other changes to the Exchange's best bid and offer are not disseminated for a period of up to, but not more than one second.

#### **Rule 805. Market Maker Orders**

(a) *Options Classes to Which Appointed.* Market makers may enter all order types defined in Rule 715 in the options classes to which they are appointed under Rule 802, except Stopped Orders, Reserve Orders and Customer Cross Orders. Competitive Market Makers shall comply with the provisions of Rule 804(e)(1) upon the entry of such orders if they were not previously quoting in the series.

(b) *Options Classes Other Than Those to Which Appointed.*

(1) A market maker may enter all order types permitted to be entered by non-customer participants under the Rules to buy or sell options in classes of options listed on the Exchange to which the market maker is not appointed under Rule 802, except for Reserve Orders, provided that:

(i) the spread between a limit order to buy and a limit order to sell the same options contract complies with the parameters contained in Rule 803(b)(4); and

(ii) the market maker does not enter orders in options classes to which it is otherwise appointed, either as a Competitive or Primary Market Maker.

(2) Competitive Market Makers. The total number of contracts executed during a quarter by a Competitive Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded by such Competitive Market Maker in classes to which it is appointed and with respect to which it was quoting pursuant to Rule 804(e)(1).

(3) Primary Market Makers. The total number of contracts executed during a quarter by a Primary Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded per each Primary Market Maker Membership.

#### **Rule 806. Trade Reporting and Comparison**

The details of each trade executed on the Exchange are automatically reported at the time of execution. Members need not separately report their transactions for trade comparison purposes.

#### **Rule 807. Securities Accounts and Orders of Market Makers**

(a) *Identification of Accounts.* A Primary Market Maker in the Fund Shares, as defined in Rule 502(h), is obligated to conduct all trading in the Fund Shares in account(s) that have been reported to the Exchange. In addition, in a manner prescribed by the Exchange, each market maker shall file with the Exchange and keep current a list identifying all accounts for stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and related securities trading in which the market maker may, directly or indirectly, engage in trading activities or over which it exercises investment direction. No market maker shall engage in stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity or any other derivatives based on such currency 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 the request of the Exchange and in the prescribed form, report to the Exchange every order entered by the market maker for

the purchase or sale of (i) a security underlying options traded on the Exchange, 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 a Member and unless such account is reported to and not disapproved by the Exchange. Such reports in a form prescribed by the Exchange shall be filed with the Exchange before any transaction is effected on the Exchange for such joint account. A participant in a joint account must:

- (1) Be either a market maker or a Clearing Member that carries the joint account.
- (2) File and keep current a completed application on such form as is prescribed by the Exchange.
- (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 appointed to the same options classes to which the joint account holder is also appointed as a market maker.

#### **Rule 808. Letters of Guarantee**

(a) *Required of Each Market Maker.* No market maker shall make any transactions on the Exchange unless a Letter of Guarantee has been issued for such Member by a Clearing Member and filed with the Exchange, 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 Member accepts financial responsibilities for all Exchange Transactions made by the guaranteed Member.

(c) *Revocation of Letter of Guarantee.* A Letter of Guarantee filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange. A revocation shall in no way relieve a Clearing Member of responsibility for transactions guaranteed prior to the effective date of such revocation.

#### **Rule 809. Financial Requirements for Market Makers**

(a) *Primary Market Makers.* Every Primary Market Maker shall maintain net liquidating equity of not less than \$3,250,000 plus \$25,000 excess equity for each underlying security upon which appointed options are open for trading in excess of the initial ten (10) underlying securities.



**(b) Competitive Market Makers.** Every Competitive Market Maker shall maintain net liquidating equity of not less than \$1,000,000.

**(c)** Each market maker that makes an arrangement to finance his transactions as a market maker must identify to the Exchange the source of the financing and its terms. The Exchange must be informed immediately of the intention of any party to terminate or change any such arrangement.

*Supplementary Material to Rule 809*

.01 For purposes of Rule 809, the term "net liquidating equity" means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

**Rule 810. Reserved.**

**Rule 811. Reserved.**

**9. Reserved**

**Reserved**

Reserved

**10. Closing Transactions**

**Rule 1000. Contracts of Suspended Members**

**(a)** When a Member, other than a Clearing Member, is suspended pursuant to Chapter 90, all open short positions of the suspended Member 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 Members carrying such positions for the account of the suspended Member; provided that the Exchange 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 Members of the Exchange.

**(b)** No temporary waiver hereunder by the Exchange shall relieve the suspended Member of its obligations or of damages, nor shall it waive the close out requirements of any other Rules.

**(c)** When a Clearing Member is suspended pursuant to Chapter 90, the positions of such Clearing Member shall be closed out in accordance with the rules of the Clearing Corporation.

**Rule 1001. Failure to Pay Premium**

(a) When the Clearing Corporation shall reject an Exchange transaction because of the failure of the Clearing Member acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Member acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Member or to enter into a closing writing transaction in respect of the same options contract that was the subject of the rejected Exchange transaction for the account of the defaulting Clearing Member.

(b) Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. on the business day following the day the Exchange transaction was rejected by the Clearing Corporation.

## **11. Exercises and Deliveries**

### **Rule 1100. Exercise of Options Contracts**

(a) Subject to the restrictions set forth in Rule 413 (Exercise Limits) and to such restrictions as may be imposed pursuant to Rule 417 (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 Member in whose account such options contract is carried with the Clearing Corporation. Members 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 an option contract expiring on a day that is not a business day, on the last business day before their expiration ("expiring options"). Unless waived by 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. Members 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: (A) to not exercise an option that would be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure, or (B) to exercise an option that would not be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure.

**(i)** A Contrary Exercise Advice may be submitted to the Exchange by a Member by using the Exchange's Contrary Exercise Advice Form, the Clearing Corporation's ENCORE system, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a member 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" with the Exchange or resubmitted at any time up to the submission cut-off times specified below.

**(ii)** Deadline for CEA Submission for Customer Accounts. Members have until 7:30 Eastern Time to submit a Contrary Exercise Advice to the Exchange.

**(iii)** Deadline for CEA Submission for Non-Customer Accounts. Members have until 7:30 Eastern Time to submit a Contrary Exercise Advice to the Exchange if such Member employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Members are required to manually submit a Contrary Exercise Advice by 5:30 p.m. for non-customer accounts if such Members 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, Members 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 Members 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 Member that has accepted the responsibility to indicate final exercise decisions on behalf of another Member or non-member broker-dealer shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such Member may establish a processing cut-off time prior to the Exchange's exercise cut-off 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 Member 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, Members may make final exercise decisions after the exercise cut-off 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 Member 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 Member of a decision regarding exercise, or a Member'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 member 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 expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to the last business day before 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 Rule 1100(c). However, Members have until 7:30 Eastern Time to deliver a Contrary Exercise Advice or Advice Cancel to the Exchange for customer accounts and non-customer accounts where such Member employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, Members 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 Rule 1100(d).

**(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 (h)(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 quotes and/or deliver 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 (h)(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 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 Member to follow the procedures in this Rule 1100 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 Members 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. Members must also follow the procedures set forth below with respect to American-style cash-settled index options:

**(1)** For all contracts exercised by the Member or by any customer of the Member, an "exercise advice" must be delivered by the Member 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," should the Member or a customer of the Member determine not to exercise all or part of the advised contracts, the Member 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)** An Exchange official designated by the Board may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph (l) if unusual circumstances are present.

**(4)** No Member may prepare, time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the Member knew or had reason to know that the contracts had not yet been purchased.

**(5)** The failure of any Member 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 (i) on the business day prior to expiration in series expiring on a day other than a business day or (ii) 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:

**(i)** 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.

**(ii)** Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of their expiration, or, in the case of option contracts expiring of a day that is not a business day, on the last business day prior to their expiration.

**(iii)** 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 (such as by closing rotation), 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 (iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to Rule 417.

**(iv)** An Exchange official designated by the Board 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 Rule 1100*

.01 For purposes of this Rule 1100, 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 Member 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 Member 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.

**Rule 1101. Allocation of Exercise Notices**

(a) Each Member shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in such Member'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 Member 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 Member shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no Member 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 Member 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.

**Rule 1102. 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 Member 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 Member 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.

## **12. Margins**

### **Rule 1200. General Rule**

No Member may effect a transaction or carry an account for a customer, whether a Member or non-member of the Exchange, without proper and adequate margin in accordance with this Chapter 12 and Regulation T.

### **Rule 1201. Time Margin Must Be Obtained**

The amount of margin required by this Chapter shall be obtained as promptly as possible and in any event within a reasonable time.

### **Rule 1202. Margin Requirements**

(a) A Member must elect to be bound by the initial and maintenance margin requirements of either the Chicago Board of Options Exchange or the New York Stock Exchange as the same may be in effect from time to time.

(b) Such election shall be made in writing by a notice filed with the Exchange.

(c) Upon the filing of such election, a Member shall be bound to comply with the margin rules of the Chicago Board of Options Exchange or the New York Stock Exchange, as applicable, as though said rules were part of these Rules.

(d) The margin requirement for any foreign currency put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be calculated as follows:

(1) The Exchange will review the five day price movements comparing the base currency against the underlying currency over the most recent three-year period for each foreign currency pair underlying options traded on the Exchange and will set margin levels which would have covered the price changes over the review period at least 97.5% of the time ("confidence level").

(2) Subsequent reviews of five day price changes over the most recent three year period will be performed quarterly on the 15th of January, April, July and October of each year.



(3) If the results of subsequent reviews show that the confidence level for any currency pair has fallen below 97%, the Exchange will increase the margin requirement for that currency up to a 98% confidence level. If the results show a confidence level between 97% and 97.5%, the currency pair will be monitored monthly until the confidence level exceeds 97.5% for two consecutive months. If the results of a monthly review show that the confidence level has fallen below 97%, the margin requirement will be increased to a 98% confidence level. If the results of any review show that the confidence level has exceeded 98.5%, the margin level would be reduced to a level which would provide a 98% confidence level.

(4) The Exchange will also review each currency pair for large price movements outside the margin level ("extreme outlier test"). If the results of any review show a price movement, either positive or negative, of greater than two times the current margin level, the margin requirement for that currency pair will be increased to a confidence level of 99%.

(5) The Exchange may also conduct reviews of currency margins levels at any time that market conditions warrant.

(e) The margin requirement for any put or call option on a Foreign Currency Index, as defined in Nasdaq ISE Rule 2001(h), listed and traded on the Exchange and issued by a registered clearing corporation shall be identical to the highest margin required for a component foreign currency as determined in accordance with Rule 1202(d).

#### **Rule 1203. Meeting Margin Calls by Liquidation Prohibited**

(a) No Member shall permit a customer to make a practice of effecting transactions requiring initial or additional margin or full cash payment and then furnishing such margin or making such full cash payment by liquidation of the same or other commitments.

(b) The provisions of this Rule shall not apply to any account maintained for another broker or dealer in which are carried only the commitments of customers of such other broker or dealer, exclusive of the partners, officers and directors of such other broker or dealer, provided such other broker or dealer is a Member of the Exchange or has agreed in good faith with the Member carrying the account that it will maintain a record equivalent to that referred to in Rule 1205.

#### **Rule 1204. 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 Member from requiring margin in an amount greater than that specified.

(b) The Exchange may at any time impose higher margin requirements with respect to such positions when it deems such higher margin requirements to be advisable.

**Rule 1205. Margin Requirements Exception**

No margin is required for a call option written on an equity security when the account holder possesses a "long" position in a vested employee stock option which can be immediately exercised without restriction (not including the payment of money) to purchase an equal or greater quantity of the security underlying the short call provided that:

- (i) The vested employee stock option does not expire before the short call;
- (ii) The amount (if any) by which the exercise price of the vested employee stock option exceeds the exercise price of the short call option is held in or deposited in the account; and
- (iii) The account holder, broker-dealer and issuer of the vested employee stock option complete such account documentation and comply with such terms and conditions proscribed by the Exchange in such form, format and procedure as may be established by the Exchange from time to time, including without limitation execution of an agreement by account holder, broker-dealer and issuer that requires:
  - (A) Account holder to pledge the vested employee stock options to broker-dealer (including an agreement that in the event account holder exercises any of the pledged vested employee stock options during the term of a transaction, the account holder will be required to pledge to broker-dealer the shares issued upon exercise to replace the vested employee stock options that were pledged before exercise);
  - (B) Account holder to provide broker-dealer with an irrevocable power-of-attorney authorizing broker-dealer to exercise the vested employee stock options on the account holder's behalf;
  - (C) Issuer to promptly deliver the stock upon payment or receipt of the exercise notice from broker-dealer; and
  - (D) Issuer to waive any transfer restrictions that would preclude a pledge of the vested employee stock options to broker-dealer.

**13. Net Capital Requirements****Rule 1300. Minimum Requirements**

Each Member subject to Rule 15c3-1 under the Exchange Act shall comply with the capital requirements prescribed therein and with the additional requirements of this Chapter 13. Market makers must also comply with the minimum financial requirements contained in Rule 809.

**Rule 1301. "Early Warning" Notification Requirements**

Every Member subject to the reporting or notification requirements of Rule 17a-11 under the Exchange Act or the "early warning" reporting, business restriction or business reduction requirements of another national securities exchange, registered securities

association or registered securities clearing organization shall promptly notify the Exchange in writing and shall thereafter file with the Exchange such reports and financial statements as may be required by the Exchange.

**Rule 1302. Power of President to Impose Restrictions**

Whenever it shall appear to the President of the Exchange that a Member obligated to give notice to the Exchange under Rule 1301 is unable within a reasonable period to reduce the ratio of its aggregate indebtedness to net capital, or to increase its net capital, to a point where it is no longer subject to such notification obligations, or that such Member is engaging in any activity which casts doubt upon its continued compliance with the net capital requirements, the President may impose such conditions and restrictions upon the operations, business and expansion of such Member and may require the submission of, and adherence to, such plan or program for the correction of such situation as he determines to be necessary or appropriate for the protection of investors, other Members and the Exchange.

**Rule 1303. Joint Back Office Arrangements**

An arrangement may be established between two or more registered broker-dealers pursuant to Regulation T Section 220.7 to form a joint back office ("JBO") arrangement for carrying and clearing or carry accounts of participating broker-dealers. Members must provide written notification to their Designated Examining Authority prior to establishing a JBO arrangement.

(a) A carrying and clearing, or carry member must:

(1) maintain a minimum tentative net capital of \$25 million as computed pursuant to Rule 15c3-1 of the Exchange Act, except that a member whose primary business consists of the clearance of options market maker accounts, may carry JBO accounts provided that it maintains a minimum net capital of \$7 million as computed pursuant to Rule 15c3-1 of the Exchange Act. In addition, the member must include in its ratio of gross options market maker deductions to net capital required by the provisions of Rule 15c3-1 of the Exchange Act, gross deductions for JBO participant accounts. Clearance of option market maker accounts shall be deemed a broker-dealer's primary business if a minimum of 60% of the aggregate deductions in the above ratio are options market maker deductions. In the event that a carrying and clearing, or carrying member's tentative net capital, or net capital, respectively, has fallen below the above requirements, the member shall (i) promptly notify the Exchange in writing of such deficiency and (ii) take appropriate action to resolve such deficiency within three consecutive business days, or not permit any new transactions to be entered into pursuant to the JBO agreement;

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

(3) deduct from net capital haircut requirements pursuant to Rule 15c3-1 of the Exchange Act in excess of the equity maintained in the accounts of the participating broker-dealers.

(b) A participating broker-dealer must:

(1) be a registered broker-dealer subject to the SEC's net capital rule;

(2) maintain an ownership interest in the carrying/clearing member pursuant to Regulation T of the Federal Reserve Board Section 220.7; and

(3) maintain a minimum liquidating equity of \$1 million in the JBO arrangement exclusive of the ownership interest established in subparagraph (b)(2) above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit an amount sufficient to eliminate this deficiency within five (5) business days or be subject to the margin account requirements prescribed for customers in Regulation T, and the margin requirements pursuant to Exchange Rule 1202.

#### **14. Records, Reports and Audits**

##### **Rule 1400. Maintenance, Retention and Furnishing of Books, Records and Other Information**

(a) Each Member shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act and the rules and regulations thereunder.

(b) No Member shall refuse to make available to the Exchange 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 the Exchange.

##### *Supplementary Material to Rule 1400*

.01 In addition to the existing obligations under Exchange rules regarding the production of books and records, a Primary Market Maker in non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable non-U.S.-currency options, futures or options on futures on such currency, or any other derivatives on such currency, as may be requested by the Exchange.

.02 In addition to the existing obligations under Exchange rules regarding the production of books and records, a Primary Market Maker in commodity futures contracts, options on commodity futures contracts or any other derivatives based on such commodity, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable physical commodity, physical commodity options, commodity futures contracts, options on commodity futures contracts, or any other derivatives on such commodity, as may be requested by the Exchange.

##### **Rule 1401. Reports of Uncovered Short Positions**

(a) Upon request of the Exchange, each Member shall submit a report of the total uncovered short positions in each options contract of a class dealt in on the Exchange

showing (i) positions carried by such Member for its own account and (ii) positions carried by such Member for the accounts of customers; provided that the Members shall not report positions carried for the accounts of other Members where such other Members report the positions themselves.

(b) Such report shall be submitted not later than the second business day following the date the request is made.

#### **Rule 1402. Financial Reports**

Each Member shall submit to the Exchange answers to financial questionnaires, reports of income and expenses and additional financial information in the type, form, manner and time prescribed by the Exchange.

#### **Rule 1403. Audits**

(a) Each Member approved to do business with the public in accordance with Chapter 6 of the Rules and each registered market maker shall file a report of its financial condition as of the date, within each calendar year, prepared in accordance with the requirements of Rule 17a-5 and Form X-17A-5 under the Exchange Act and containing the information called for by that form.

(1) The report of each Member approved to do business with the public shall be certified by an independent public accountant, and on or before January 10 of each year, each such Member shall notify the Exchange of the name of the independent public accountant appointed for that year and the date as of which the report will be made.

(2) Such report of financial condition, together with answers to an Exchange financial questionnaire based upon the report, shall be filed with the Exchange no later than sixty (60) days after the date as of which the financial condition of the Member is reported, or such other period as the Exchange may individually require.

(b) A Member may file, in lieu of the report required in paragraph (a) of this Rule, a copy of any financial statement which it is or has been required to file with any other national securities exchange or national securities association of which he is a member, or with any agency of any State as a condition of doing business in securities therein, and which is acceptable to the Exchange as containing substantially the same information as Form X-17A-5.

(c) In addition to the annual report required of certain Members pursuant to paragraph (a) of this Rule, the Exchange may require any Member to cause an audit of its financial condition to be made by an independent public accountant in accordance with the audit requirements of Form X-17A-5 as of the date of an answer to a financial questionnaire, and to file a statement to the effect that such audit has been made and whether it is in accord with the answers to the questionnaire.

(1) Such statement shall be signed by two general partners in the case of a Member that is a partnership and by two executive officers in the case of a Member that is a corporation

or LLC and it shall be attested to by the independent public accountant who certified the audit.

(2) The original report of the audit signed by the independent public accountant shall be retained as part of the books and records of the Member.

**Rule 1404. Automated Submission of Trade Data**

A Member shall submit requested trade data elements, in such automated format as may be prescribed by the Exchange from time to time, in regard to a transaction(s) that is the subject of the particular request for information.

(a) If the transaction was a proprietary transaction effected or caused to be effected by the Member for any account in which such Member, or any approved person, partner, officer, director, or employee thereof, is directly or indirectly interested, the Member shall submit or cause to be submitted, any or all of the following information as requested by the Exchange:

- (1) Clearing house number or alpha symbol as used by the Member submitting the data;
  - (2) Clearing house number(s) or alpha symbol(s) as may be used from time to time, of the Member(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:
    - (i) the number of shares traded or held by accounts for which options data is submitted;
    - (ii) 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.
- (b) If the transaction was effected or caused to be effected by the Member for any customer account, such Member shall submit or cause to be submitted any or all the following information as requested by the Exchange:
- (1) Data elements (1) through (8) of paragraph (a) above;

(2) 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 Member broker-dealer customer, whether the broker-dealer was acting as a principal or agent on the transaction or transactions that are the subject of the Exchange's request.

(c) In addition to the above trade data elements, a Member shall submit such other information in such automated format as may be prescribed by the Exchange, as may from time to time be required.

(d) The Exchange 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 (a) and (b) above be submitted to the Exchange in an automated format.

#### **Rule 1405. Risk Analysis of Market Maker Accounts**

(a) Each Clearing Member that clears or guarantees the transactions of market makers pursuant to Rule 808, shall establish and maintain written procedures for assessing and monitoring the potential risks to the Member's capital over a specified range of possible market movements of positions maintained in such market maker accounts and such related accounts as the Exchange shall from time to time direct.

(1) Current procedures shall be filed and maintained with the Exchange.

(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 Member 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 an Exchange-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 the Exchange:

(1) The estimated loss to the Clearing Member 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 Member shall calculate volatility using a method approved by the Exchange, 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:

(i) projected loss per options class by account;

(ii) projected total loss per options class for all accounts; and

(iii) projected deficits per account and in aggregate.

(c) Upon direction by the Exchange, each affected Member shall provide to the Exchange such information as it may reasonably require with respect to the Member's risk analysis for any or all of its market maker accounts.

#### **Rule 1406. Regulatory Cooperation**

(a) The Exchange 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 SROs and foreign self-regulatory organizations, as well as associations and contract markets and the regulators of such markets.

(b) The Exchange may enter into one or more agreements with another SRO to provide regulatory services to the Exchange to assist the Exchange in discharging its obligations under Section 6 and Section 19(g) of the Exchange Act. Any action taken by another SRO, or its employees or authorized agents, acting on behalf of the Exchange pursuant to a regulatory services agreement shall be deemed to be an action taken by the Exchange; provided, however, that nothing in this provision shall affect the oversight of such other SRO by the SEC. Notwithstanding the fact that the Exchange may enter into one or more regulatory services agreements, the Exchange shall retain ultimate legal responsibility for, and control of, its self-regulatory responsibilities, and any such regulatory services agreement shall so provide.

(c) No Member, partner, officer, director or other person associated with a Member or other person or entity subject to the jurisdiction of the Exchange 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 requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange pursuant to paragraph (a) of this Rule, including but not limited to members and affiliates of the Intermarket Surveillance Group. The requirements of this paragraph (b) shall apply regardless whether the Exchange has itself initiated a formal investigation or disciplinary proceeding.

(d) Whenever information is requested by the Exchange pursuant to this Rule, the Member or person associated with a Member from whom the information is requested shall have the same rights and procedural protections in responding to such request as



such Member or person would have in the case of any other request for information initiated by the Exchange pursuant to Rule 8210.

**Rule 1407. Reserved**

**Rule 1408. Fingerprint-Based Background Checks of Exchange Employees and Independent Contractors and Other Service Providers**

(a) In order to enhance the physical security of the facilities, records, systems, data, and information of the Exchange, it shall be the policy of the Exchange to conduct a fingerprint-based criminal records check of (i) all Exchange employees, including temporary employees who have or are anticipated to have access to Exchange facilities for at least ten (10) days, and (ii) all independent contractors and other service providers who have access to Exchange facilities, records, systems, data or other information which places the security of the Exchange at risk. However, the Exchange may determine not to obtain fingerprints from, or to seek criminal history record information with respect to, any of the foregoing individuals, due to their restricted or supervised access to the Exchange's facilities, records, systems, data and other information.

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

(c) The Exchange 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 take adverse employment action with respect to an employee or to deny an independent contractor or other service provider access to the Exchange's facilities, records, systems, data or other information.

(d) Any employee who refuses to submit to fingerprinting shall be terminated following notice and being given three opportunities to submit. Any person who is given an offer of employment with the Exchange that is conditioned upon submitting to fingerprinting but refuses to do so will have the offer withdrawn. Any independent contractor or other service provider who refuses to submit to fingerprinting shall be denied access, or shall be given restricted or supervised access, to Exchange facilities, records, systems, data or other information.

**15. Reserved**

**Rule 1500. Reserved**

Reserved

**Rule 1501. Reserved**

Reserved

**Rule 1502. Reserved**

Reserved

**Rule 1503. Reserved**

Reserved

**Rule 1504. Reserved**

Reserved

**16. Disciplinary Jurisdiction and Minor Rule Violation Fines**

**Rule 1600. Disciplinary Jurisdiction**

(a) A Member or a person associated with a Member who is alleged to have violated or aided and abetted a violation of any provision of the Exchange Act, the rules and regulations promulgated thereunder, or any provision of the By-Laws or Rules of the Exchange or any interpretation thereof or resolution of the Board of the Exchange regulating the conduct of business on the Exchange, shall be subject to the disciplinary jurisdiction of the Exchange under this Chapter, and after notice and opportunity for a hearing may be appropriately disciplined by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, being suspended or barred from being associated with a Member or any other fitting sanction, in accordance with provisions of the Chapter.

(b) Persons associated with a Member may be charged with any violation committed by employees under his supervision or by the Member as though such violation were his own. A Member may be charged with any violation committed by its employees or other person who is associated with such Member, as though such violation were its own.

(c) Any Member or person associated with a Member shall continue to be subject to the disciplinary jurisdiction of the Exchange following such Member's termination or the person's termination of association with a Member with respect to matters that occurred prior to such termination; provided that written notice of the commencement of an inquiry into such matters is given by the Exchange to such former Member or former associated person within one (1) year of receipt by the Exchange, or such other exchange or association recognized for purposes of Rule 602, of the latest written notice of the termination of such person's status as a Member or person associated with a Member. The foregoing notice requirement does not apply to a person who at any time after a termination again subjects himself to the disciplinary jurisdiction of the Exchange by becoming a Member or a person associated with a Member.

**Rule 1601. Reserved**

Reserved

**Rule 1602. Reserved**

Reserved

**Rule 1603. Reserved**

Reserved

**Rule 1604. Reserved**

Reserved

**Rule 1605. Reserved**

Reserved

**Rule 1606. Reserved**

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**Rule 1607. Reserved**

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**Rule 1608. Reserved**

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**Rule 1609. Reserved**

Reserved

**Rule 1610. Reserved**

Reserved

**Rule 1611. Reserved**

Reserved

**Rule 1612. Reserved**

Reserved

**Rule 1613. Reserved**

Reserved

**Rule 1614. Imposition of Fines for Minor Rule Violations**

**(a) General.** In lieu of commencing a disciplinary proceeding, the Exchange may, subject to the requirements set forth herein, impose a fine, not to exceed \$5,000, on any Member, or person associated with or employed by a Member, with respect to any Rule violation listed in section (b) of this Rule. Any fine imposed pursuant to this Rule that (i) does not exceed \$2,500 and (ii) is not contested, shall be reported on a periodic basis, except as may otherwise be required by Rule 19d-1 under the Exchange Act or by any other regulatory authority. The Exchange is not required to impose a fine pursuant to this Rule with respect to the violation of any Rule included herein, and the Exchange may, whenever it determines that any violation is not minor in nature, proceed under the formal disciplinary process set forth in Chapter 90 of the Exchange's Rules, rather than under this Rule.

**(b) *Violations Subject to Fines.*** The following is a list of the rule violations subject to, and the applicable sanctions that may be imposed by the Exchange pursuant to Rule 9216:

**(1) Position Limits (Rule 412)**

<b>Number of Cumulative Violations Within Any Twenty-four Month Rolling Period*</b>	<b>Sanction (Imposed on Exchange Members or violations occurring in 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.

**(2) Focus Reports (Rule 1403).** Each Member shall file with the Exchange a report of financial condition on SEC Form X-17A-5 as required by Rule 17a-10 under the Exchange Act. Any Member who fails to file in a timely manner such report of financial condition pursuant to Exchange Act Rule 17a-10 shall be subject to the following fines:

<b>Calendar Days Late</b>	<b>Sanction</b>
1 to 30	\$200
31 to 60	\$400
61 to 90	\$800
Over 90	Formal Disciplinary Action

**(3) Requests for Trade Data (Rule 1404).** Any Member who fails to respond within ten (10) business days to a request by the Exchange for submission of trade data shall be subject to the following fines:

<b>Business Days Late</b>	<b>Sanction</b>
1 to 9	\$200
10 to 15	\$500
16 to 30	\$1,000
Over 30	Formal Disciplinary Action

Any Member who violates this Rule more than one (1) time in any calendar year shall be subject to the following fines, which fines shall be imposed in addition to any sanction imposed pursuant to the schedule above:

<b>Number of Violations Within One Calendar Year</b>	<b>Sanction</b>
2 <sup>nd</sup> Offense	\$500
3 <sup>rd</sup> Offense	\$1,000
4 <sup>th</sup> Offense	\$2,500
Subsequent Offenses	Formal Disciplinary Action

**(4) Order Entry (Rule 717).** Violations of Rule 717(d) and (e) regarding limitations on orders entered into the System by Electronic Access Members will be subject to the fines listed below.

<b>Number of Violations Within One Calendar Year</b>	<b>Sanction</b>
1 to 5	Letter of Caution
6 to 10	\$500
11 to 15	\$1000
16 to 20	\$2000
Over 20	Formal Disciplinary Action

**(5)(a) Pre-Opening Quotation Parameters (Rule 803).** Violations of Rule 803(b)(4) regarding pre-opening quote spread parameters for market maker quotations, as well as

violations of Rule 805(b)(1)(i) regarding orders entered by market makers, shall be subject to the fines listed below.

<b>Number of Violations Within a Twenty-Four Month Rolling Period*</b>	<b>Sanction</b>
First Offense	Letter of Caution
Second Offense	\$1,000
Third Offense	\$2,500
Fourth Offense	\$5,000
Fifth Offense	Formal Disciplinary Action

\* Violations occurring during a calendar month are aggregated and sanctioned as a single offense.

**(b) Post-Opening Quotation Parameters (Rule 803).** Violations of Rule 803(b)(4) regarding post-opening quote spread parameters for market maker quotations, as well as violations of Rule 805(b)(1)(i) regarding orders entered by market makers, shall be subject to the fines listed below. For purposes of this Rule, the spread parameters in Rule 803(b)(4) will not be violated upon a change in a bid (offer) if a market maker takes immediate action to adjust its offer (bid) to comply with the maximum allowable spread. Except in unusual market conditions, immediate shall mean within ten (10) seconds of a change in the market makers bid or offer.

<b>Number of Violations Within a Twenty-Four Month Rolling Period*</b>	<b>Sanction</b>
First Offense	Letter of Caution
Second Offense	\$1,000
Third Offense	\$2,500
Fourth Offense	\$5,000
Fifth Offense	Formal Disciplinary Action

\* Violations occurring during a calendar month are aggregated and sanctioned as a single offense.

(6) Execution of Orders in Appointed Options (Rule 805). Violations of Rule 805(b)(2) and (3) requiring market makers to execute in appointed options classes a minimum percentage of the total number of contracts executed during a quarter shall be subject to the following sanctions:

<b>Number of Violations Within Rolling Twelve Month Period</b>	<b>Sanction</b>
1 <sup>st</sup> Offense	Letter of Caution
2 <sup>nd</sup> Offense	\$500
3 <sup>rd</sup> Offense	\$1,000
4 <sup>th</sup> Offense	\$2,500
Subsequent Offenses	Formal Disciplinary Action

(7) Mandatory Systems Testing (Rule 419). Failure to conduct or participate in the testing of computer systems, or failure to provide required reports or maintain required documentation, shall be subject to the fines listed below.

<b>Violations Within One Calendar Year</b>	<b>Sanction</b>
First Violation	\$250
Second Violation	\$500
Third Violation	\$1000
Fourth Violation	\$2000
Fifth Violation or more	Formal Disciplinary Action

(8) Exercise of Options Contracts (Rule 1100). Any member who fails to submit to the Exchange in a timely manner pursuant to Rule 1100 or a Regulatory Information Circular issued pursuant to Rule 1100, "Advice Cancel", or exercise instruction relating to the exercise or non-exercise of a noncash-settled equity option shall be subject to the following fines:

<b>Number of Cumulative Violations Within Any Twenty-Four Month Rolling Period</b>	<b>Individual</b>	<b>Member Organization</b>
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1 <sup>st</sup> Offense	\$500	\$1,000
2 <sup>nd</sup> Offense	\$1,000	\$2,500
Subsequent Offenses	\$2,500	\$5,000

**(9) Failure to Accurately Report Position and Account Information (Rule 415)**

A fine shall be imposed upon a member who violates Rule 415. Such fines shall be imposed on the basis of the following schedule:

<b>Number of Violations Within Any Twenty-four Month Rolling Period*</b>	<b>Sanction (Imposed on Exchange Members or violations occurring in all other accounts)</b>
First Offense	\$500
Second Offense	\$1,000
Third Offense	\$2,500
Fourth and Each Subsequent Offense	\$5,000

**(10) Intra-day Quotes (Rule 804(e)).** A market maker must enter intra-day quotations for the options classes to which it is appointed. Failure to comply shall be subject to the fines listed below.

<b>Number of Violations (PMMs and/or CMMs) Within a Twenty-four Month Rolling Period*</b>	<b>Sanction</b>
First Offense	Letter of Caution
Second Offense	\$1,000
Third Offense	\$2,500
Fourth Offense	\$5,000
Fifth Offense	Formal Disciplinary Action

\* Violations occurring during a calendar month are aggregated and sanctioned as a single offense.

**Rule 1615. Reserved**



Reserved

**Rule 1616. Reserved**

Reserved

**17. Reserved**

**Rule 1700. Reserved**

Reserved

**Rule 1701. Reserved**

Reserved

**Rule 1702. Reserved**

Reserved

**Rule 1703. Reserved**

Reserved

**Rule 1704. Reserved**

Reserved

**Rule 1705. Reserved**

Reserved

**Rule 1706. Reserved**

Reserved

**18. Reserved**

**Rule 1800. Reserved**

Reserved

**19. Order Protection; Locked and Crossed Markets**

**Rule 1900. Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of this Chapter 19:

(a) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.

(b) "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.

**(c)** "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.

**(d)** "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-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.

**(e)** "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.

**(f)** "Customer" means an individual or organization that is not a Broker/Dealer.

**(g)** "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 is not a party to the Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

**(h)** "Intermarket Sweep Order ("ISO")" means a limit order for an options series that, simultaneously with the routing of the ISO, 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. A Member may submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate- Or-Cancel Order or an order that expires on the day it is entered.

**(i)** "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.

(j) "NBBO" means the national best bid and offer in an options series as calculated by an Eligible Exchange.

(k) "Non-Firm" means, with respect to Quotations, that members of a Eligible Exchange are relieved of their obligation to be firm for their Quotations pursuant to Rule 602 under the Exchange Act.

(l) "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.

(m) "Participant" means an Eligible Exchange that is a party to the Plan.

(n) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.

(o) "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.

(p) "Quotation" means a Bid or Offer.

(q) "Trade-Through" means a transaction in an option series at a price that is lower than a Protected Bid or higher than a Protected Offer.

#### **Rule 1901. Order Protection**

(a) Avoidance of Trade-Throughs. Except as provided in paragraph (b) below, Members shall not effect Trade-Throughs.

(b) Exceptions to Trade-Through Liability. The provisions of paragraph (a) 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 the Protected Quotations of an Eligible Exchange is made pursuant to this subparagraph, 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, or 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;
- (5) 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;
- (6) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;
- (7) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;
- (8) 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;
- (9) 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
- (10) 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.

***Supplementary Material to Rule 1901***

.01 All public customer ISOs entered by an Electronic Access Member on behalf of an Eligible Exchange shall be represented on the Exchange as Priority Customer Orders, as defined in Rule 100(49). There shall be no obligation on Electronic Access Members to determine whether the public customer for whom the Eligible Exchange is routing an ISO meets the definition of a Priority Customer.

02 When the automatic execution of an incoming order would result in an impermissible Trade Through, such order shall be exposed at the current NBBO to all Exchange Members for a time period established by the Exchange not to exceed one (1) second. During the exposure period, Exchange Members may enter responses up to the size of the order being exposed in the regular trading increment applicable to the option. If a trading halt is initiated during the exposure period, the exposure period will be terminated without execution.

(a) If at the end of the exposure period, the order is executable at the then-current NBBO and the Nasdaq ISE is not at the then-current NBBO, responses that equal or better the NBBO will be executed in price priority, and at the same price, allocated pro-rata based on size (i.e., the percentage of the total number of contracts available at the same price that is represented by the size of a Member's response).

(b) If during the exposure period, the order becomes executable on the Nasdaq ISE at the prevailing NBBO, the exposure period will be terminated, and the order will be executed against orders and quotes on the book and responses received during the exposure period. Such interest will be executed in price priority. At the same price, Priority Customer Orders will be executed first in time priority and then all other interest (orders, quotes and responses) will be allocated pro-rata based on size.

(c) If during the exposure period the Exchange receives an unrelated order on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price, the exposure period will be terminated and the orders will be executed pursuant to (b) above.

(d) If after an order is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better, and it is marketable, the lesser of the full displayed size of the Protected Bid(s) or Protected Offer(s) that are priced better than the Nasdaq ISE's quote or the balance of the order will be sent to NES (as defined in Rule 1903) and any additional balance of the order will be executed on the Nasdaq ISE if it is marketable. Any additional balance of the order that is not marketable against the then-current NBBO will be placed on the Nasdaq ISE book.

(e) If after a an order that is marked "do-not-route" is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better (i) the balance of the order will be placed on the Nasdaq ISE book if it is not marketable against the then-current NBBO, or (ii) the balance of the order will be canceled.

(f) A pattern or practice of submitting unrelated orders that cause an exposure period to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 400 and other Exchange Rules.

.03 Reserved.

.04 Non-Customer Order(s), as defined in Rule 100(a)(36), may opt out of being processed in accordance with Supplementary Material .02 of this Rule 1901. Such order(s) will be processed as follows:

(a) When the automatic execution of an incoming Non-Customer Order would result in an impermissible Trade Through, and it is marketable, the lesser of the full displayed size of the Protected Bid(s) or Protected Offer(s) that are priced better than the Nasdaq ISE's quote or the balance of the order will be sent to NES (as defined in Rule 1903) and any additional balance of the order will be executed on the Nasdaq ISE if it is marketable. Any additional balance of the order that is not marketable against the then-current NBBO will be placed on the Nasdaq ISE book.

(b) If an order is marked "do-not-route" and the order cannot be executed in full on the Exchange at the then current NBBO or better (i) the balance of the order will be placed on the Nasdaq ISE book if it is not marketable against the then current NBBO, or (ii) the balance of the order will be cancelled.

.05 Sweep Order(s), as defined in Rule 715(s), will not be processed in accordance with Supplementary Material .02 of this Rule 1901. Such order(s) will be processed as follows:

(a) When the automatic execution of an incoming Sweep Order would result in an impermissible Trade Through, and it is marketable, the lesser of the full displayed size of the Protected Bid(s) or Protected Offer(s) that are priced better than the Nasdaq ISE's quote or the balance of the order will be sent to NES and any additional balance of the order will be executed on the Nasdaq ISE if it is marketable. Any portion of the order not executed shall be canceled.

(b) If a Sweep Order is not marketable when it is submitted to the Exchange, it shall be canceled.

.06 In addressing Public Customer Orders that are not automatically executed because there is a displayed bid or offer on another exchange trading the same options contract that is better than the best bid or offer on the Exchange pursuant to the Supplementary Material of this Rule 1901, the Exchange will act in compliance with these Rules and

with the provisions of the Exchange Act and the rules thereunder, including, but not limited to, the requirements in Section (6)(b)(4) and (5) of the Exchange Act that the rules of national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its members and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

.07 All orders entered on the Exchange and routed to another exchange via an ISO pursuant to the Supplementary Material of this Rule 1901 that result in an execution shall be binding on the member that entered such orders.

### **Rule 1902. 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;

**(3)** The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer;

**(4)** With respect to a locking quotation, the order entered on the Exchange that will lock a Protected Bid or Protected Offer, is:

(i) not a Customer order, and the Exchange can determine via identification available pursuant to the OPRA Plan that such Protected Bid or Protected Offer does not represent, in whole or in part, a Customer order; or

(ii) a Customer order, and the Exchange can determine via identification available pursuant to the OPRA Plan that such Protected Bid or Protected Offer does not represent, in whole or in part, a Customer order, and, on a case-by-case basis, the Customer specifically authorizes the Member to lock such Protected Bid or Protected Offer.

### ***Supplementary Material to Rule 1902***

.01 When the price of an incoming limit order that is not executable upon entry would lock or cross a Protected Quotation, such order shall be handled in accordance with the provisions of Supplementary Material .02, .04 or .05 to Rule 1901, as applicable.

**Rule 1903. Order Routing to Other Exchanges**

The Exchange may automatically route ISOs to other exchanges under certain circumstances, including pursuant to Supplementary Material .02 to Rule 1901 ("Routing Services"). In connection with such services, the following shall apply:

**(a)** The Exchange 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 the Exchange (the "Routing Facility"). The sole use of the Routing Facility by the system will be to route orders in options listed and open for trading on the system to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange rules on behalf of the Exchange. The Routing Facility is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Securities Exchange Act of 1934, as amended.

**(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 Do-Not-Route-Orders as described in Rule 715(m).

**(c)** The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the Routing Facility, and any other entity, including any affiliate of the Routing Facility; 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).

**(1)** 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 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.

**(1)** 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.

**(d) Market Access.** In addition to the Exchange Rules regarding routing to away trading centers, NES as defined above, 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 of Rule 15c3-5, the order



will be rejected prior to routing and/or NES will seek to cancel any orders that have been routed.

(e) The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (d) above, 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.

(f) Entering members 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.

### ***Supplementary Material to Rule 1903***

.01 Rule 1903 does not prohibit NES or third-party unaffiliated routing broker-dealers used by NES from designating a preferred market-maker at the other exchange to which the order is being routed pursuant to Rule 1903.

.02 In the event that NES cannot provide Routing Services, the Exchange will cancel orders that, if processed by the Exchange, would violate Rules 1901 (prohibition on trade-throughs) or 1902 (prohibition on locked and crossed markets).

.03 Rule 1004 of Regulation SCI under the Exchange Act requires the establishment of standards for the designation of those Members the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of a fair and orderly market should the Exchange's business continuity and disaster recovery plans be activated. Rule 1004 also requires the Exchange to designate Members pursuant to those standards and require participation by such Designated Members 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. Therefore, in accordance with Rule 1004 of Regulation SCI under the Exchange Act, NES has been designated by the Exchange as necessary for the maintenance of a fair and orderly market should the Exchange's business continuity and disaster recovery plans be activated. As the result of such designation, NES is required to participate in functional and performance testing of such plans at least once every 12 months.

### **Rule 1904. 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 1904 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 Rule 1904(b)(3), 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' 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 (1) assign all resulting error positions to Members in accordance with subparagraph (A) below, or (2) 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 Rule 1904(a).

**(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 Rule 1904(a), 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.

**Rule 1905. Reserved.**

**20. Index Rules**

**Rule 2000. Application of Index Rules**

The Rules in this Chapter are applicable only to index options (options on indices of securities as defined below). The Rules in Chapters 1 through 19 are also applicable to the options provided for in this Chapter, unless such Rules are specifically replaced or are supplemented by Rules in this Chapter. Where the Rules in this Chapter indicate that particular indices or requirements with respect to particular indices will be "Specified," the Exchange shall file a proposed rule change with the Commission to specify such indices or requirements.

**Rule 2001. 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, including the business day of expiration in the case of an option contract expiring on a business day.

(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 Rule 2009(a)(5).

(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 the Exchange. 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)** 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, the last business day prior to the day it expires.

**(h)** The term "Foreign Currency Index" means an index designed to track the performance of a basket of currencies, as provided in the table in Nasdaq ISE Rule 2005A.

**(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 terms "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries or an index whose constituents are all headquartered within a single country.

**(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 Options Series" means, for the purposes of Chapter 20, a series in an index options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

**(n)** The term "reporting authority" with respect to a particular index means the institution or reporting service designated by the Exchange 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 the Exchange shall be Specified (as provided in Rule 2000) in the Supplementary Material to this Rule 2001.

**(o)** The term "Short Term Option Series" means, for the purposes of Chapter 20, a series in an index 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 following business week that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday.

(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 Rule 2001*

.01 The reporting authorities designated by the Exchange in respect of each index underlying an index options contract traded on the Exchange are as provided in the chart below.

<b>Underlying Index</b>	<b>Reporting Authority</b>
S&P SmallCap 600 Index	Standard & Poor's
Morgan Stanley Technology Index	American Stock Exchange
S&P MidCap 400 Index	Standard & Poor's
S&P 1000 Index	Standard & Poor's
Nasdaq 100 Index	The Nasdaq Stock Market
Russell 3000 Index	Frank Russell Company
Russell 3000 Value Index	Frank Russell Company
Russell 3000 Growth Index	Frank Russell Company
Russell 2500 Index	Frank Russell Company
Russell 2500 Value Index	Frank Russell Company
Russell 2500 Growth Index	Frank Russell Company
Russell 2000 Index	Frank Russell Company
Russell 2000 Value Index	Frank Russell Company
Russell 2000 Growth Index	Frank Russell Company
Russell 1000 Index	Frank Russell Company
Russell 1000 Value Index	Frank Russell Company

Russell 1000 Growth Index	Frank Russell Company
Russell Top 200 Index	Frank Russell Company
Russell Top 200 Value Index	Frank Russell Company
Russell Top 200 Growth Index	Frank Russell Company
Russell MidCap Index	Frank Russell Company
Russell MidCap Value Index	Frank Russell Company
Russell MidCap Growth Index	Frank Russell Company
Russell Small Cap Completeness Index	Frank Russell Company
Russell Small Cap Completeness Value Index	Frank Russell Company
Russell Small Cap Completeness Growth Index	Frank Russell Company
NYSE U.S. 100 Index	New York Stock Exchange and Dow Jones & Company
NYSE International 100 Index	New York Stock Exchange and Dow Jones & Company
NYSE World Leaders Index	New York Stock Exchange and Dow Jones & Company
NYSE TMT Index	New York Stock Exchange and Dow Jones & Company
ISE-CCM Homeland Security Index	Nasdaq ISE
ISE Oil & Gas Services Index	Nasdaq ISE
ISE Semiconductors Index	Nasdaq ISE
ISE Gold Index	Nasdaq ISE
ISE Homebuilders Index	Nasdaq ISE

ISE 250 Index	Nasdaq ISE and Standard & Poor's
ISE 100 Index	Nasdaq ISE and Standard & Poor's
ISE 50 Index	Nasdaq ISE and Standard & Poor's
ISE U.S. Regional Banks Index	Nasdaq ISE
ISE SINDEX	Nasdaq ISE
ISE Bio-Pharmaceuticals Index	Nasdaq ISE
ISE Water Index	Nasdaq ISE
ISE-CCM Alternative Energy Index	Nasdaq ISE
ISE-CCM Nanotechnology Index	Nasdaq ISE
FTSE 100 Index	FTSE International Limited
FTSE 250 Index	FTSE International Limited
ISE-Revere Natural Gas Index	Nasdaq ISE
KBW Bank Index	Keefe, Bruyette & Woods, Inc.
ISE Integrated Oil and Gas Index	Nasdaq ISE
ISE-Revere Wal-Mart Supplier Index	Nasdaq ISE
KBW Mortgage Finance Index	Keefe, Bruyette & Woods, Inc.
ISE Electronic Trading Index	Nasdaq ISE
NASDAQ Q-50 Index	The Nasdaq Stock Market
Morgan Stanley Retail Index	Morgan Stanley & Co. Incorporated
DAX Index	Deutsche Bourse AG
Dow Jones FXCM Dollar Index	S&P Dow Jones Indices
Nations VolDex Index	Nasdaq ISE

**Rule 2002. Designation of an Index**

(a) The component securities of an index underlying an index option contract need not meet the requirements of Rule 502. Except as set forth in subparagraph (b) below, the listing of a class of index options on an industry index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) The Exchange may trade options on a narrow-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 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 10 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 percent 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 percent 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 percent 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 percent 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 percent (65 percent 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 percent of the weight of the index and at least 80 percent of the total number of component securities in the index satisfy the requirements of Rule 502 applicable to individual underlying securities;
- (8) All component securities are "reported securities" as defined in Rule 11Aa3-1 under the Exchange Act;
- (9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20 percent of the weight of the index;



**(10)** The current underlying index value will be reported at least once every 15 seconds during the time the index options are traded on the Exchange;

**(11)** An equal dollar-weighted index will be rebalance 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)** The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

**(1)** The requirements stated in subparagraphs (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (d)(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 percent 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 percent of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months; and

**(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 percent of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months. In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the SEC concurs in that determination, or 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.

**(d)** The Exchange 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 Rule 2001(j);

**(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 Rule 502 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, NIDS or one or more major market data vendors during the time options on the index are traded on the Exchange;
- (12) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current 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) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The requirements set forth in subparagraphs (d)(1) - (d)(3) and (d)(9) - (d)(15) must continue to be satisfied. The requirements set forth in subparagraphs (d)(5) - (d)(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 the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b)(2) of the Exchange Act.

**Rule 2003. Dissemination of Information**

(a) The Exchange 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 the Exchange.

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

**Rule 2004. Position Limits for Broad-Based Index Options**

(a) Rule 412 generally shall govern position limits for broad-based index options, as modified by this Rule 2004. There may be no position limit for certain Specified (as provided in Rule 2000) broad-based index options contracts. Except as otherwise indicated below, the position limit for a broad-based index option shall be 25,000 contracts on the same side of the market. Reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits will similarly have no position and exercise limits. All other broad-based index options contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in the chart below.

<b>Broad-Based Underlying Index</b>	<b>Standard Limit (on the same side of the market)</b>	<b>Restrictions</b>
S&P SmallCap 600 Index	100,000 contracts	No more than 60,000 near-

		term
S&P MidCap 400 Index	45,000 contracts	No more than 25,000 near-term
Reduced Value S&P 1000 Index	50,000 contracts	No more than 30,000 near-term
Micro S&P 1000 Index	500,000 contracts	No more than 300,000 near-term
Nasdaq 100 Index	None	None
Mini Nasdaq 100 Index	None	None
Russell 3000 Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 3000 Index	500,000 contracts	No more than 300,000 near-term
Russell 3000 Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 3000 Value Index	500,000 contracts	No more than 300,000 near-term
Russell 3000 Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 3000 Growth Index	500,000 contracts	No more than 300,000 near-term
Russell 2500 Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 2500 Index	500,000 contracts	No more than 300,000 near-term
Russell 2500 Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 2500 Value Index	500,000 contracts	No more than 300,000 near-term

Russell 2500 Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 2500 Growth Index	500,000 contracts	No more than 300,000 near-term
Russell 2000 Index	None	None
Mini Russell 2000 Index	None	None
Russell 2000 Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 2000 Value Index	500,000 contracts	No more than 300,000 near-term
Russell 2000 Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 2000 Growth Index	500,000 contracts	No more than 300,000 near-term
Russell 1000 Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 1000 Index	500,000 contracts	No more than 300,000 near-term
Russell 1000 Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 1000 Value Index	500,000 contracts	No more than 300,000 near-term
Russell 1000 Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell 1000 Growth Index	500,000 contracts	No more than 300,000 near-term
Russell Top 200 Index	50,000 contracts	No more than 30,000 near-term
Mini Russell Top 200 Index	500,000 contracts	No more than 300,000

		near-term
Russell Top 200 Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell Top 200 Value Index	500,000 contracts	No more than 300,000 near-term
Russell Top 200 Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell Top 200 Growth Index	500,000 contracts	No more than 300,000 near-term
Russell MidCap Index	50,000 contracts	No more than 30,000 near-term
Mini Russell MidCap Index	500,000 contracts	No more than 300,000 near-term
Russell MidCap Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell MidCap Value Index	500,000 contracts	No more than 300,000 near-term
Russell MidCap Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell MidCap Growth Index	500,000 contracts	No more than 300,000 near-term
Russell Small Cap Completeness Index	50,000 contracts	No more than 30,000 near-term
Mini Russell Small Cap Completeness Index	500,000 contracts	No more than 300,000 near-term
Russell Small Cap Completeness Value Index	50,000 contracts	No more than 30,000 near-term
Mini Russell Small Cap Completeness Value Index	500,000 contracts	No more than 300,000 near-term

Russell Small Cap Completeness Growth Index	50,000 contracts	No more than 30,000 near-term
Mini Russell Small Cap Completeness Growth Index	500,000 contracts	No more than 300,000 near-term
Mini NYSE U.S. 100 Index	50,000 contracts	No more than 30,000 near-term
Micro NYSE U.S. 100 Index	500,000 contracts	No more than 300,000 near-term
Mini NYSE International 100 Index	50,000 contracts	No more than 30,000 near-term
Micro NYSE International 100 Index	500,000 contracts	No more than 300,000 near-term
Mini NYSE World Leaders Index	50,000 contracts	No more than 30,000 near-term
Micro NYSE World Leaders Index	500,000 contracts	No more than 300,000 near-term
ISE 250 Index	50,000 contracts	No more than 30,000 near-term
Mini ISE 250 Index	500,000 contracts	No more than 300,000 near-term
ISE 100 Index	50,000 contracts	No more than 30,000 near-term
Mini ISE 100 Index	500,000 contracts	No more than 300,000 near-term
ISE 50 Index	50,000 contracts	No more than 30,000 near-term
Mini ISE 50 Index	500,000 contracts	No more than 300,000 near-term
FTSE 100 Index	25,000 contracts	No more than 15,000 near-term

Mini FTSE 100 Index	250,000 contracts	No more than 150,000 near-term
Micro FTSE 100 Index	2,500,000 contracts	No more than 1,500,000 near-term
FTSE 250 Index	25,000 contracts	No more than 15,000 near-term
Mini FTSE 250 Index	250,000 contracts	No more than 150,000 near-term
Micro FTSE 250 Index	2,500,000 contracts	No more than 1,500,000 near-term
Mini DAX Index	250,000 contracts	No more than 150,000 near-term
Nations VolDex Index	None	None
Nasdaq 100 Reduced Value Index	None	None

**(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, reduced-value contracts will be counted consistent with their value (e.g., 5 NQX reduced-value contracts equal 1 NDX full-value contract).

**(d)** Positions in Short Term Option Series and Quarterly Options Series shall be aggregated with positions in options contracts on the same index. Nonstandard Expirations (as provided for in Supplementary Material .07 to Rule 2009) on a broadbased index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

#### **Rule 2005. Position Limits for Industry Index Options**

**(a)**

**(1)** Rule 412 generally shall govern position limits for industry index options, as modified by this Rule 2005. Options contracts on an industry index shall, subject to the procedures specified in subparagraph (3) of this rule, be subject to the following position limits:

**(i)** 18,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (2) of this paragraph (a), that any single underlying stock accounted, on average, for thirty percent (30%) or more of the index value during the thirty (30) -day period immediately preceding the review; or



(ii) 24,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (2) of this paragraph (a), that any single underlying stock accounted, on average, for twenty percent (20%) or more of the index value or that any five (5) underlying stocks together accounted, on average, for more than fifty percent (50%) of the index value, but that no single stock in the group accounted, on average, for thirty percent (30%) or more of the index value, during the thirty (30)-day period immediately preceding the review; or

(iii) 31,500 contracts if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred.

(iv) 44,000 contracts total with respect to the KBW Bank Index.

(2) The Exchange shall make the determinations required by subparagraph (1) of this paragraph (a) with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the determination semi-annually on January 1 and July 1.

(3) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in paragraph (1) of this paragraph (a), the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (1) of this paragraph (a), the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring options series relating to the industry index that is open for trading on the date of the review; and provided further that such a reduction shall not become effective if the Exchange determines, at the next semi-annual review, that the existing position limit applicable to such options is consistent with the criteria set forth in subparagraph (1) of this paragraph (a).

(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.

(d) Positions in Short Term Option Series and Quarterly Options Series shall be aggregated with positions in options contracts on the same index.

#### **Rule 2005A. Position Limits for Foreign Currency Index Options**

(a) Option contracts on a Foreign Currency Index shall be subject to the following position limits:

<b>Foreign Currency Index</b>	<b>Standard Limit (on the same side of the market)</b>	<b>Restrictions</b>
Dow Jones FXCM Dollar Index	600,000 contracts	No more than 300,000 near-term

### **Rule 2006. Exemptions from Position Limits**

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

(1) The account in which the exempt options positions are held ("hedge exemption account") must have received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Rule. The hedge exemption account must have provided all information required on Exchange-approved forms and must have kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days, or such other time period designated by the Exchange, furnish the Exchange with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Member must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

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

(i) a net long or short position 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 or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio; or

(ii) a net long or short position in index futures contracts or in options on index futures contracts, or long or short positions in index options or index warrants, for which the underlying index is included in the same margin or cross-margin product group cleared at

the Clearing Corporation as the index options class to which the hedge exemption applies.

To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

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

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

**(ii)** 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

**(iii)** 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.

**(5)** Positions in broad-based index options that are traded on the Exchange are exempt from the standard limits to the extent specified below.

**Broad-Based  
Index Option Type**

**Broad-Based Index Hedge  
Exemption  
(is in addition to standard limit)**

Broad-based indexes other than for those that 75,000 do not have any position limits

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

**(i)** Long put(s) used to hedge the holdings of a qualified portfolio;

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

**(iii)** Short call(s) used to hedge the holdings of a qualified portfolio; and

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

The following strategies may be effected only in conjunction with a qualified stock portfolio for non-P.M. settled, European style index options only:

**(v)** A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s)(a "collar"). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 411 and this Rule 2006, a collar position will be treated as one contract;

**(vi)** 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 position"); and

**(vii)** A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Rule 412 and this Rule 2006, the short call and long put positions will be treated as one contract.

**(7)** The hedge exemption account shall:

**(i)** liquidate and establish options, stock positions, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;

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

**(iii)** promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

**(8)** If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

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

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

**(11)** Any Member that maintains a broad-based index options position in such Member's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rules 412 and this Rule 2006 by the Member.

**(12)** Violation of any of the provisions of this Rule, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

**(13)** Each member (other than Exchange market-makers) that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts in NDX or RUT for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form required by the Exchange. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and counted by the amount by which they equal a full-value contract (e.g., 10 MNX options equal 1 NDX full-value contract). The Exchange may impose other reporting requirements as well as the limit at which the reporting requirement may be triggered.

**(14)** Whenever the Exchange determines that additional margin is warranted in light of the risks associated with an under-hedged NDX or RUT options position, the Exchange may impose additional margin upon the account maintaining such under-hedged position pursuant to its authority under Rule 1204. The clearing firm carrying the account also will be subject to capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

**(b) *Industry Index Hedge Exemption.*** The industry (narrow-based) index hedge exemption is in addition to the other exemptions available under Exchange Rules, interpretations and policies, and may not exceed twice the standard limit established under Rule 2005. Industry index options positions may be exempt from established position limits for each options contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each options position to be exempted is hedged by a position in at least seventy-five percent (75%) of the number of component securities underlying the index. In addition, the underlying value of the options position may not exceed the value of the underlying portfolio. The value of the underlying portfolio is: (1) the total market value of the net stock position; and (2) for positions in excess of the standard limit, subtract the underlying market value of: (i) any offsetting calls and puts in the respective index option; (ii) any offsetting positions in related stock index futures or options; and (iii) any economically equivalent positions (assuming no other hedges for these contracts exist). The following procedures and criteria must be satisfied to qualify for an industry index hedge exemption:

(1) The hedge exemption account must have received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Interpretation. The hedge exemption account must have provided all information required on Exchange-approved forms and must have kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days, or such other time period designated by the Exchange, furnish the Exchange with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Member must be carried by a member of a self-regulatory organization participating in the Intermarket Surveillance Group.

(3) The hedge exemption account: shall liquidate and establish options, stock positions, or economically equivalent positions in an orderly fashion; shall not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and shall not initiate or liquidate a stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The hedge exemption account shall liquidate any options prior to or contemporaneously with a decrease in the hedged value of the portfolio which options would thereby be rendered excessive. The hedge exemption account shall promptly notify the Exchange of any change in the portfolio which materially affects the unhedged value of the portfolio.

(4) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

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

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

(7) Any Member that maintains an industry index options position in such Member's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Rule 412 and this Rule 2006 by the Member.

(8) Violation of any of the provisions of this Rule 2006, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

**(c) Exemptions Granted by Other Options Exchanges** - A Member 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 the Exchange provided that such Member:

**(1)** provides the Exchange 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 Exchange regulatory staff to verify the validity of that exemption with the issuing options exchange, and

**(2)** fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the Member's trading on the Exchange.

**(d) Delta-Based Index hedge Exemption.** The Delta-Based Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange rules. An index option position of a member or non-member affiliate of a member that is delta neutral shall be exempt from established position limits as prescribed under Rules 2004 and 2005, subject to the following:

**(i)** The term "delta neutral" refers to an index option position that is hedged, in accordance with a permitted pricing model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term "correlated instruments" means securities and/or other instruments that track the performance of or are based on the same underlying index as the index underlying the option position (but not including baskets of securities).

**(ii)** An index option position that is not delta neutral shall be subject to position limits in accordance with Rules 2004 and 2005 (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by units of trade that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a permitted pricing model.

**(iii)** A "permitted pricing model" shall have the meaning as defined in Rule 413(a)(7)(C).

**(iv) Effect on Aggregation of Accounts**

**(1)** Members and non-member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in correlated instruments that are owned or controlled by such member or non-member affiliate.

**(2)** Notwithstanding subparagraph (iv)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

**(A)** the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Rule 412(f), exists between such affiliates or trading units\*; and

**(B)** the entity has provided (by the member carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

**(3)** Notwithstanding subparagraph (iv)(1) or (iv)(2), a member or non-member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the member carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such member or non-member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

**(A)** the permitted pricing model shall be applied, for purposes of calculating such member's or affiliate's net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and

**(B)** the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such member or affiliate.

**(v)** Obligations of Members

**(1)** A member that relies on this exemption for a proprietary index options position:

**(A)** must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (iii) above; and

**(B)** by such reliance authorizes any other person carrying for such member an account including, or with whom such member has entered into, a position in a correlated instrument to provide to the Exchange or the Options Clearing Corporation such information regarding such account or position as the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

**(2)** The index option positions of a non-member relying on this exemption must be carried by a member with which it is affiliated.



(3) A member carrying an account that includes an index option position for a non-member affiliate that intends to rely on this exemption must obtain from such non-member affiliate and must provide to the Exchange.

(A) a written certification to the Exchange that the non-member affiliate is using a permitted pricing model pursuant to subparagraph (iii) above; and

(B) a written statement confirming that such non-member affiliate:

(a) is relying on this exemption;

(b) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(c) will promptly notify the member if it ceases to rely on this exemption;

(d) authorizes the member to provide to the Exchange or the Options Clearing Corporation such information regarding positions of the non-member affiliate as the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(e) if the non-member affiliate is using the OCC Model, has duly executed and delivered to the member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

#### (4) Reporting.

Each member (other than an Exchange market maker using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 415, all index option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to Rule 2006(c)(iv) shall also report, in accordance with Exchange Rule 415 for each such account that holds an index option position subject to this exemption in excess of the levels specified in Rules 2004 and 2005, the net delta and the options contract equivalent of the net delta of such position.

#### (5) Records.

Each member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-member affiliate of the member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

### **Rule 2007. Exercise Limits**

(a) In determining compliance with Rule 414, exercise limits for index options contracts, including for options on a Foreign Currency Index, shall be equivalent to the position limits prescribed for options contracts with the nearest expiration date in Rule 2004, 2005 or 2005A. There may be no exercise limits for Specified (as provided in Rule 2000) broad-based index options.

(b) For a market-maker granted an exemption to position limits pursuant to Rule 413(b), 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 Rule 2006(a), the exercise limit shall be equal to the amount of the exemption.

#### **Rule 2008. Trading Sessions**

(a) *Days and Hours of Business.* Except as otherwise provided in this Rule or under unusual conditions as may be determined by the President or his designee, transactions in index options, including Foreign Currency Index options, may be effected on the Exchange between the hours of 9:30 a.m. and 4:15 p.m. Eastern time, except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time) and 4:00 p.m. (Eastern time). With respect to options on foreign indexes, an Exchange official designated by the Board shall determine the days and hours of business.

(b) *Trading Rotations.* The opening rotation for index options shall be held at or as soon as practicable after 9:30 a.m. Eastern time. An Exchange official designated by the Board may delay the commencement of the opening rotation in an index option whenever in the judgment of that official such action is appropriate in the interests of a fair and orderly market. Among the factors that may be considered in making these determinations are: (1) unusual conditions or circumstances in other markets; (2) an influx of orders that has adversely affected the ability of the Primary Market Maker to provide and to maintain fair and orderly markets; (3) activation of opening price limits in stock index futures on one or more futures exchanges; (4) activation of daily price limits in stock index futures on one or more futures exchanges; (5) the extent to which either there has been a delay in opening or trading is not occurring in stocks underlying the index; and (6) circumstances such as those which would result in the declaration of a fast market under Rule 804(d).

(c) *Instituting Halts and Suspensions.* Trading on the Exchange 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. An Exchange official designated by the Board also may halt trading in an index option, including in options on a Foreign Currency Index, 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, or in the case of a Foreign Currency Index, in the underlying foreign currency market;
  - (2) whether the current calculation of the index derived from the current market prices of the stocks is not available, or in the case of the a Foreign Currency Index, the current prices of the underlying foreign currency is not available;
  - (3) the extent to which the rotation has been completed or other factors regarding the status of the rotation; 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 the Exchange may resume if an Exchange official designated by the Board 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 or currencies underlying an index. Upon reopening, a rotation shall be held in each class of index options unless an Exchange official designated by the Board concludes that a different method of reopening is appropriate under the circumstances, including but not limited to, no rotation, an abbreviated rotation or any other variation in the manner of the rotation.
- (e) *Circuit Breakers.* Rule 703 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 the Exchange, 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.

**Rule 2009. 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.** The Exchange shall determine fixed-point intervals of exercise prices for call and put options.

**(3) Expiration Months and Weeks.** Index options contracts may expire at three (3)-month intervals or in consecutive weeks or months. The Exchange may list: (i) up to six (6) standard monthly expirations at any one time in a class, but will not list index options that expire more than twelve (12) months out; (ii) up to 12 standard monthly expirations at any one time for any class that the Exchange (as the Reporting Authority) uses to calculate a volatility index; and (iii) up to 12 standard (monthly) expirations in NDX options.

**(4) "European-Style Exercise."** The following European-style index options, some of which may be A.M.-settled as provided in paragraph (a)(5), are approved for trading on the Exchange:

**(i)** S&P SmallCap 600 Index

**(ii)** Morgan Stanley Technology Index

**(iii)** S&P MidCap 400 Index

**(iv)** Reduced Value S&P 1000 Index

**(v)** Micro S&P 1000 Index

**(vi)** Full-size Nasdaq 100 Index

**(vii)** Mini Nasdaq 100 Index

**(viii)** Russell 3000 Index

**(ix)** Mini Russell 3000 Index

**(x)** Russell 3000 Value Index

**(xi)** Mini Russell 3000 Value Index

**(xii)** Russell 3000 Growth Index

**(xiii)** Mini Russell 3000 Growth Index

- (xiv) Russell 2500 Index
- (xv) Mini Russell 2500 Index
- (xvi) Russell 2500 Value Index
- (xvii) Mini Russell 2500 Value Index
- (xviii) Russell 2500 Growth Index
- (xix) Mini Russell 2500 Growth Index
- (xx) Russell 2000 Index
- (xxi) Mini Russell 2000 Index
- (xxii) Russell 2000 Value Index
- (xxiii) Mini Russell 2000 Value Index
- (xxiv) Russell 2000 Growth Index
- (xxv) Mini Russell 2000 Growth Index
- (xxvi) Russell 1000 Index
- (xxvii) Mini Russell 1000 Index
- (xxviii) Russell 1000 Value Index
- (xxix) Mini Russell 1000 Value Index
- (xxx) Russell 1000 Growth Index
- (xxxi) Mini Russell 1000 Growth Index
- (xxxii) Russell Top 200 Index
- (xxxiii) Mini Russell Top 200 Index
- (xxxiv) Russell Top 200 Value Index
- (xxxv) Mini Russell Top 200 Value Index
- (xxxvi) Russell Top 200 Growth Index

- (xxxvii) Mini Russell Top 200 Growth Index
- (xxxviii) Russell MidCap Index
- (xxxix) Mini Russell MidCap Index
- (xl) Russell MidCap Value Index
- (xli) Mini Russell MidCap Value Index
- (xlii) Russell MidCap Growth Index
- (xliii) Mini Russell MidCap Growth Index
- (xliv) Russell Small Cap Completeness Index
- (xlv) Mini Russell Small Cap Completeness Index
- (xlvi) Russell Small Cap Completeness Value Index
- (xlvii) Mini Russell Small Cap Completeness Value Index
- (xlviii) Russell Small Cap Completeness Growth Index
- (xlix) Mini Russell Small Cap Completeness Growth Index
- (l) Mini NYSE U.S. 100 Index
- (li) Micro NYSE U.S. 100 Index
- (lii) Mini NYSE International 100 Index
- (liii) Micro NYSE International 100 Index
- (liv) Mini NYSE World Leaders Index
- (lv) Micro NYSE World Leaders Index
- (lvi) Mini NYSE TMT Index
- (lvii) Micro NYSE TMT Index
- (lviii) ISE-CCM Homeland Security Index
- (lix) ISE Oil & Gas Services Index

- (lx) ISE Semiconductors Index
- (lxi) ISE Gold Index
- (lxii) ISE Homebuilders Index
- (lxiii) ISE 250 Index
- (lxiv) Mini ISE 250 Index
- (lxv) ISE 100 Index
- (lxvi) Mini ISE 100 Index
- (lxvii) ISE 50 Index
- (lxviii) Mini ISE 50 Index
- (lxix) ISE U.S. Regional Banks Index
- (lxx) ISE SINdex
- (lxxi) ISE Bio-Pharmaceuticals Index
- (lxxii) ISE Water Index
- (lxxiii) ISE-CCM Alternative Energy Index
- (lxxiv) ISE-CCM Nanotechnology Index
- (lxxv) FTSE 100 Index
- (lxxvi) Mini FTSE 100 Index
- (lxxvii) Micro FTSE 100 Index
- (lxxviii) FTSE 250 Index
- (lxxix) Mini FTSE 250 Index
- (lxxx) Micro FTSE 250 Index
- (lxxxi) ISE-Revere Natural Gas Index
- (lxxxii) KBW Bank Index

- (lxxxiii) ISE Integrated Oil and Gas Index
- (lxxxiv) ISE-Revere Wal-Mart Supplier Index
- (lxxxv) KBW Mortgage Finance Index
- (lxxxvi) ISE Electronic Trading Index
- (lxxxvii) NASDAQ Q-50 Index
- (lxxxviii) Morgan Stanley Retail Index
- (lxxxix) Mini DAX Index
- (xc) Dow Jones FXCM Dollar Index.
- (xci) Nations VolDex Index
- (xcii) Nasdaq 100 Reduced Value Index

**(5) A.M.-Settled Index Options.** The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to 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 last day of trading in the underlying securities prior to expiration, 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 Rule 2008(g), 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 that are approved for trading on the Exchange:

- (i) S&P SmallCap 600 Index
- (ii) Morgan Stanley Technology Index



- (iii) S&P MidCap 400 Index
- (iv) Reduced Value S&P 1000 Index
- (v) Micro S&P 1000 Index
- (vi) Full-size Nasdaq 100 Index
- (vii) Mini Nasdaq 100 Index
- (viii) Russell 3000 Index
- (ix) Mini Russell 3000 Index
- (x) Russell 3000 Value Index
- (xi) Mini Russell 3000 Value Index
- (xii) Russell 3000 Growth Index
- (xiii) Mini Russell 3000 Growth Index
- (xiv) Russell 2500 Index
- (xv) Mini Russell 2500 Index
- (xvi) Russell 2500 Value Index
- (xvii) Mini Russell 2500 Value Index
- (xviii) Russell 2500 Growth Index
- (xix) Mini Russell 2500 Growth Index
- (xx) Russell 2000 Index
- (xxi) Mini Russell 2000 Index
- (xxii) Russell 2000 Value Index
- (xxiii) Mini Russell 2000 Value Index
- (xxiv) Russell 2000 Growth Index
- (xxv) Mini Russell 2000 Growth Index

- (xxvi) Russell 1000 Index
- (xxvii) Mini Russell 1000 Index
- (xxviii) Russell 1000 Value Index
- (xxix) Mini Russell 1000 Value Index
- (xxx) Russell 1000 Growth Index
- (xxxi) Mini Russell 1000 Growth Index
- (xxxii) Russell Top 200 Index
- (xxxiii) Mini Russell Top 200 Index
- (xxxiv) Russell Top 200 Value Index
- (xxxv) Mini Russell Top 200 Value Index
- (xxxvi) Russell Top 200 Growth Index
- (xxxvii) Mini Russell Top 200 Growth Index
- (xxxviii) Russell MidCap Index
- (xxxix) Mini Russell MidCap Index
- (xl) Russell MidCap Value Index
- (xli) Mini Russell MidCap Value Index
- (xlii) Russell MidCap Growth Index
- (xliii) Mini Russell MidCap Growth Index
- (xliv) Russell Small Cap Completeness Index
- (xlv) Mini Russell Small Cap Completeness Index
- (xlvi) Russell Small Cap Completeness Value Index
- (xlvii) Mini Russell Small Cap Completeness Value Index
- (xlviii) Russell Small Cap Completeness Growth Index

**(xlix)** Mini Russell Small Cap Completeness Growth Index

**(l)** Mini NYSE U.S. 100 Index

**(li)** Micro NYSE U.S. 100 Index

**(lii)** Mini NYSE International 100 Index

**(liii)** Micro NYSE International 100 Index

**(liv)** Mini NYSE World Leaders Index

**(lv)** Micro NYSE World Leaders Index

**(lvi)** Mini NYSE TMT Index

**(lvii)** Micro NYSE TMT Index

**(lviii)** ISE-CCM Homeland Security Index

**(lix)** ISE Oil & Gas Services Index

**(lx)** ISE Semiconductors Index

**(lxi)** ISE Gold Index

**(lxii)** ISE Homebuilders Index

**(lxiii)** ISE 250 Index

**(lxiv)** Mini ISE 250 Index

**(lxv)** ISE 100 Index

**(lxvi)** Mini ISE 100 Index

**(lxvii)** ISE 50 Index

**(lxviii)** Mini ISE 50 Index

**(lxix)** ISE U.S. Regional Banks Index

**(lxx)** ISE SINdex

**(lxxi)** ISE Bio-Pharmaceuticals Index

- (lxxii) ISE Water Index
- (lxxiii) ISE-CCM Alternative Energy Index
- (lxxiv) ISE-CCM Nanotechnology Index
- (lxxv) FTSE 100 Index
- (lxxvi) Mini FTSE 100 Index
- (lxxvii) Micro FTSE 100 Index
- (lxxviii) FTSE 250 Index
- (lxxix) Mini FTSE 250 Index
- (lxxx) Micro FTSE 250 Index
- (lxxxi) ISE-Revere Natural Gas Index
- (lxxxii) KBW Bank Index
- (lxxxiii) ISE Integrated Oil and Gas Index
- (lxxxiv) ISE-Revere Wal-Mart Supplier Index
- (lxxxv) KBW Mortgage Finance Index
- (lxxxvi) ISE Electronic Trading Index
- (lxxxvii) NASDAQ Q-50 Index
- (lxxxviii) Morgan Stanley Retail Index
- (lxxxix) Mini DAX Index
- (xc) Nations VolDex Index

(6) In addition to A.M.-settled Nasdaq-100 Index options approved for trading on the Exchange pursuant to Rule 2009(a)(5), the Exchange may also list options on the Nasdaq 100 Reduced Value Index ("NQX") whose exercise settlement value is derived from closing prices on the expiration day ("P.M.- settled"). NQX options will be listed for trading for a pilot period ending on the earlier of (1) 12 months following the date of the first listing of the options, or (2) June 30, 2019.

(b) *Long-Term Index Options Series.*

**(1)** Notwithstanding the provisions of Paragraph (a)(3), above, the Exchange may list long-term index options series that expire from twelve (12) 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 twelve (12) 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 on the following stock indices are approved for trading on the Exchange:

**(A)** S&P SmallCap 600 Index

**(B)** Morgan Stanley Technology Index

**(C)** S&P MidCap 400 Index

**(D)** Nasdaq 100 Index

**(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 Rule 504, as amended by the following:

**(1)** The interval between strike prices will be no less than \$5.00; provided, that in the case of the following classes of index options, the interval between strike prices will be no less than \$2.50:

**(i)** S&P SmallCap 600, if the strike price is less than \$200.00

**(ii)** Morgan Stanley Technology Index, if the strike price is less than \$200.00

**(iii)** S&P MidCap 400 Index, if the strike price is less than \$200.00

- (iv) Reduced Value S&P 1000 Index, if the strike price is less than \$200.00
- (v) Micro S&P 1000 Index, if the strike price is less than \$200.00
- (vi) Full-size Nasdaq 100 Index, if the strike price is less than \$200.00
- (vii) Mini Nasdaq 100 Index, if the strike price is less than \$200.00
- (viii) Russell 3000 Index, if the strike price is less than \$200.00
- (ix) Mini Russell 3000 Index, if the strike price is less than \$200.00
- (x) Russell 3000 Value Index, if the strike price is less than \$200.00
- (xi) Mini Russell 3000 Value Index, if the strike price is less than \$200.00
- (xii) Russell 3000 Growth Index, if the strike price is less than \$200.00
- (xiii) Mini Russell 3000 Growth Index, if the strike price is less than \$200.00
- (xiv) Russell 2500 Index, if the strike price is less than \$200.00
- (xv) Mini Russell 2500 Index, if the strike price is less than \$200.00
- (xvi) Russell 2500 Value Index, if the strike price is less than \$200.00
- (xvii) Mini Russell 2500 Value Index, if the strike price is less than \$200.00
- (xviii) Russell 2500 Growth Index, if the strike price is less than \$200.00
- (xix) Mini Russell 2500 Growth Index, if the strike price is less than \$200.00
- (xx) Russell 2000 Index, if the strike price is less than \$200.00
- (xxi) Mini Russell 2000 Index, if the strike price is less than \$200.00
- (xxii) Russell 2000 Value Index, if the strike price is less than \$200.00
- (xxiii) Mini Russell 2000 Value Index, if the strike price is less than \$200.00
- (xxiv) Russell 2000 Growth Index, if the strike price is less than \$200.00
- (xxv) Mini Russell 2000 Growth Index, if the strike price is less than \$200.00
- (xxvi) Russell 1000 Index, if the strike price is less than \$200.00

- (xxvii) Mini Russell 1000 Index, if the strike price is less than \$200.00
- (xxviii) Russell 1000 Value Index, if the strike price is less than \$200.00
- (xxix) Mini Russell 1000 Value Index, if the strike price is less than \$200.00
- (xxx) Russell 1000 Growth Index, if the strike price is less than \$200.00
- (xxxi) Mini Russell 1000 Growth Index, if the strike price is less than \$200.00
- (xxxii) Russell Top 200 Index, if the strike price is less than \$200.00
- (xxxiii) Mini Russell Top 200 Index, if the strike price is less than \$200.00
- (xxxiv) Russell Top 200 Value Index, if the strike price is less than \$200.00
- (xxxv) Mini Russell Top 200 Value Index, if the strike price is less than \$200.00
- (xxxvi) Russell Top 200 Growth Index, if the strike price is less than \$200.00
- (xxxvii) Mini Russell Top 200 Growth Index, if the strike price is less than \$200.00
- (xxxviii) Russell MidCap Index, if the strike price is less than \$200.00
- (xxxix) Mini Russell MidCap Index, if the strike price is less than \$200.00
- (xl) Russell MidCap Value Index, if the strike price is less than \$200.00
- (xli) Mini Russell MidCap Value Index, if the strike price is less than \$200.00
- (xlii) Russell MidCap Growth Index, if the strike price is less than \$200.00
- (xliii) Mini Russell MidCap Growth Index, if the strike price is less than \$200.00
- (xliv) Russell Small Cap Completeness Index, if the strike price is less than \$200.00
- (xlv) Mini Russell Small Cap Completeness Index, if the strike price is less than \$200.00
- (xlvi) Russell Small Cap Completeness Value Index, if the strike price is less than \$200.00
- (xlvii) Mini Russell Small Cap Completeness Value Index, if the strike price is less than \$200.00
- (xlviii) Russell Small Cap Completeness Growth Index, if the strike price is less than \$200.00

**(xlix)** Mini Russell Small Cap Completeness Growth Index, if the strike price is less than \$200.00

**(l)** Mini NYSE U.S. 100 Index, if the strike price is less than \$200.00

**(li)** Micro NYSE U.S. 100 Index, if the strike price is less than \$200.00

**(lii)** Mini NYSE International 100 Index, if the strike price is less than \$200.00

**(liii)** Micro NYSE International 100 Index, if the strike price is less than \$200.00

**(liv)** Mini NYSE World Leaders Index, if the strike price is less than \$200.00

**(lv)** Micro NYSE World Leaders Index, if the strike price is less than \$200.00

**(lvi)** Mini NYSE TMT Index, if the strike price is less than \$200.00

**(lvii)** Micro NYSE TMT Index, if the strike price is less than \$200.00

**(lviii)** ISE-CCM Homeland Security Index, if the strike price is less than \$200.00

**(lix)** ISE Oil & Gas Services Index, if the strike price is less than \$200.00

**(lx)** ISE Semiconductors Index, if the strike price is less than \$200.00

**(lxi)** ISE Gold Index, if the strike price is less than \$200.00

**(lxii)** ISE Homebuilders Index, if the strike price is less than \$200.00

**(lxiii)** ISE 250 Index, if the strike price is less than \$200.00

**(lxiv)** Mini ISE 250 Index, if the strike price is less than \$200.00

**(lxv)** ISE 100 Index, if the strike price is less than \$200.00

**(lxvi)** Mini ISE 100 Index, if the strike price is less than \$200.00

**(lxvii)** ISE 50 Index, if the strike price is less than \$200.00

**(lxviii)** Mini ISE 50 Index, if the strike price is less than \$200.00

**(lxix)** ISE U.S. Regional Banks Index, if the strike price is less than \$200.00

**(lxx)** ISE SINDEX, if the strike price is less than \$200.00

**(lxxi)** ISE Bio-Pharmaceuticals Index, if the strike price is less than \$200.00



- (lxxii) ISE Water Index, if the strike price is less than \$200.00
  - (lxxiii) ISE-CCM Alternative Energy Index, if the strike price is less than \$200.00
  - (lxxiv) ISE-CCM Nanotechnology Index, if the strike price is less than \$200.00
  - (lxxv) FTSE 100 Index, if the strike price is less than \$200.00
  - (lxxvi) Mini FTSE 100 Index, if the strike price is less than \$200.00
  - (lxxvii) Micro FTSE 100 Index, if the strike price is less than \$200.00
  - (lxxviii) FTSE 250 Index, if the strike price is less than \$200.00
  - (lxxix) Mini FTSE 250 Index, if the strike price is less than \$200.00
  - (lxxx) Micro FTSE 250 Index, if the strike price is less than \$200.00
  - (lxxxi) ISE-Revere Natural Gas Index, if the strike price is less than \$200.00
  - (lxxxii) KBW bank Index, if the strike price is less than \$200.00
  - (lxxxiii) ISE Integrated Oil and Gas Index, if the strike price is less than \$200.00
  - (lxxxiv) ISE-Revere Wal-Mart Supplier Index, if the strike price is less than \$200.00
  - (lxxxv) KBW Mortgage Finance Index, if the strike price is less than \$200.00
  - (lxxxvi) ISE Electronic Trading Index, if the strike price is less than \$200.00
  - (lxxxvii) NASDAQ Q-50 Index, if the strike price is less than \$200.00
  - (lxxxviii) Morgan Stanley Retail Index, if the strike price is less than \$200.00
  - (lxxxix) Mini DAX Index, if the strike price is less than \$200.00
  - (xc) Dow Jones FXCM Dollar Index, if the strike price is less than \$200.00
  - (xci) Nations VolDex Index, if the strike price is less than \$200.00
  - (xcii) Nasdaq 100 Reduced Value Index, if the strike price is less than \$200.00
- (2) New series of index options contracts may be added up to, but not on or after, the fourth business day prior to expiration for an option contract expiring on a business day, or, in the case of an option contract expiring on a day that is not a business day, 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), the Exchange 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 the Exchange. The exercise price of each series of index options 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 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.

(5) Notwithstanding Rule 2009(c)(1), the interval between strike prices of series of Mini-Nasdaq-100 Index ("MNX" or "Mini-NDX") or Nasdaq 100 Reduced Value Index ("NQX") options will be \$1 or greater, subject to following conditions:

- (i) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for Mini-NDX or NQX options, and will list at least two strike prices above and two strike prices below the current value of MNX or NQX at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for Mini-NDX or NQX options that are within 5 points from the closing value of MNX or NQX on the preceding day.
- (ii) Additional Series. Additional series of the same class of Mini-NDX or NQX options 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 underlying MNX or NQX moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of MNX or NQX. The Exchange may also open additional strike prices that are more than 30% above or below the current MNX or NQX 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. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in Mini-NDX or NQX options.

(iii) The Exchange shall not list LEAPS on Mini-NDX or NQX options at intervals less than \$5.

(iv) (A) Delisting Policy. With respect to Mini-NDX or NQX options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of MNX or NQX, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(B) Notwithstanding the above referenced delisting policy, Customer requests to add strikes and/or maintain strikes in Mini-NDX or NQX option series eligible for delisting shall be granted.

(C) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Mini-NDX or NQX options.

(6) Notwithstanding Rule 2009(c)(1), the interval between strike prices of series of options on the KBW Bank Index ("BKX") will be \$1 or greater, subject to following conditions:

(i) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for BKX options, if the strike price is less than \$200, and will list at least two strike prices above and two strike prices below the current value of BKX at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for BKX options that are within 5 points from the closing value of BKX on the preceding day.

(ii) Additional Series. Additional series of the same class of BKX options 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 underlying BKX moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of BKX. The Exchange may also open additional strike prices that are more than 30% above or below the current BKX 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. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in BKX options. In all cases, however, the \$1 strike price interval may be listed on BKX options only where the strike price is less than \$200.

**(iii)** The Exchange shall not list LEAPS on BKX options at intervals less than \$2.50.

**(iv)(A)** Delisting Policy. With respect to BKX options added pursuant to the above paragraphs, the Exchange will regularly review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of BKX, and may delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

**(B)** Notwithstanding the above referenced delisting policy, Customer requests to add strikes and/or maintain strikes in BKX options eligible for delisting shall be granted.

**(C)** In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed BKX options.

**(7)** Notwithstanding Rule 2009(c)(1), (c)(3) and (c)(4), the interval between strike prices for options on the Nations VolDex Index ("VolDex") will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.

**(d)** *Index Level on the Last Day of Trading.* The reported level of the underlying index that is calculated by the reporting authority 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 day of trading in the underlying securities prior to the expiration date 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 Rules of the Exchange 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.

(1) The closing settlement value for options on a Foreign Currency Index shall be determined by using the WM Intra-Day Spot rate on the last trading day during expiration week.

*Supplementary Material to Rule 2009*

.01 *Short Term Option Series Program*: Notwithstanding the restriction in Rule 2009(a)(3), after an 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 at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly options series or Quarterly Options Series expire ("Short Term Option Expiration Dates"). The Exchange may have no more than a total of five Short Term Option Expiration Dates. 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 a Friday, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(a) *Classes*. 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 30 option class restriction, the Exchange may also 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 30 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.

(b) *Expiration*. 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 expires or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Options Series on the same index class.

(c) *Initial Series*. The Exchange may open up to 20 initial series for each option class that participates in the Short Term Option Series Program. 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 above and below the calculated index value of the underlying index at about the time that Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven series are initially opened, there will be at least three strike prices above and three strike prices below the 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.

(d) **Additional Series.** The Exchange may open up to 10 additional series for each option class that participates in the Short Term Option Series Program 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 on 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. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration month, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under this Supplementary Material .01, that are between 10% and 30% above or below the price of the underlying security. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened. Notwithstanding any other provisions in this Rule 2009, Short Term Option Series may be added up to, and including on, the Short Term Option Expiration Date for that options series.

(e) **Strike Interval.** 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. During the month prior to expiration of an index option class that is selected for the Short Term Option Series Program pursuant to this rule ("Short Term Option"), the strike price intervals for the related index non-Short Term Option ("Related non-Short Term Option") shall be the same as the strike price intervals for the index Short Term Option.

*.02 Quarterly Options Series Program:* Notwithstanding the restriction in Rule 2009(a)(3), 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 ("ETFs"). 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 pilot program under their respective rules.

(a) Expiration. 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.

(b) The Exchange will not list a Short Term Option Series on an options class whose expiration coincides with that of a Quarterly Options Series on that same options class.

(c) Settlement. Quarterly Options Series shall be P.M. settled.

(d) Initial Series. The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but no more than five, strike prices above and at least two, but no more than five, strike prices below the value of the underlying index at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for Quarterly Options Series that are reasonably related to the current index value of the underlying index to which such series relates at 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.

(e) Additional Series. The Exchange may open for trading additional Quarterly Options Series of the same class when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. 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.

(f) Strike Interval. 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.

.03 Notwithstanding the requirements set forth in this Rule 2009, the Exchange may list additional series of index options classes if such series are listed on at least one other national securities exchange in accordance with the applicable rules of such exchange for the listing of index options. For each options series listed pursuant to this Supplementary Material .03, the Exchange will submit a proposed rule change with the Securities and Exchange Commission that is effective upon filing within the meaning of Section 19(b)(3)(A) under the Securities Exchange Act of 1934.

.04 Notwithstanding the requirements set forth in this Rule 2009 and any Supplementary Material thereto, the Exchange may list additional expiration months on options classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange.

.05 Notwithstanding the requirements set forth in this Rule 2009 and any Supplementary Material thereto, the Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration Date at strike price intervals of (i) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all index option classes that participate in the Short Term Options Series Program; or (ii) \$0.50 for index option classes that trade in one dollar increments and are in the Short Term Option Series Program.

.06 In the case of the Dow Jones FXCM Dollar Index, the total number of components may not decrease from the number of components in the index at the time of its initial listing.

.07 Nonstandard Expirations Pilot Program

(a) Weekly Expirations. The Exchange may open for trading Weekly Expirations on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). Weekly Expirations shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that Weekly Expirations shall be P.M.-settled and new series in Weekly Expirations may be added up to and including on the expiration date for an expiring Weekly Expiration.

The maximum number of expirations that may be listed for each Weekly Expiration (i.e., a Monday expiration, Wednesday expiration, or Friday expiration, as applicable) in a given class is the maximum number of expirations permitted for standard index options in Rule 2009(a)(3). Weekly Expirations need not be for consecutive Monday, Wednesday, or Friday expirations as applicable; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. Weekly Expirations that are initially listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Monday, Wednesday, or Friday and the Exchange lists EOMs and Weekly Expirations as applicable in a given class, the Exchange will list an EOM instead of a Weekly Expiration in the given class. Other expirations in the same class are not counted as part of the maximum number of Weekly Expirations for a broad-based index class. If the Exchange is not open for business on a respective Monday, the normally Monday expiring Weekly Expirations will expire on the following business day. If the Exchange is not open for business on a respective Wednesday or Friday, the normally Wednesday or Friday expiring Weekly Expirations will expire on the previous business day.



(b) End of Month ("EOM") Expirations. The Exchange may open for trading EOMs on any broad-based index eligible for standard options trading to expire on last trading day of the month. EOMs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that EOMs shall be P.M.-settled and new series in EOMs may be added up to and including on the expiration date for an expiring EOM.

The maximum number of expirations that may be listed for EOMs in a given class is the same as the maximum number of expirations permitted for standard options on the same broad-based index. EOM expirations need not be for consecutive end of month expirations; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. EOMs that are first listed in a given class may expire up to four weeks from the actual listing date. Other expirations in the same class are not counted as part of the maximum numbers of EOM expirations for a broad-based index class.

(c) Duration of Nonstandard Expirations Pilot Program. The Nonstandard Expirations Pilot Program shall be through November 4, 2019.

(d) Weekly Expirations and EOM Trading Hours. Transactions in Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 A.M. (Eastern Time) and 4:15 P.M. (Eastern Time), except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time) and 4:00 p.m. (Eastern time).

#### **Rule 2010. Debit Put Spread Cash Account Transactions**

Debit put spread positions in European-style, broad-based index options traded on the Exchange (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 Exchange approval to maintain debit put spreads in a cash account carried by an Exchange member organization. A customer so approved is hereinafter referred to as a "spread exemption customer."

(b) The spread exemption customer has provided all information required on Exchange-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 the Exchange 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 Exchange-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 a Member, another broker-dealer, a bank, or securities depository.

**(h)** The spread exemption customer shall agree promptly to provide the Exchange 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 Member carrying an account for the customer shall:

**(i)** comply with all Exchange 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 the Exchange 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 Member carrying a cash account for a spread exemption customer with a debit put spread position dealt in on the Exchange 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 Member has violated this Rule 2010.

(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.

#### **Rule 2011. Disclaimers**

(a) *Applicability of Disclaimers.* The disclaimers in paragraph (b) below shall apply to the reporting authorities identified in the Supplementary Material to Rule 2001.

(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 therefor, 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 therefor, 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 therefor, 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 therefor, 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.

#### **Rule 2012. Exercise of American-Style Index Options**

No Member may prepare, time stamp or submit an exercise instruction for an American-style index options series if the Member 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 Member 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.

**Rule 2013. Market Maker Trading License**

(a) A trading license issued by the Exchange is required for all IXPMMs and IXCMMs to effect transactions as a market maker in Eligible Index Options traded on the Exchange. IXPMMs and IXCMMs are collectively referred to as IXMMs. For the purposes of this Rule, (1) the term "IXPMM" means a primary market maker in Eligible Index Options traded on the Exchange pursuant to this Rule 2013, and (2) the term "IXCMM" means a competitive market maker in Eligible Index Options traded on the Exchange pursuant to this Rule 2013.

(b) (1) A Member who is not currently a PMM or a CMM will require an IXMM trading license for each Eligible Index Options product.

(2) A Member may acquire and hold an IXMM trading license only if and for so long as such Member is qualified and approved to be a Member of the Exchange.

(3) An IXMM trading license is not transferable and may not be, in whole or in part, transferred, assigned, sublicensed or leased; provided, however, that the holder of the IXMM trading license may, with the prior written consent of the Exchange, transfer it to a qualified and approved Member (i) who is an affiliate or (ii) who continues substantially the same business of such trading right holder without regard to the form of the transaction used to achieve such continuation, e.g., merger, sale of substantially all assets, reincorporation, reorganization or the like.

(c) Eligible Index Options are (i) index options that have a 6-month average daily volume of less than 10,000 contracts in the US market, and (ii) index options that have a trading history of less than 6 months, in which case the eligibility threshold would be prorated proportionately over the time that an index was listed in the US market.

(1) Prior to the listing of an Eligible Index Option, the Exchange will conduct a one-time eligibility test to determine whether an index product is an Eligible Index Option.

(2) The following index products are not Eligible Index Options: Russell 2000 Index ("RUT"), the NASDAQ-100 Index ("NDX"), and the Mini-NASDAQ-100 Index ("MNX").

**(3)** Index options listed on the Exchange prior to December 31, 2010 are known as Legacy Index Options. The PMM in a Legacy Index Option is also the IXPMM in that product. Legacy Index Options are not be subject to the auction process found in this Rule 2013. An IXCMM, however, will be required to purchase an IXCMM trading license to trade in Legacy Index Options. In the event a Legacy Index Option is de-listed, any future listing of that Legacy Index Option will be subject to the auction process found in this Rule 2013.

**(d)** A Member may purchase an unlimited amount of IXMM trading licenses across all Eligible Index Options.

**(e)** IXPMM.

**(1)** There will be one (1) IXPMM per Eligible Index Option. All IXPMM trading licenses shall be permanently granted as long as the IXPMM meets its stated market quality commitments, except that the Board or designated committee may suspend or terminate any trading license of a market maker whenever, in the Board's or designated committee's judgment, the interests of a fair and order market are best served by such action.

**(2)** IXPMM trading licenses will be sold by means of a sealed bid auction conducted by the Exchange. The price at which an IXPMM trading license is sold in an auction shall be referred to as the "Auction Price." The Auction Price paid by an IXPMM shall remain unchanged for as long as an IXPMM retains a trading license in the Eligible Index Option.

**(3)** The Exchange will conduct one (1) sealed bid auction per Eligible Index Option for an IXPMM trading license. Together with its bid, a Member seeking an IXPMM trading license must provide, at a minimum, market quality commitments regarding (i) the average quotation size it will disseminate in an Eligible Index Option, and (ii) the maximum quotation spread it will disseminate in such product at least ninety percent (90%) of the time. At the end of the auction, the Exchange will determine the winning bidder for an IXPMM trading license based on bid amount and market quality commitment, and may reject a bid if the Exchange deems a market quality commitment to be unrealistic or significantly inferior to market quality commitments submitted by other bidding Members.

**(4)** The Exchange will measure market quality commitments on a quarterly basis to ensure IXPMMs are in compliance with their stated commitments. Failure to meet stated commitments may, at the discretion of the Exchange and subject to the procedural protections provided under the rules of the Exchange, result in Nasdaq ISE terminating an allocation and conducting an auction to reallocate the failing IXPMM's Eligible Index Option to another Member. The IXPMM may only change its market quality commitment to the extent that the new commitments are an improvement to its existing commitment.

(5) Current market makers shall be given priority to purchase a IXPMM trading license in an Eligible Index Option so long as the terms of its bid to purchase an IXPMM trading license in an Eligible Index Option, as well as its market quality commitments, are equal to those of Members that are not currently a market maker on the Exchange.

(6) An IXPMM may terminate its obligations as an IXPMM in an index options if it is unable to meet its obligations, provided the IXPMM gives at least 60 days prior written notice to the Exchange of such termination. In the event the Exchange is unable to re-allocate the IXPMM's index option product within the notice period and the index option product is singly listed, then the IXPMM shall continue to fulfill its obligations in that product until all open interest has been closed.

(7) An IXPMM who obtains a trading license in an Eligible Index Option shall be subject to all the responsibilities and privileges that PMMs are subject to, including, but not limited to, the obligations found in Chapter 8 of the Exchange's rules.

**(f) IXCMM.**

(1) There shall be an unlimited number of IXCMM trading licenses available for purchase by Members who are not currently PMMs or CMMs. PMMs and CMMs who want to be an IXCMM are not required to pay any additional fee to obtain an IXCMM trading license.

(2) All IXCMM trading licenses shall be for a term of one year. An IXCMM who is not currently a PMM or a CMM shall be subject to a fee established by the Exchange. The Exchange may sell IXCMM trading licenses at any time during a calendar year. IXCMM trading licenses sold during a calendar year shall be prorated to reflect the remaining number of trading days in the year.

(3) IXCMM trading licenses shall expire at the end of the calendar year in which they are issued. Notwithstanding the foregoing, an IXCMM may terminate its trading license prior to its scheduled expiration by providing at least 10 days prior written notice to the Exchange of such termination.

(4) An IXCMM who obtains a trading license in an Eligible Index Option shall be subject to all the responsibilities and privileges that CMMs are subject to, including, but not limited to, the obligations found in Chapter 8 of the Exchange's rules.

**21. Reserved**

**22. Reserved**

**Reserved**

**23-79. Reserved**

Reserved

## **80. Investigations and Sanctions**

### **Investigations and Sanctions**

Series 8000 of the Nasdaq BX, Inc. Rules, as such rules may be in effect from time to time (the "BX Rule 8000 Series"), are hereby incorporated by reference into this Nasdaq ISE Rules Chapter 80, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction. Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction shall comply with the BX Rule 8000 Series as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE-related meaning of such term. The defined terms "Exchange" or "Nasdaq BX" in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE Exchange; the defined terms "Rule" or "BX Rule" in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE Rules; the defined terms "Board" or "Exchange Board" in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE Board of Directors; the defined term "Member" in the BX Rule 8000 Series shall be read to refer to a Nasdaq ISE Member; the defined term "Associated Person" shall be read to refer to a Nasdaq ISE Associated Person; the defined terms "BX Regulatory Department" or "Regulation Department" shall be read to refer to the Nasdaq ISE Regulatory Department; the defined terms "BX Regulation" shall be read to refer to "Nasdaq ISE Regulation"; the defined term "Chief Regulatory Officer" shall be read to refer to the Chief Regulatory Officer of Nasdaq ISE; and "Equity Rule" shall be read to refer to a Nasdaq ISE Rule.

Additionally, references in the BX Rule 8000 Series to "Rule 0120" shall be read to refer to Nasdaq ISE Rule 100. References in the BX Rule 8000 Series to "Rule 1015" shall be read to refer to Nasdaq ISE Rule 302.

### **81-89. Reserved**

Reserved

## **90. Code of Procedure**

### **Code of Procedure**

Series 9000 of the Nasdaq BX, Inc. Rules, as such rules may be in effect from time to time (the "BX Rule 9000 Series"), are hereby incorporated by reference into this Nasdaq ISE Rules Chapter 90, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction. Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction shall comply with the BX Rule 9000 Series as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined terms "Exchange" or "Nasdaq BX" in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE Exchange; the defined terms "Rule" or "BX Rule" in the BX Rule 9000 Series shall be read to refer to the

Nasdaq ISE Rules; the defined terms "Board" or "Exchange Board" in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE Board of Directors; the defined term "Member" in the BX Rule 9000 Series shall be read to refer to a Nasdaq ISE Member; the defined term "Associated Person" shall be read to refer to a Nasdaq ISE Associated Person; the defined terms "BX Regulatory Department" or "Regulation Department" shall be read to refer to the Nasdaq ISE Regulatory Department; the defined terms "BX Regulation" shall be read to refer to "Nasdaq ISE Regulation"; the defined term "Chief Regulatory Officer" shall be read to refer to the Chief Regulatory Officer of Nasdaq ISE; and "Equity Rule" shall be read to refer to a Nasdaq ISE Rule.

Additionally, references in the BX Rule 9000 Series to the following rules shall be read to refer to the following Nasdaq ISE Rules: "Rule 0120" shall be read to refer to Nasdaq ISE Rule 100; "Rule 1013" shall be read to refer to Nasdaq ISE Rules 305 and 306; "Rule 1070" shall be read to refer to the Supplementary Material to Nasdaq ISE Rule 313; "Rule 1160" shall be read to refer to Nasdaq ISE Rule 305(b); "Equity Rule 2110" shall be read to refer to Nasdaq ISE Rule 400; "Equity Rule 2120" shall be read to refer to Nasdaq ISE Rule 405; "Rule 2140" shall be read to refer to Nasdaq ISE Rule 312; "Equity Rule 2150" shall be read to refer to Nasdaq ISE Chapter 6; "Rule 2170" shall be read to refer to Nasdaq ISE Rule 403; "Rule 4110A" shall be read to refer to Nasdaq ISE Chapter 13; "Rule 4120A" shall be read to refer to Nasdaq ISE Chapter 13; "Rule 10000 Series" shall be read to refer to Nasdaq ISE Rules Chapter 18; and "Chapter III, Section 16" shall be read to refer to Nasdaq ISE Rule 403.

Notwithstanding the above, IM-9216 ("Violations Appropriate for Disposition Under Plan Pursuant to SEC Rule 19d-1(c)(2)") in the BX Rule 9000 Series shall not apply to the Nasdaq ISE Exchange or to its Members, Associated Persons, or other persons subject to the jurisdiction of the Exchange. Instead, the Nasdaq ISE Rule that governs such violations shall be Nasdaq ISE Rule 1614(b) and references in the BX Rule 9000 Series to IM-9216 shall be read to refer to Nasdaq ISE Rule 1614(b). Moreover, the procedures set forth in BX Rule 9216(b) and 9143(e)(3), which shall govern the handling of violations of Rules listed in Nasdaq ISE Rule 1614(b) that are subject to a plan approved by the Commission pursuant to SEC Rule 19d-1(c)(2) (the "Minor Rule Violation Plan" or "MRVP") and the issuance of MRVP letters, shall also apply to the Exchange's handling of violations of Rules listed in Nasdaq ISE Rule 1614(b) that are not subject to the MRVP ("minor rule violations") and the issuance of minor rule violation letters, except that the Exchange shall promptly report any final disciplinary action to the Commission, in accordance with SEC Rule 19d-1(c)(1).]

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Nasdaq ISE, LLC Rules

General Rules



## General 1 Provisions

### Section 1. Definitions

(a) The following terms, when used in these Rules, shall have the meanings specified in this General 1, unless the context indicates otherwise. Any term defined in the Limited Liability Company Agreement (the "LLC Agreement") or the By-Laws of Nasdaq ISE, LLC (the "By-Laws") and not otherwise defined in this General 1 shall have the meaning assigned in the LLC Agreement or the By-Laws.

(1) The term "**associated person**" or "**person associated with a Member**" means any partner, officer, director, or branch manager of a Member (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 Member or any employee of a Member.

(2) The term "**Clearing Corporation**" means The Options Clearing Corporation.

(3) The term "**Clearing Member**" means a Member that is self-clearing or an Electronic Access Member that clears Exchange Transactions for other Members of the Exchange.

(4) The term "**Code of Procedure**" means the procedural rules contained in General 5, Section 3.

(5) The term "**EAM Rights**" means the non-transferable rights held by an Electronic Access Member.

(6) The term "**Electronic Access Member**" means a Member that is approved to exercise trading privileges associated with EAM Rights.

(7) The term "**Exchange Act**" or the "Act" means the Securities Exchange Act of 1934 and the rules and regulations thereunder, as amended from time to time.

(8) 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 Exchange 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 General 3, Section 2, Options 2A, Section 3, Options 3, Section 20 and Options 2, Section 5; and (7) such other proceedings or actions authorized by the Exchange Rules.

(9) The term "**Exchange Transaction**" means a transaction executed on or through the facilities of the Exchange.

(10) The term "**Federal Reserve Board**" means the Board of Governors of the Federal Reserve System.

(11) The term "**good standing**" means that a Member is not delinquent with respect to Exchange dues, fees or other charges and is not suspended or barred from effecting Exchange Transactions or from association with a Member either by the Exchange or by means of a statutory disqualification.

(12) 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.

(13) The term "**Member**" means an organization that has been approved to exercise trading rights associated with Exchange Rights.

(14) The term "**Membership**" refers to the trading privileges associated with Exchange Rights.

(15) The term "**primary market**" means the principal market in which an underlying security is traded.

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

(17) The terms "**SEC**" and "**Commission**" mean the United States Securities and Exchange Commission.

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

(19) The term "**underlying security**" means the security that the Clearing Corporation shall be obligated to sell (in the case of a call option) or purchase (in the case of a put option) upon the valid exercise of an options contract.

## **General 2 Organization and Administration**

### **Section 1. Divisions of the Exchange**

The divisions of the Exchange shall include the Regulatory Division and such other Divisions as the Chief Executive Officer, with the approval of the Board, may establish. The Chief Executive Officer shall appoint a head of every Division and may designate departments within each Division.

### **Section 2. Fees, Dues and Other Charges**

(a) Access Fees. The access fees payable by Members shall be fixed from time to time by the Board. Access fees shall be payable in full on a monthly basis.

(b) Transaction Fees. Members shall pay a fee for each transaction they execute on the Exchange, as may be determined by the Board.

(c) Communication Fees. The Board may, at its discretion, impose a communication fee for quotes entered on the Exchange in addition to the fee contained in General 2, Section 2(b).

(d) Regulatory Fees or Charges. In addition to the dues and charges specified in this General 2, the Board may, from time to time, fix and impose other fees, assessments or charges to be paid to the Exchange by Members or by Classes of Members with respect to applications, registrations, approvals, use of Exchange facilities, or other services or privileges granted, including but not limited to the following:

(1) Regulatory Oversight Service Fees. Members that are subject to Rule 15c3-3 under the Exchange Act (the "Net Capital Rule") and for which the Exchange has been assigned as the designated examining authority ("DEA") pursuant to Rule 17d-1 under the Exchange Act shall be required to pay a fee to be determined by the Board.

(2) Members, whether or not they are members of another registered national securities exchange or securities association with which the Exchange has executed an agreement under Rule 17d-2 under the Exchange Act to allocate responsibility for examining Members for compliance with and enforcement of certain regulatory requirements, shall be required to pay a fee to be determined by the Board.

(3) Registration Fees. Members shall pay application, maintenance and transfer registration fees for their Registered Options Principals ("ROPs") as described in Options 10, Section 2 and General 4, Section 1.1220(a) and Registered Representatives ("RRs") as described in Options 10, Section 2 and General 4, Section 1.1220(b).

### **Section 3. Exchange's Costs of Defending Legal Proceedings**

(a) Any Member or person associated with a Member who fails to prevail in a lawsuit or other legal proceeding instituted by such person against the Exchange or any of its Directors, officers, committee members, employees or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed fifty thousand dollars (\$50,000).

(b) Paragraph (a) of this Rule shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

### **Section 4. Limitation on Affiliation between the Exchange and Members**

(a) Without prior SEC approval, the Exchange, or any facility of the Exchange, or any entity with which the Exchange or any facility of the Exchange is affiliated shall not, directly or indirectly through one or more intermediaries, acquire or maintain an ownership interest in a Member or non-Member owner. In addition, a Member or non-Member owner shall not be or become an affiliate of the Exchange, or any facility of the Exchange, or any entity with which the Exchange or any facility of the Exchange is affiliated. In addition, no Member or person associated with a Member shall be the beneficial owner, directly or indirectly, of greater than twenty percent (20%) of the (i) then-outstanding voting Limited Liability Company Interest of the Exchange, or (ii) then-outstanding voting securities of Nasdaq, Inc.

(b) Nothing in this Rule shall prohibit any Member from being or becoming an affiliate of the Exchange, or any facility of the Exchange, or an affiliate of any affiliate of the Exchange or any facility of the Exchange solely by reason of any officer, director or partner of such Member being or becoming a Member Representative Director (as defined in the By-Laws) pursuant to the By-Laws. For purposes of this Rule, any calculation of the voting Limited Liability Company Interest of the Exchange or the voting securities of Nasdaq, Inc. 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 "beneficially owned", including all derivative or similar words, shall have the meaning set forth in the Amended and Restated Certificate of Incorporation of Nasdaq, Inc.

(c) Nasdaq, Inc., which owns NASDAQ Execution Services, LLC and the Exchange, 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 the Exchange's Systems, obtained as a result of its affiliation with the Exchange, until such information is available generally to similarly situated Exchange Members in connection with the provision of inbound routing to the Exchange.

## **Section 5. Reserved**

## **Section 6. Reserved**

### **General 3 Membership and Access**

#### **Section 1. Qualification of Members**

(a) A Member of the Exchange may be a corporation, partnership, or LLC. Each Member must:

- (1) be a broker-dealer registered pursuant to Section 15 of the Exchange Act; and
- (2) meet the qualifications for a Member in accordance with Exchange Rules applicable thereto.

(b) A Member that 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:

(1) prepare all such reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars;

(2) reimburse the Exchange for any expense 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; and

(3) ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations.

(c) Every Member shall have as the principal purpose of being a Member the conduct of a public securities business. Such a purpose shall be deemed to exist if and so long as:

(1) the Member has qualified and acts in respect of its business on the Exchange in one or more of the following capacities: (i) an Electronic Access Member; (ii) a Primary Market Maker; or (iii) a Competitive Market Maker; and

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

## **Section 2. Denial of and Conditions to Becoming a Member**

(a) An applicant to become a Member of the Exchange must seek approval in the form and manner prescribed by the Exchange.

(b) The Exchange may deny (or condition) approval of a Member, or may prevent a person from becoming associated (or condition an association) with a Member, for the same reasons that the SEC may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Exchange Act.

(c) The Exchange also may deny (or condition) approval of a Member, or may prevent a person from becoming associated with (or condition an association) with a Member, when the applicant, directly or indirectly:

(1) has a negative net worth, has financial difficulties involving an amount that is more than five percent (5%) of the applicant's net worth, or has a pattern of failure to pay just debts (whether or not such debts have been the subject of a bankruptcy action);

(2) is unable satisfactorily to demonstrate a capacity to adhere to all applicable Exchange, SEC, the Clearing Corporation and Federal Reserve Board policies,

rules and regulations, including those concerning record-keeping, reporting, finance and trading procedures; or

(3) is unable satisfactorily to demonstrate reasonably adequate systems capability and capacity.

(d) When an applicant is a subject of an investigation conducted by any SRO or government agency involving its fitness for becoming a Member, the Exchange need not act on the application until the matter has been resolved.

(e) The Exchange may determine not to permit a Member or person associated with a Member to continue as a Member or associated therewith, if the Member or associated person:

(1) fails to meet any of the qualification requirements for becoming a Member or associated with a Member after approval thereof;

(2) fails to meet any condition placed by the Exchange on such Member or association with a Member;

(3) violates any agreement with the Exchange; or

(4) becomes subject to a statutory disqualification under the Exchange Act.

(f) If a Member or person associated with a Member that becomes subject to a statutory disqualification under the Exchange Act wants to continue as a Member of the Exchange or in association with a Member, the Member or associated person must submit an application to the Exchange seeking to continue as a Member or in association with a Member notwithstanding the statutory disqualification, as set forth in Rule 9522. Failure to timely file such an application is a factor that may be taken into consideration by the Exchange in making determinations pursuant to paragraph (e) of this Rule.

**(g) Review by the Exchange Review Council.** Subject to General 5, Section 3 of the Rules, any applicant whose application to become a Member is denied or conditioned by the Exchange's Membership Department ("the Department"), or any person whose association with a Member is denied or conditioned by the Department pursuant to paragraph (b) or (c) of this Rule, and any Member or person associated with a Member who is not permitted by the Department pursuant to paragraph (e) of this Rule to continue as a Member or to be associated with a Member or which continuance as a Member or association is conditioned by the Department, may appeal the Department's decision to the Exchange Review Council, as set forth below.

(1) *Initiation of Review by Applicant.* Within 25 days after service of a decision under this Rule, an applicant ("Applicant") may file a written request for review with the Exchange Review Council. A request for review shall state with specificity why the Applicant believes that the Department's decision is

inconsistent with the bases for denial set forth in this Rule, or otherwise should be set aside, and state whether a hearing is requested. The Applicant simultaneously shall file by first-class mail a copy of the request with the Department.

(2) *Transmission of Documents.* Within ten days after the filing of a request for review, the Department shall:

(A) transmit to the Exchange Review Council copies of all documents that were considered in connection with the Department's decision and an index to the documents; and

(B) serve on the Applicant a copy of such documents (other than those documents originally submitted by Applicant) and a copy of the index.

(3) *Membership Application Docket.* The Department shall promptly record in the Exchange's membership application docket each request for review filed with the Exchange Review Council under this Rule and each material subsequent event, filing, and change in the status of a membership proceeding.

(4) *Appointment of Subcommittee.* The Exchange Review Council or the Review Subcommittee defined in Rule 9120 shall appoint a Subcommittee to participate in the review. The Subcommittee shall be composed of two or more persons who shall be current or past members of the Exchange Review Council or former Directors.

(5) *Powers of Subcommittee.* If a hearing is requested, the Subcommittee shall conduct the hearing. If a hearing is not requested, the Subcommittee may serve a notice directing that a hearing be held. If a hearing is not requested or directed, the Subcommittee shall conduct its review on the basis of the record developed before the Department and any written submissions made by the Applicant or the Department in connection with the request for review.

(6) *Hearing.*

(A) *Notice.* If a hearing is requested or directed, the hearing shall be held within 45 days after the filing of the request with the Exchange Review Council or service of the notice by the Subcommittee. The Exchange Review Council shall serve written notice of the date and time of the hearing to the Applicant by facsimile or overnight courier not later than 14 days before the hearing.

(B) *Counsel.* The Applicant and the Department may be represented by counsel at a hearing conducted pursuant to this Rule.

(C) *Evidence.* Formal rules of evidence shall not apply to a hearing under this Rule. Not later than five days before the hearing, the Applicant and

the Department shall exchange copies of their proposed hearing exhibits and witness lists and provide copies of the same to the Exchange Review Council. If the Applicant or the Department fails to provide copies of its proposed hearing exhibits or witness list within such time, the Subcommittee shall exclude the evidence or witnesses from the proceeding, unless the Subcommittee determines that good cause is shown for failure to comply with the production date set forth in this subparagraph.

(D) Transcript. The hearing shall be recorded and a transcript prepared by a court reporter. A transcript of the hearing shall be available for purchase from the court reporter at prescribed rates. The Applicant, the Department, or a witness may seek to correct the transcript. A proposed correction of the transcript shall be submitted to the Subcommittee within a reasonable period of time prescribed by the Subcommittee. Upon notice to the Applicant and the Department, the Subcommittee may direct the correction to the transcript as requested or sua sponte.

(7) Additional Information, Briefs. At any time during its consideration, the Subcommittee or the Exchange Review Council may direct the Applicant or the Department to file additional information or briefs. Any additional information or brief filed shall be provided to all parties before the Exchange Review Council renders its decision.

(8) Abandonment of Request for Review. If an Applicant fails to specify the grounds for its request for review under General 3, Section 2(g)(1), appear at a hearing for which it has notice, or file information or briefs as directed, the Exchange Review Council or the Review Subcommittee may dismiss the request for review as abandoned, and the decision of the Department shall become the final action of the Exchange. Upon a showing of good cause, the Exchange Review Council or the Review Subcommittee may withdraw a dismissal entered pursuant to this paragraph.

(9) Subcommittee Recommendation. The Subcommittee shall present a recommended decision in writing to the Exchange Review Council within 60 days after the date of the hearing held pursuant to subparagraph (g)(6), and not later than seven days before the meeting of the Exchange Review Council at which the membership proceeding shall be considered.

(10) Decision.

(A) Proposed Written Decision. After considering all matters presented in the review and the Subcommittee's recommended written decision, the Exchange Review Council may affirm, modify, or reverse the Department's decision or remand the membership proceeding with



instructions. The Exchange Review Council shall prepare a proposed written decision pursuant to subparagraph (g)(10)(B).

(B) Contents. The decision shall include:

- (1) a description of the Department's decision, including its rationale;
- (2) a description of the principal issues raised in the review;
- (3) a summary of the evidence on each issue; and
- (4) a statement whether the Department's decision is affirmed, modified, or reversed, and a rationale therefor that references the bases for denial in General 3, Section 2.

(C) Issuance of Decision After Expiration of Call for Review Periods. The Exchange Review Council shall provide its proposed written decision to the Exchange Board. The Exchange Board may call the membership proceeding for review pursuant to General 3, Section 2(h). If the Exchange Board does not call the membership proceeding for review, the proposed written decision of the Exchange Review Council shall become final. The Exchange Review Council shall serve the Applicant with a written notice specifying the date on which the call for review period expired and stating that the final written decision will be served within 15 days after such date. The Exchange Review Council shall serve its final written decision within 15 days after the date on which the call for review period expired. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Review Council remands the membership proceeding.

(D) Failure to Issue Decision. If the Exchange Review Council fails to serve its final written decision within the time prescribed in subparagraph (g)(10)(C), the Applicant may file a written request with the Exchange Board requesting that the Exchange Board direct the Exchange Review Council to serve its decision immediately or to show good cause for an extension of time. Within seven days after the filing of such a request, the Board shall direct the Exchange Review Council to serve its written decision immediately or to show good cause for an extension of time. If the Exchange Review Council shows good cause for an extension of time, the Exchange Board may extend the 15-day time limit by not more than 15 days.

**(h) Discretionary Review by the Exchange Board**

(1) Call for Review by Director. A Director may call a membership proceeding for review by the Exchange Board if the call for review is made within the period prescribed in subparagraph (h)(2).

(2) 15 Day Period; Waiver. A Director shall make his or her call for review at the next meeting of the Exchange Board that is at least 15 days after the date on which the Exchange Board receives the proposed written decision of the Exchange Review Council. By unanimous vote of the Exchange Board, the Exchange Board may shorten the period to less than 15 days. By an affirmative vote of the majority of the Exchange Board then in office, the Exchange Board may, during the 15 day period, vote to extend the period to more than 15 days.

(3) Review At Next Meeting. If a Director calls a membership proceeding for review within the time prescribed in subparagraph (h)(2), the Exchange Board shall review the membership proceeding not later than the next meeting of the Exchange Board. The Exchange Board may order the Applicant and the Department to file briefs in connection with review proceedings pursuant to this paragraph.

(4) Decision of the Exchange Board, Including Remand. After review, the Exchange Board may affirm, modify, or reverse the proposed written decision of the Exchange Review Council. Alternatively, the Exchange Board may remand the membership proceeding with instructions. The Exchange Board shall prepare a written decision that includes all of the elements described in Rule General 3, Section 2(g)(10)(B).

(5) Issuance of Decision. The Exchange Board shall serve its written decision on the Applicant within 15 days after the meeting at which it conducted its review. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Board remands the membership proceeding.

### **Section 3. Persons Associated with Members**

(a) Persons associated with Members shall be bound by the By-Laws and Rules of the Exchange and the Rules of the Clearing Corporation. The Exchange may bar a person from becoming or continuing to be associated with a Member if such person does not agree in writing, on a form prescribed by the Exchange, to furnish the Exchange with information with respect to such person's relationship and dealings with the Member, and information reasonably related to such person's other securities business, as may be required by the Exchange, and to permit the examination of its books and records by the Exchange to verify the accuracy of any information so supplied.

(b) Each Member shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Member 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).

(c) A claim of any person associated with a Member described in the first sentence of paragraph (b) of this Rule against such organization shall be subordinate in right of payment of customers and other Members.

#### **Section 4. Documents Required of Applicants and Members**

(a) Although the Exchange may request additional information, at a minimum, the partnership agreement and all amendments thereto, in the case of a partnership, the articles of incorporation, by-laws and all amendments thereto, in the case of a corporation, and in the case of a limited liability company, the articles of organization and operating agreement and all amendments thereto, and any lease agreement to which a Membership is subject, shall be filed with, and shall be subject to review by, the Exchange; however, no action or failure to act by the Exchange shall be construed to mean that the Exchange has in any way passed on the investment merits of or given approval to any such document.

(b) Every Member shall report to the Exchange all contact information required by the Exchange via the FINRA Contact system. 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. 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.

(c) In a manner and form prescribed by the Exchange, every Member shall pledge to abide by the By-Laws and Rules of the Exchange, as amended from time to time, and by all Options Regulatory Alerts, notices, directives or decisions adopted pursuant to or made in accordance with the By-Laws and Rules.

#### **Section 5. Member Application Procedures**

(a) Every applicant to become a Member of the Exchange shall file an application. Applications must be accompanied by a non-refundable application fee.

(b) Within a reasonable time following receipt of an application, the name of the applicant shall be posted by the Exchange.

(c) An applicant must be approved by the Exchange to perform in at least one of the recognized capacities of a Member as stated in General 3, Section 1(c).

(d) Upon completion of the application process, the Exchange shall consider whether to approve the application, unless there is just cause for delay. Persons associated with the applicant are subject to investigation by the Exchange and may be required to appear in person before the Exchange. The Exchange may also require any person associated with a

Member who may possess information relevant to the applicant's suitability to be a Member to provide information or testimony.

(e) The Exchange will determine whether to approve an application. Written notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefor, shall be provided to the applicant.

(f) If the application process is not completed within six (6) months of the filing of the application form and payment of the appropriate fee, the application shall be deemed to be automatically withdrawn.

(g) Approved applicants must become effective Members within ninety (90) days of the date of approval by the Exchange by owning or leasing a Membership. Should an approved applicant fail to own or lease a Membership within ninety (90) days, its approval shall expire unless an extension is granted by the Exchange based on a showing that a transfer is pending or near completion.

(h) With respect to each Membership that becomes effective in accordance with this Rule, the Exchange shall promptly notify all Members thereof.

## **Section 6. Dissolution and Liquidation of Members**

Every Member shall promptly notify the Exchange in writing upon the adoption of a plan of liquidation or dissolution. Upon receipt of such notice, the Member's trading privileges may be suspended in accordance with General 5, Section 3.

\* \* \* \* \*

## **General 5 Discipline**

### **Section 1. Disciplinary Jurisdiction**

(a) A Member or a person associated with a Member who is alleged to have violated or aided and abetted a violation of any provision of the Exchange Act, the rules and regulations promulgated thereunder, or any provision of the By-Laws or Rules of the Exchange or any interpretation thereof or resolution of the Board of the Exchange regulating the conduct of business on the Exchange, shall be subject to the disciplinary jurisdiction of the Exchange under this General 5, and after notice and opportunity for a hearing may be appropriately disciplined by expulsion, suspension, limitation of activities, functions, and operations, fine, censure, being suspended or barred from being associated with a Member or any other fitting sanction, in accordance with provisions of the General 5.

(b) Persons associated with a Member may be charged with any violation committed by employees under his supervision or by the Member as though such violation were his own. A Member may be charged with any violation committed by its employees or other person who is associated with such Member, as though such violation were its own.

(c) Any Member or person associated with a Member shall continue to be subject to the disciplinary jurisdiction of the Exchange following such Member's termination or the person's termination of association with a Member with respect to matters that occurred prior to such termination; provided that written notice of the commencement of an inquiry into such matters is given by the Exchange to such former Member or former associated person within one (1) year of receipt by the Exchange, or such other exchange or association recognized for purposes of Option 10, Section 3, of the latest written notice of the termination of such person's status as a Member or person associated with a Member. The foregoing notice requirement does not apply to a person who at any time after a termination again subjects himself to the disciplinary jurisdiction of the Exchange by becoming a Member or a person associated with a Member.

### **Section 2. Investigations and Sanctions**

Series 8000 of the Nasdaq BX, Inc. Rules, as such rules may be in effect from time to time (the "BX Rule 8000 Series"), are hereby incorporated by reference into this Nasdaq ISE Rules General 5, Section 2, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction. Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction shall comply with the BX Rule 8000 Series as though such rules were fully set forth herein. All defined terms, including any variations thereof, contained in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE-related meaning of such term. The defined terms "Exchange" or "Nasdaq BX" in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE Exchange; the defined terms "Rule" or "BX Rule" in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE Rules; the defined terms "Board" or "Exchange Board" in the BX Rule 8000 Series shall be read to refer to the Nasdaq ISE Board of Directors; the defined term "Member" in the BX Rule 8000 Series shall be read to refer to a Nasdaq ISE Member; the defined term "Associated Person" shall be read to refer to a Nasdaq ISE Associated Person; the defined terms "BX Regulatory Department" or "Regulation Department" shall be read to refer to the Nasdaq ISE Regulatory Department; the defined terms "BX Regulation" shall be read to refer to "Nasdaq ISE Regulation"; the defined term "Chief Regulatory Officer" shall be read to refer to the Chief Regulatory Officer of Nasdaq ISE; and "Equity Rule" shall be read to refer to a Nasdaq ISE Rule.

Additionally, references in the BX Rule 8000 Series to "Rule 0120" shall be read to refer to Nasdaq ISE General 1, Section 1 and Options 1, Section 1. References in the BX Rule 8000 Series to "Rule 1015" shall be read to refer to Nasdaq ISE Rule General 3, Section 2.

### **Section 3. Code of Procedure**

Series 9000 of the Nasdaq BX, Inc. Rules, as such rules may be in effect from time to time (the "BX Rule 9000 Series"), are hereby incorporated by reference into this Nasdaq ISE Rules General 5, Section 3, and are thus Nasdaq ISE Rules and thereby applicable to Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction. Nasdaq ISE Members, Associated Persons, and other persons subject to the Exchange's jurisdiction shall comply with the BX Rule 9000 Series as though such rules

were fully set forth herein. All defined terms, including any variations thereof, contained in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE-related meaning of such term. Solely by way of example, and not in limitation or in exhaustion: the defined terms "Exchange" or "Nasdaq BX" in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE Exchange; the defined terms "Rule" or "BX Rule" in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE Rules; the defined terms "Board" or "Exchange Board" in the BX Rule 9000 Series shall be read to refer to the Nasdaq ISE Board of Directors; the defined term "Member" in the BX Rule 9000 Series shall be read to refer to a Nasdaq ISE Member; the defined term "Associated Person" shall be read to refer to a Nasdaq ISE Associated Person; the defined terms "BX Regulatory Department" or "Regulation Department" shall be read to refer to the Nasdaq ISE Regulatory Department; the defined terms "BX Regulation" shall be read to refer to "Nasdaq ISE Regulation"; the defined term "Chief Regulatory Officer" shall be read to refer to the Chief Regulatory Officer of Nasdaq ISE; and "Equity Rule" shall be read to refer to a Nasdaq ISE Rule.

Additionally, references in the BX Rule 9000 Series to the following rules shall be read to refer to the following Nasdaq ISE Rules: "Rule 0120" shall be read to refer to Nasdaq ISE General 1, Section 1 and Options 1, Section 1; "Rule 1013" shall be read to refer to Nasdaq ISE General 3, Section 4 and Section 5; "Rule 1070" shall be read to refer to the Supplementary Material to Nasdaq ISE General 4, Section 1.1210; "Rule 1160" shall be read to refer to Nasdaq ISE General 3, Section 4(b); "Equity Rule 2110" shall be read to refer to Nasdaq ISE Options 9, Section 1; "Equity Rule 2120" shall be read to refer to Nasdaq ISE Options 9, Section 6; "Rule 2140" shall be read to refer to Nasdaq ISE General 2, Section 4; "Equity Rule 2150" shall be read to refer to Nasdaq ISE Options 10; "Rule 2170" shall be read to refer to Nasdaq ISE Options 9, Section 4; "Rule 4110A" shall be read to refer to Nasdaq ISE Options 6D; "Rule 10000 Series" shall be read to refer to Nasdaq ISE General 4; "Rule 4120A" shall be read to refer to Nasdaq ISE Options 6D; and "Chapter III, Section 16" shall be read to refer to Nasdaq ISE Option 9, Section 3.

Notwithstanding the above, IM-9216 ("Violations Appropriate for Disposition Under Plan Pursuant to SEC Rule 19d-1(c)(2)") in the BX Rule 9000 Series shall not apply to the Nasdaq ISE Exchange or to its Members, Associated Persons, or other persons subject to the jurisdiction of the Exchange. Instead, the Nasdaq ISE Rule that governs such violations shall be Nasdaq ISE Options 11, Section 1(b) and references in the BX Rule 9000 Series to IM-9216 shall be read to refer to Nasdaq ISE Options 11, Section 1(b). Moreover, the procedures set forth in BX Rule 9216(b) and 9143(e)(3), which shall govern the handling of violations of Rules listed in Nasdaq ISE Options 11, Section 1(b) that are subject to a plan approved by the Commission pursuant to SEC Rule 19d-1(c)(2) (the "Minor Rule Violation Plan" or "MRVP") and the issuance of MRVP letters, shall also apply to the Exchange's handling of violations of Rules listed in Nasdaq ISE Options 11, Section 1(b) that are not subject to the MRVP ("minor rule violations") and the issuance of minor rule violation letters, except that the Exchange shall promptly report any final disciplinary action to the Commission, in accordance with SEC Rule 19d-1(c)(1).

## Options Rules

### Options 1 [Definitions]General Provisions

#### Section 1. Definitions

(a) The following terms, when used in these Rules, shall have the meanings specified in this Options 1, unless the context indicates otherwise. Any term defined in the Limited Liability Company Agreement (the "LLC Agreement") or the By-Laws of Nasdaq ISE, LLC (the "By-Laws") and not otherwise defined in this Options 1 shall have the meaning assigned in the LLC Agreement or the By-Laws.

- (1) An "**account number**" shall mean a number assigned to a Member. Members 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 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised on any business day prior to its expiration date and on its expiration date.
- (4) A "**badge**" shall mean an account number, which may contain letters and/or numbers, assigned to Market Makers. A Market Maker account may be associated with multiple badges.
- (5) The term "**bid**" means a quote or limit order to buy one or more options contracts.
- (6) 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.
- (7) The term "**class of options**" means all options contracts covering the same underlying security.
- (8) The term "**closing purchase transaction**" means an Exchange Transaction that will reduce or eliminate a short position in an options contract.
- (9) The term "**closing writing transaction**" means an Exchange Transaction that will reduce or eliminate a long position in an options contract.
- (10) The term "**CMM Rights**" means the transferable rights held by a Competitive Market Maker or a non-Member owner (as that term is defined in

Options 2A, Section 1 (a). The number of authorized CMM Rights will be 160 CMM Rights.

(11) The term "**Competitive Market Maker**" means a Member that is approved to exercise trading privileges associated with CMM Rights.

(12) The term "**covered short position**" means (i) the obligation of a writer of a call option is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Options 3, Section 3(f) or (h), 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 type and 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) 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 type and 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.

(13) 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.

(14) The term "**European-style option**" means an options contract that, subject to the provisions of Options 6B, Section 1 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on its expiration date.

(15) The term "**Exchange Rights**" means the PMM Rights, CMM Rights and EAM Rights collectively.

(16) 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.

(17) The term "**expiration date**" means, unless separately defined elsewhere in these Rules: (i) in the case of 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 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.

(18) 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 Options 3, Section 8 and Options 2, Section 4.

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

(20) The term "**Market Makers**" refers to "Competitive Market Makers" and "Primary Market Makers" collectively.

(21) The term "**Market Maker Rights**" refers to PMM Rights and CMM Rights collectively.

(22) A "**mnemonic**" shall mean an acronym comprised of letters and/or numbers assigned to Electronic Access Members. An Electronic Access Member account may be associated with multiple mnemonics.

(23) The term "**Non-Customer**" means a person or entity that is a broker or dealer in securities.

(24) The term "**Non-Customer Order**" means an order for the account of a Non-Customer.

(25) The term "**offer**" means a quote or limit order to sell one or more options contracts, except that with respect to an Equity Security it means an order to sell such security.

(26) The term "**opening purchase transaction**" means an Exchange Transaction that will create or increase a long position in an options contract.

(27) The term "**opening writing transaction**" means an Exchange Transaction that will create or increase a short position in an options contract.

(28) 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 Options 3, Section 8 and Options 2, Section 4.

(29) The term "**Voluntary Professional**" means any Public Customer that elects, in writing, to be treated in the same manner as a broker or dealer in securities for purposes of Options 3, Sections 10, 11, 13 and 14, as well as the Exchange's Pricing Schedule.

(30) 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.

(31) The term "**OPRA**" means the Options Price Reporting Authority.

(32) The term "**order**" means a commitment to buy or sell securities as defined in Options 3, Section 7.

(33) 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 expired.

(34) The term "**PMM Rights**" means the transferable rights held by a Primary Market Maker or a non-Member owner (as that term is defined in Options 2A, Section 1(a)). The number of authorized PMM Rights will be 10 PMM Rights.

(35) The term "**Primary Market Maker**" means a Member that is approved to exercise trading privileges associated with PMM Rights.

(36) The term "**Priority Customer**" means a person or entity that (i) is not a broker or dealer in securities, and (ii) does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s).

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

(38) The term "**Professional Order**" means an order that is for the account of a person or entity that is not a Priority Customer.

(a) 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:

(i) Each order is counted toward the number of orders, regardless of the options exchange to which the order was routed in determining Professional Orders.

(ii) 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 Complex

Order comprising 9 options legs or more, including "single-strike algorithms" which track the Best Bid and Offer ("BBO") or National Best Bid and Offer ("NBBO"). A cancel message is not an order.

(iii) Complex Orders consisting of 8 legs or fewer will be counted as a single order, and respecting Complex Orders of 9 options legs or more, each leg will count as a separate order. Stock orders shall not count toward the number of legs.

(iv) 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 customer orders, if one 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.

(39) The term "**Professional Customer**" means a non-broker/dealer participant who enters at least 390 orders per day on average during a calendar month for its own beneficial account(s).

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

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

(42) 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 number of shares of the underlying security covered by the options contract.

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

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

(45) The term "**series of options**" means all options contracts of the same class having the same exercise price and expiration date.

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

(47) 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 following business week that is a business day, 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. 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.

(48) The term "**System**" means the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions.

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

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

(51) The term "**proprietary trading**" for purposes of General 4, Section 1.1210 means trading done by a Member having the following characteristics:

(a) The Member is not required by Section 15(b)(8) of the Exchange Act to become a FINRA member but is a member of another registered securities exchange not registered solely under Section 6(g) of the Exchange Act;

(b) All funds used or proposed to be used by the Member are the trading Member's own capital, traded through the Member's own accounts;

(c) The Member does not, and will not, have customers; and

(d) All persons registered on behalf of the member acting or to be acting in the capacity of a trader must be owners of, employees of, or contractors to the Member.

## Section 2. Reserved

### Options 2 Options [Trading Rules]Market Participants

#### Section 1. Registration of Market Makers

(a) A Market Maker is a Member with Designated Trading Representatives registered pursuant to Options 2, Section 2. Market Makers are registered with the Exchange for the purpose of making transactions as dealer-specialist in accordance with the provisions of this Options 2. Registered Market Makers are designated as specialists on the Exchange for all purposes under the Exchange Act and the rules and regulations thereunder.

(b) To register as a Competitive or Primary Market Maker, a Member shall file an application in writing on such forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's market making ability and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Competitive or Primary Market Maker.

(c) The registration of any Member as a Competitive or Primary Market Maker may be suspended or terminated by the Exchange upon a determination that such Member has failed to properly perform as a Market Maker.

## **Section 2. Designated Trading Representatives**

(a) Market Maker quotations and orders may be submitted to the Exchange's System only by Designated Trading Representatives ("DTRs"). A DTR is permitted to enter quotes and orders only for the account of the Market Maker with which he is associated.

(b) *Registration of Designated Trading Representatives.* The Exchange may, upon receiving an application in writing from a Market Maker on a form prescribed by the Exchange, approve a person as a DTR.

(1) DTRs may be:

(A) individual Members registered with the Exchange as Market Makers,

or

(B) officers, partners, employees or associated persons of Members that are registered with the Exchange as Market Makers.

(2) The Exchange may require a Market Maker to provide additional information the Exchange considers necessary to establish whether a person should be approved.

(3) A person may be conditionally approved as a DTR subject to any conditions the Chief Regulatory Officer considers appropriate in the interests of maintaining a fair and orderly market.

(c) *Suspension or Withdrawal of Registration.*

(1) The Exchange may suspend or withdraw the registration previously given to a person to be a DTR if the Exchange determines that:

(A) the person has caused the Market Maker to fail to comply with the Rules of the Exchange;

(B) the person is not properly performing the responsibilities of a DTR;

(C) the person has failed to meet the conditions set forth under paragraph (b) above; or

(D) the Exchange believes it is in the best interest of fair and orderly markets.

(2) If the Exchange suspends the registration of a person as a DTR, the Market Maker must not allow the person to submit quotes and orders into the Exchange's System.

(3) The registration of a DTR will be withdrawn upon the written request of the Member for which the DTR is registered. Such written request shall be submitted on the form prescribed by the Exchange.

### **Section 3. Appointment of Market Makers**

(a) In the manner prescribed by the Exchange, a Market Maker may seek appointment to one or more options classes traded on the Exchange. The Exchange or a committee designated by the Board shall appoint classes of options contracts traded on the Exchange to Market Makers taking into consideration: (i) the financial resources available to the Market Maker, (ii) the Market Maker's experience and expertise in market making or options trading, and (iii) the maintenance and enhancement of competition among Market Makers in each class of options contracts to which they are appointed. The Exchange or designated committee shall make appointments in the best interest of the Exchange to provide competitive markets. No appointment of a Market Maker shall be without the Market Maker's consent to such appointment, provided that refusal to accept an appointment may be deemed sufficient cause for termination or suspension of a Market Maker's registration.

(b) Appointments to Primary Market Makers. A Primary Market Maker shall be appointed to each options class traded on the Exchange.

(1) A Primary Market Maker seeking appointment to options on equity indexes, foreign currency indexes, foreign currency options and Fund Shares (collectively "Index-Based Products") shall provide, at the discretion of the Exchange, and upon its request, specific performance commitments, which shall include, at a minimum, commitments regarding (i) the average quotation size it will disseminate in the Index-Based Product, and (ii) the maximum quotation spread it will disseminate in such product at least ninety percent of the time.

(2) So long as a Primary Market Maker fulfills its obligations as a Primary Market Maker under these Rules, the Exchange will not reallocate the options classes to

which such Primary Market Maker is appointed pursuant to this Rule, unless otherwise requested by the Primary Market Maker. The foregoing will not limit or affect the Exchange's responsibility under Options 2, Section 3(d) to reallocate any options classes in the interests of a fair and orderly market.

(c) Appointments to Competitive Market Makers. Competitive Market Makers may request appointments to options classes traded on the Exchange, subject to the trading licensing requirements of Options 4A, Section 16 with respect to index options.

(1) On a quarterly basis, the Exchange shall assign points to each options class equal to its percentage of overall industry volume (not including exclusively traded index options), rounded down to the nearest one hundredth of a percentage with a maximum of 15 points. New listings will be assigned a point value of zero for the remainder of the quarter in which it was listed.

(2) A Competitive Market Maker may seek appointments to options classes that total: (A) 20 points for the first CMM Right it owns or leases; and (B) 10 points for the second and each subsequent CMM Right it owns or leases.

(3) A Competitive Market Maker may request changes to its appointments at any time upon advance notification to the Exchange in a form and manner prescribed by the Exchange.

(d) The Exchange may suspend or terminate any appointment of a Market Maker under this Rule and may make additional appointments whenever, in the Exchange's judgment, the interests of a fair and orderly market are best served by such action. In the case of an Index-Based Product, during the term of that appointment, the Exchange may also base a decision to suspend or terminate a Primary Market Maker's appointment on the failure of the Primary Market Maker to meet the terms of its commitments under paragraph (b)(1) above.

(e) Market Maker Performance. In making appointments to Market Makers, the Exchange may evaluate the performance of Market Makers relating to, among other things, quality of markets, competition among Market Makers, observance of ethical standards, and administrative factors. The Exchange may consider any relevant information, including but not limited to the results of a Market Maker evaluation questionnaire, trading data, a Market Maker's regulatory history and such other factors and data as may be pertinent in the circumstances. Moreover, failure by a Market Maker to meet minimum performance standards may result in, among other things: (1) suspension, termination or restriction of an appointment to one or more of the options classes appointed to the Market Maker; (2) restriction of appointments to additional options classes; or (3) suspension, termination, or restriction of the Market Makers registration.

### **Supplementary Material to Options 2, Section 3**

.01 Index-Based Options. Pursuant to paragraph (b)(1) of Options 2, Section 3, a Primary Market Maker shall specify the average size and maximum quotation spread to which it will commit on a quarterly basis for four successive calendar quarters. The Primary Market Maker may specify differing size and quotation commitments for different series of an options class, such as by committing to a larger size and narrower quotations for the at-the-money series or series nearer to expiration. A Primary Market Maker also may, but is not required to, provide commitments regarding marketing or other support with respect to the Index-Based Product. In addition, a Primary Market Maker may, but is not required to, provide information regarding order flow arrangements with order flow providers. When an Index-Based Product is allocated to a Primary Market Maker, that Primary Market Maker's size and spread quotations for the fourth quarter following listing shall remain in effect thereafter on a quarter-to-quarter basis unless the Primary Market Maker has requested, and the Exchange or designated committee has approved, a change in such commitments. Any other commitments that a Primary Market Maker has made also shall remain in effect until modified by the Exchange or designated committee upon the request of the Primary Market Maker.

.02 A Member that is approved to act in the capacity of a Competitive Market Maker with respect to one or more CMM Rights may voluntarily be appointed to act as an "Alternative Primary Market Maker," so long as the Exchange has determined that such Member has the appropriate systems and procedures in place to undertake the responsibilities of a Primary Market Maker.

(a) The Exchange may appoint an Alternative Primary Market Maker to an options class only in the event that no Primary Market Makers seek allocation of the security.

(b) If no Primary Market Makers seek allocation of an options class, all eligible Competitive Market Makers will be given notice and an opportunity to seek allocation of the security as an Alternative Primary Market Maker. Such allocations will be made by the Allocation Committee according to the guidelines contained in Options 2, Section 3.

(c) An Alternative Primary Market Maker shall have all of the responsibilities and privileges of a Primary Market Maker under the Rules with respect to all appointed options classes.

(d) If an Alternative Primary Market Maker ceases trading of an options class, the class will be reallocated by the Exchange to a Primary Market Maker or another Alternative Primary Market Maker, as appropriate.

.03 There is no restriction on a Competitive Market Maker seeking appointment to options classes in which it or an affiliated market-maker holds a Competitive Market Maker or Primary Market Maker appointment, provided that such Member has sufficient Competitive Market Maker points for each such appointment.



**Section 4. Obligations of Market Makers**

(a) General. Transactions of a Market Maker should 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 a course of dealings. Ordinarily, Market Makers are expected to:

(1) Refrain from purchasing a call option or a put option at a price more than \$0.25 below parity, although a larger amount may be appropriate considering the particular market conditions. In the case of calls, parity is measured by the bid in the underlying security, and in the case of puts, parity is measured by the offer in the underlying security.

(2) The \$0.25 amount above may be increased, or the provisions of this Rule may be waived, by the Exchange on a series-by-series basis.

(b) Appointment. With respect to each options class to which a Market Maker is appointed under Options 2, Section 3, the Market Maker has a continuous obligation 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 options contract, or a temporary distortion of the price relationships between options contracts of the same class. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market:

(1) To compete with other Market Makers to improve the market in all series of options classes to which the Market Maker is appointed.

(2) To make markets that, absent changed market conditions, will be honored for the number of contracts entered into the Exchange's System in all series of options classes to which the Market Maker is appointed.

(3) To update market quotations in response to changed market conditions in all series of options classes to which the Market Maker is appointed.

(4) To price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$5 between the bid and offer following the opening rotation in an equity or index options contract. The Exchange may establish differences other than the above for one or more series or classes of options.

(i) The bid/offer differentials stated in subparagraph (b)(4) of this Rule shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the spread between the national best bid and offer in the underlying security.

(ii) The Exchange or its authorized agent may calculate bids and asks for various indices for the sole purpose of determining permissible bid/ask differentials on options on these indices. These values will be calculated by determining the weighted average of the bids and asks for the components of the corresponding index. These bids and asks will be disseminated by the Exchange at least every fifteen (15) seconds during the trading day solely for the purpose of determining the permissible bid/ask differential that market-makers may quote on an in-the-money option on the indices. For in-the-money series in index options where the calculated bid/ask differential is wider than the applicable differential set out in subparagraph (b)(4) of this Rule, the bid/ask differential in the index options series may be as wide as the calculated bid/ask differential in the underlying index. The Exchange will not make a market in the basket of stock comprising the indices and is not guaranteeing the accuracy or the availability of the bid/ask values.

(c) Classes of Options To Which Not Appointed. With respect to classes of options to which a Market Maker is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (b) above with respect to those classes of options to which it is appointed. Market Makers should not:

(1) Individually or as a group, intentionally or unintentionally, dominate the market in options contracts of a particular class, or

(2) Effect purchases or sales on the Exchange except in a reasonable and orderly manner.

#### **Supplementary Material to Options 2, Section 4**

.01 A Primary Market Maker must act with due diligence in handling orders of Public Customers and must accord priority to such orders addressed pursuant to paragraph (c) of this Rule over the Primary Market Maker's principal orders.

.02 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 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 pursuant to the standards established in paragraph (a) of this Rule and require participation by such designated Members 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 that are designated for mandatory testing, and participation of such Members is a condition of membership.

### **Section 5. Market Maker Quotations**

(a) Options Classes. A quotation only may be entered by a Market Maker, and only in the options classes to which the market maker is appointed under Options 2, Section 3.

(b) Price and Size Associated with Quotes. A Market Maker's bid and offer for a series of options contracts shall state a price accompanied by the number of contracts at that price the Market Maker is willing to buy or sell upon receipt of an order or upon interaction with a quotation entered by another market maker on the Exchange.

(1) Price. The price of Market Maker quotes shall be in the minimum trading increments applicable to the security under Options 3, Section 3.

(2) Size. Unless the Exchange has declared a fast market pursuant to Options 3, Section 6, the initial size of a Market Maker's opening quote must be for the minimum number of contracts determined by the Exchange on a class by class basis, which minimum shall be at least one contract.

(c) Two-Sided Quotes. A Market Maker that enters a bid (offer) on the Exchange must enter an offer (bid) within the spread allowable under Options 2, Section 4(b)(4).

(d) Firm Quotes.

(1) Market Maker bids and offers are firm for orders and Exchange Market Maker quotations both under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602 of Reg NMS") for the number of contracts specified according to the requirements of paragraph (b) above. Market Maker bids and offers are not firm under this Rule and Rule 602 of Reg NMS if:

(i) a System malfunction or other circumstance impairs the Exchange's ability to disseminate or update market quotes in a timely and accurate manner;

(ii) the level of trading activities or the existence of unusual market conditions is such that the Exchange 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 the Exchange, and as a result, the market in the option is declared to be "fast" pursuant to Options 3, Section 6;

(iii) during trading rotations; or

(iv) any of the circumstances provided in paragraph (c)(3) of Rule 602 of Reg NMS exist.

(2) Notwithstanding Paragraph (1) above, if a Market Maker's bid (offer) can trade with the offer (bid) of another Market Maker, the Exchange shall have the authority to implement a delay so that no execution shall occur between such quotations for a period of no more than one second. During such period, the System will update quotations that may be received; provided however, that during such period all quotations shall otherwise remain firm and the System shall automatically execute all incoming orders against such quotations.

(e) Intra-day Quotes. A Market Maker must enter bids and offers for the options to which it is appointed, 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. A Member will be required to meet each market making obligation separately. A Competitive Market Maker who is also the Primary Market Maker will be held to the Primary Market Maker obligations in the options series in which the Primary Market Maker is assigned and will be held to Competitive Market Maker obligations in all other options series where assigned. A Competitive Market Maker who receives a Preferred Order, as described in Supplementary Material .03 to Options 3, Section 10, ("Preferred CMM") shall be held to the standard of a Preferred CMM in the options series of any options class in which it receives the Preferred Order.

(1) On any given day, a Competitive Market Maker is not required to enter quotations in the options classes to which it is appointed. A Competitive Market Maker may initiate quoting in options classes to which it is appointed intra-day. If a Competitive Market Maker initiates quoting in an options class, the Competitive Market Maker, associated with the same Member, is collectively required to provide two-sided quotations in 60% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Member's assigned options class is open for trading. Notwithstanding the foregoing, a Competitive Market Maker shall not be required to make two-sided markets pursuant to this this Rule in any Quarterly Options Series, any adjusted options series, and any option series with an expiration of nine months or greater for options on equities and exchange-traded funds ("ETFs") or with an expiration of twelve months or greater for index options. Competitive Market Makers may choose to quote such series in addition to regular series in the options class, but such quotations will not be considered when determining whether a Competitive Market Maker has met the obligation contained in this paragraph.

(i) An adjusted options series is an options series wherein, as a result of a corporate action by the issuer of the underlying security, 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").

(ii) A Competitive Market Maker may be called upon by an Exchange official designated by the Board to submit a single quote or maintain intra-day quotes in one or more of the series of an options class to which the Competitive Market Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of fair and orderly markets.

(2) Primary Market Makers, associated with the same Member, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Member's assigned options class is open for trading. Primary Market Makers shall be required to make two-sided markets pursuant to this Rule in any Quarterly Options Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of twelve months or greater for index options.

(3) Preferred CMMs, associated with the same Member, are collectively required to provide two-sided quotations in 90% of the cumulative number of seconds, or such higher percentage as the Exchange may announce in advance, for which that Member's assigned options class is open for trading. A Member shall be considered preferenced in an assigned options class once the Member receives a Preferred Order in any option class in which they are assigned and shall be considered preferenced for that day in all series for that option class in which it received the Preferred Order. Notwithstanding the foregoing, a Preferred CMM shall not be required to make two-sided markets pursuant to this Options 2, Section 4(e)(3) in any Quarterly Options Series, any Adjusted Options Series, and any options series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of twelve months or greater for index options. Preferred CMMs may choose to quote such series in addition to regular series in the options class, but such quotations will not be considered when determining whether a Preferred CMM has met the obligation contained in this paragraph. A Preferred CMM may be preferenced in such series and receive enhanced allocations pursuant to Options 3, Section 10, Supplementary Material .03, only if it complies with the heightened 90% quoting requirement contained in this paragraph.

(4) Specifically, the Exchange will calculate subparagraphs (1) - (3) above by (i) taking the total number of seconds the Member disseminates quotes in each assigned options series, excluding, for Competitive Market Makers and Preferred CMMs, Quarterly Options Series, any Adjusted Options Series, and any option series with an expiration of nine months or greater for options on equities and ETFs or with an expiration of twelve months or greater for index options; and (ii) dividing that time by the eligible total number of seconds each assigned option series in the options class 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 Member.

(5) ISE Regulation may consider exceptions to the above-referenced requirement to quote based on demonstrated legal or regulatory requirements or other mitigating circumstances. For purposes of the Exchange's surveillance of Member compliance with this Rule, the Exchange will determine compliance on a monthly basis. The Exchange's monthly compliance evaluation of the quoting requirement does not relieve a Member of the obligation to provide two-sided quotes on a daily basis, nor will it prohibit the Exchange from taking disciplinary action against a Member for failing to meet the quoting obligation each trading day.

(6) If a technical failure or limitation of a System of the Exchange prevents a Market Maker from maintaining, or prevents a Member from communicating to the Exchange, timely and accurate quotes, the Member shall promptly notify the Exchange and the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (e) with respect to the affected quotes.

(f) *Temporary Withdrawal of Quotations by Primary Market Makers.* A Primary Market Maker may apply to the Exchange to withdraw temporarily from its Primary Market Maker status in an options class. The Primary Market Maker must base its request on demonstrated legal or regulatory requirements that necessitate its temporary withdrawal, or provide the Exchange an opinion of counsel certifying that such legal or regulatory basis exists. The Exchange will act promptly on such a request, and, if the request is granted, the Exchange will temporarily reassign the options class to another Primary Market Maker.

(1) The Exchange Review Council shall have jurisdiction over proceedings brought by Primary Market Makers seeking review of the denial of an excused withdrawal pursuant to this Rule or the conditions imposed on their reentry.

### **Section 6. Market Maker Orders**

(a) *Options Classes to Which Appointed.* Market makers may enter all order types defined in Options 3, Section 7 in the options classes to which they are appointed under Options 2, Section 3, except Stopped Orders, Reserve Orders and Customer Cross Orders. Competitive Market Makers shall comply with the provisions of Options 2, Section 5(e)(1) upon the entry of such orders if they were not previously quoting in the series.

(b) *Options Classes Other Than Those to Which Appointed.*

(1) A Market Maker may enter all order types permitted to be entered by non-customer participants under the Rules to buy or sell options in classes of options listed on the Exchange to which the Market Maker is not appointed under Options 2, Section 3, except for Reserve Orders, provided that:

(i) the spread between a limit order to buy and a limit order to sell the same options contract complies with the parameters contained in Options 2, Section 4(b)(4); and

(ii) the Market Maker does not enter orders in options classes to which it is otherwise appointed, either as a Competitive or Primary Market Maker.

(2) Competitive Market Makers. The total number of contracts executed during a quarter by a Competitive Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded by such Competitive Market Maker in classes to which it is appointed and with respect to which it was quoting pursuant to Options 2, Section 5(e)(1).

(3) Primary Market Makers. The total number of contracts executed during a quarter by a Primary Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded per each Primary Market Maker Membership.

### **Section 7. Securities Accounts and Orders of Market Makers**

(a) Identification of Accounts. A Primary Market Maker in the Fund Shares, as defined in Options 4, Section 3(h), is obligated to conduct all trading in the Fund Shares in account(s) that have been reported to the Exchange. In addition, in a manner prescribed by the Exchange, each Market Maker shall file with the Exchange and keep current a list identifying all accounts for stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity and related securities trading in which the Market Maker may, directly or indirectly, engage in trading activities or over which it exercises investment direction. No Market Maker shall engage in stock, options, non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, physical commodities, physical commodity options, commodity futures contracts, options on commodity futures contracts, any other derivatives based on such commodity or any other derivatives based on such currency 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 the request of the Exchange and in the prescribed form, report to the Exchange every order entered by the Market Maker for the purchase or sale of (i) a security underlying options traded on the Exchange, 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 a Member and unless such account is reported to and

not disapproved by the Exchange. Such reports in a form prescribed by the Exchange shall be filed with the Exchange before any transaction is effected on the Exchange for such joint account. A participant in a joint account must:

- (1) Be either a Market Maker or a Clearing Member that carries the joint account.
- (2) File and keep current a completed application on such form as is prescribed by the Exchange.
- (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 appointed to the same options classes to which the joint account holder is also appointed as a Market Maker.

### **Section 8. Financial Requirements for Market Makers**

(a) *Primary Market Makers.* Every Primary Market Maker shall maintain net liquidating equity of not less than \$3,250,000 plus \$25,000 excess equity for each underlying security upon which appointed options are open for trading in excess of the initial ten (10) underlying securities.

(b) *Competitive Market Makers.* Every Competitive Market Maker shall maintain net liquidating equity of not less than \$1,000,000.

(c) Each Market Maker that makes an arrangement to finance his transactions as a Market Maker must identify to the Exchange the source of the financing and its terms. The Exchange must be informed immediately of the intention of any party to terminate or change any such arrangement.

### **Supplementary Material to Options 2, Section 8**

.01 For purposes of Options 2, Section 8, the term "net liquidating equity" means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

### **Section 9. Reserved**

### **Section 10. Reserved**

### **Options 2A ISE Market Maker Rights**

#### **Section 1. Market Maker Rights**

(a) Market Maker Rights may be owned by (i) registered broker-dealers approved as Members of the Exchange according to the requirements contained in this Options 2A or (ii) individuals and organizations that are not Members of the Exchange or that are otherwise Members, but do not seek to exercise trading privileges associated with such Rights (collectively "non-Member owners").



(b) Non-Member owners shall not be permitted to exercise trading privileges on the Exchange with respect to such Rights, and are not considered Members of the Exchange with respect to such Rights for any purposes of these Rules. Non-Member owners of Market Maker Rights shall lease the trading privileges associated with the Rights (i.e., the "Membership") to registered broker-dealers approved by the Exchange as Members.

(c) Every non-Member owner of Market Maker Rights shall submit a non-Member owner application in the form and manner prescribed by the Exchange. Non-Member owner applications must be accompanied by a non-refundable application fee. Approved non-Member owner applicants must complete the transfer of Market Maker Rights to the applicant within ninety (90) days of the date of approval by the Exchange. Should an approved applicant fail to complete the transfer of a Market Maker Right within ninety (90) days, its approval shall expire unless an extension is granted by the Exchange based on a showing that a transfer is pending or near completion.

(d) Any increase in the number of authorized PMM Rights or CMM Rights must be approved by the affirmative vote of the holders of at least a majority of the then outstanding PMM Rights, voting as a class, and the affirmative vote of the holders of at least a majority of the then outstanding CMM Rights, voting as a class (such voting rights, the "Core Rights").

(e) Any amendments to the LLC Agreement or the By-Laws that would alter or change the powers, preferences or special rights of one or more series of PMM Rights or CMM Rights must also be approved by the holders of a majority of such PMM Rights or CMM Rights, as applicable.

## **Section 2. Approval to Operate Multiple Memberships**

(a) An applicant to become a Member or an approved Member may seek approval to exercise trading privileges associated with more than one Membership in the form and manner prescribed by the Exchange.

(b) An applicant or approved Member will be denied approval with respect to a particular Membership if (together with any of its affiliates) approval would result in the applicant or approved Member being approved to exercise the trading privileges associated with more than one (1) Primary Market Maker Membership or more than ten (10) Competitive Market Maker Memberships. This requirement may be waived by the Exchange for good cause shown, but in no event shall the Exchange waive this requirement if such waiver would result in the applicant or approved Member (together with any of its affiliates) being approved to exercise trading privileges associated with more than 20% of the outstanding Competitive Market Maker Memberships.

## **Supplementary Material to Options 2A, Section 2**

.01 When making its determination whether good cause has been shown to waive the limitations contained in Options 2A, Section 2(b), the Exchange will consider whether an operational, business or regulatory need to exceed the limits has been demonstrated. In

those cases where such a need is demonstrated, the Exchange also will consider any operational, business or regulatory concerns that might be raised if such a waiver were granted. The Exchange only will waive such limitations when, in its judgment, such action is in the best interest of the Exchange.

.02 In addition to the trading concentration limits contained in this Rule, no holder or lessee of Market Maker Rights, together with any affiliate, may gain ownership or voting rights in excess of 20% of the outstanding PMM Rights or CMM Rights, as applicable.

### **Section 3. Sale and Transfer of Market Maker Rights**

(a) The owner of Market Maker Rights may sell or otherwise transfer ownership of its Market Maker Rights upon the approval of the Exchange. A sale or other transfer of Market Maker Rights shall not be effective until an executed purchase or transfer agreement between the owner and an approved transferee has been filed with, and approved by, the Exchange in writing. The Exchange will provide a bulletin board on which interests to sell or purchase such Market Maker Rights may be posted; however, owners are not required to post interest to sell nor to give preference to posted interests to purchase Market Maker Rights.

(b) Whenever one or more of the following conditions exist with respect to Market Maker Rights, the Exchange may offer the Rights for sale by posting a notice of such sale on a bulletin board for at least thirty (30) days:

- (1) An individual owner of Market Maker Rights has died or has been declared legally incompetent, and the legal representative of such owner has failed to consummate a transfer of the Rights within six (6) months of the owner's death or incompetence or within such extended time as may have been granted by the Exchange;
- (2) An owner's good standing has been terminated or has been suspended and has failed to be reinstated at the expiration of the period of suspension including any extension of such period that may have been granted by the Exchange; and
- (3) An owner that is an organization has been dissolved, formally or informally, and no transfer of its Market Maker Rights has been accomplished within six (6) months of the dissolution or within such extended time as may have been granted by the Exchange.
- (4) An owner exceeds the concentration limitations contained in Options 2A, Section 2.

(c) Pursuant to paragraph (a) above, the Exchange's Membership Department shall either approve or disapprove an executed transfer agreement between an owner and an approved applicant within thirty (30) days of receipt of the agreement. A transfer agreement may be disapproved under the following circumstances: (i) the contract attempts to transfer only part of the rights associated with a Market Maker Right; or (ii)

the transfer would result in the transferee exceeding the ownership concentration limits contained in the Rules, or would otherwise violate the Exchange's Rules.

(d) The owner or an approved applicant that is a party to an executed transfer agreement that is denied approval (the "Applicant") may appeal the Membership Department's decision to the Exchange Review Council, as set forth below.

(1) Initiation of Review by Applicant. Within 25 days after service of a decision under paragraph (c), an Applicant that is denied approval may file a written request for review with the Exchange Review Council. A request for review shall state with specificity why the Applicant believes that the Membership Department's decision is inconsistent with the bases for denial set forth in Options 2A, Section 3(c), or otherwise should be set aside, and state whether a hearing is requested. The Applicant simultaneously shall file by first-class mail a copy of the request with the Exchange.

(2) Transmission of Documents. Within ten days after the filing of a request for review, the Exchange shall:

(A) transmit to the Exchange Review Council copies of all documents that were considered in connection with the Exchange's decision and an index to the documents; and

(B) serve on the Applicant a copy of such documents (other than those documents originally submitted by the Applicant) and a copy of the index.

(3) Appointment of Subcommittee. The Exchange Review Council or the Review Subcommittee defined in General 5, Section 3 shall appoint a Subcommittee to participate in the review. The Subcommittee shall be composed of two or more persons who shall be current or past members of the Exchange Review Council or former Directors.

(4) Powers of Subcommittee. If a hearing is requested, the Subcommittee shall conduct the hearing. If a hearing is not requested, the Subcommittee may serve a notice directing that a hearing be held. If a hearing is not requested or directed, the Subcommittee shall conduct its review on the basis of the record developed before the Membership Department and any written submissions made by the Applicant or the Membership Department in connection with the request for review.

(5) Hearing

(A) Notice. If a hearing is requested or directed, the hearing shall be held within 45 days after the filing of the request with the Exchange Review Council or service of the notice by the Subcommittee. The Exchange Review Council shall serve written notice of the date and time of the

hearing to the Applicant by facsimile or overnight courier not later than 14 days before the hearing.

(B) Counsel. The Applicant and the Membership Department may be represented by counsel at a hearing conducted pursuant to this Rule.

(C) Evidence. Formal rules of evidence shall not apply to a hearing under this Rule. Not later than five days before the hearing, the Applicant and the Membership Department shall exchange copies of their proposed hearing exhibits and witness lists and provide copies of the same to the Exchange Review Council. If the Applicant or the Membership Department fails to provide copies of its proposed hearing exhibits or witness list within such time, the Subcommittee shall exclude the evidence or witnesses from the proceeding, unless the Subcommittee determines that good cause is shown for failure to comply with the production date set forth in this subparagraph.

(D) Transcript .The hearing shall be recorded and a transcript prepared by a court reporter. A transcript of the hearing shall be available for purchase from the court reporter at prescribed rates. The Applicant, the Membership Department, or a witness may seek to correct the transcript. A proposed correction of the transcript shall be submitted to the Subcommittee within a reasonable period of time prescribed by the Subcommittee. Upon notice to the Applicant and the Membership Department, the Subcommittee may direct the correction to the transcript as requested or sua sponte.

**(6) Additional Information, Briefs.** At any time during its consideration, the Subcommittee or the Exchange Review Council may direct the Applicant or the Membership Department to file additional information or briefs. Any additional information or brief filed shall be provided to all parties before the Exchange Review Council renders its decision.

**(7) Abandonment of Request for Review.** If an Applicant fails to specify the grounds for its request for review under Options 2A, Section 3(d)(1), appear at a hearing for which it has notice, or file information or briefs as directed, the Exchange Review Council or the Review Subcommittee may dismiss the request for review as abandoned, and the decision of the Membership Department shall become a final Exchange action. Upon a showing of good cause, the Exchange Review Council or the Review Subcommittee may withdraw a dismissal entered pursuant to this paragraph.

**(8) Subcommittee Recommendation.** The Subcommittee shall present a recommended decision in writing to the Exchange Review Council within 60 days after the date of the hearing held pursuant to subparagraph (d)(5), and not later than seven days before the meeting of the Exchange Review Council at which the membership proceeding shall be considered.

**(9) Decision**

(A) Proposed Written Decision. After considering all matters presented in the review and the Subcommittee's recommended written decision, the Exchange Review Council may affirm, modify, or reverse the Membership Department's decision or remand the proceeding with instructions. The Exchange Review Council shall prepare a proposed written decision pursuant to subparagraph (d)(9)(B).

(B) Contents. The decision shall include:

(i) a description of the Exchange Review Council's decision, including its rationale;

(ii) a description of the principal issues raised in the review;

(iii) a summary of the evidence on each issue; and

(iv) a statement whether the Membership Department's decision is affirmed, modified, or reversed, and a rationale therefor that references the bases for denial in Options 2A, Section 3(c).

(C) Issuance of Decision. After Expiration of Call for Review Periods. The Exchange Review Council shall provide its proposed written decision to the Exchange Board. The Exchange Board may call the proceeding for review pursuant to Options 2A, Section 3(d)(10). If the Exchange Board does not call the proceeding for review, the proposed written decision of the Exchange Review Council shall become final. The Exchange Review Council shall serve the Applicant with a written notice specifying the date on which the call for review period expired and stating that the final written decision will be served within 15 days after such date. The Exchange Review Council shall serve its final written decision within 15 days after the date on which the call for review period expired. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Review Council remands the membership proceeding.

(D) Failure to Issue Decision. If the Exchange Review Council fails to serve its final written decision within the time prescribed in subparagraph (d)(9)(C), the Applicant may file a written request with the Exchange Board requesting that the Exchange Board direct the Exchange Review Council to serve its decision immediately or to show good cause for an extension of time. Within seven days after the filing of such a request, the Board shall direct the Exchange Review Council to serve its written decision immediately or to show good cause for an extension of time. If the Exchange Review Council shows good cause for an extension of time,

the Exchange Board may extend the 15-day time limit by not more than 15 days.

**(10) Discretionary Review by the Exchange Board**

(A) Call for Review by Director. A Director may call a proceeding for review by the Exchange Board if the call for review is made within the period prescribed in subparagraph (d)(10)(B).

(B) 15 Day Period; Waiver. A Director shall make his or her call for review at the next meeting of the Exchange Board that is at least 15 days after the date on which the Exchange Board receives the proposed written decision of the Exchange Review Council. By unanimous vote of the Exchange Board, the Exchange Board may shorten the period to less than 15 days. By an affirmative vote of the majority of the Exchange Board then in office, the Exchange Board may, during the 15 day period, vote to extend the period to more than 15 days.

(C) Review At Next Meeting. If a Director calls a proceeding for review within the time prescribed in subparagraph (d)(10)(B), the Exchange Board shall review the proceeding not later than the next meeting of the Exchange Board. The Exchange Board may order the Applicant and the Membership Department to file briefs in connection with review proceedings pursuant to this paragraph.

(D) Decision of the Exchange Board, Including Remand. After review, the Exchange Board may affirm, modify, or reverse the proposed written decision of the Exchange Review Council. Alternatively, the Exchange Board may remand the proceeding with instructions. The Exchange Board shall prepare a written decision that includes all of the elements described in subparagraph (d)(9)(B).

(11) Issuance of Decision. The Exchange Board shall serve its written decision on the Applicant within 15 days after the meeting at which it conducted its review. The decision shall constitute the final action of the Exchange for purposes of SEC Rule 19d-3, unless the Exchange Board remands the proceeding.

**Section 4. Leasing Memberships**

The owner of Market Maker Rights in good standing may lease a Market Maker Membership to a Member, and a lessee of a Market Maker Membership in good standing may sublease such Membership to a Member with the permission of the owner. The owner must retain the Core Rights associated with such Market Maker Rights and may not transfer such voting rights to the lessee.

(a) A Membership may only be leased to a Member of the Exchange that has been approved to conduct the appropriate market making activities.

(b) Lease agreements, which may not become effective until approved by the Exchange in writing, shall include provisions covering:

(1) the duration of the lease arrangement;

(2) the consideration to be paid by the lessee;

(3) the assignability of the respective interests of the lessee and lessor in such lease agreement; and

(4) as between the parties, which party shall exercise the voting rights of the Membership and which party shall provide the funds necessary to satisfy all applicable Exchange dues, fees and other charges.

(c) Any division of rights and responsibilities between the owner and lessee shall not affect the obligation of the owner to pay all amounts due the Exchange upon default of the lessee.

#### **Section 5. Registration of Memberships by Individuals for Members**

(a) An individual owner of Market Maker Rights that is an executive officer, director, principal shareholder or general partner of a registered broker-dealer that is or proposes to become a Member of the Exchange, may register his Membership for such broker-dealer by filing an application in the form prescribed by the Exchange.

(b) The registration of a Membership for a Member by an individual may be withdrawn by the Exchange for any reason that would justify withdrawal of the approval of the individual as an owner of a Membership.

(c) Upon the death, retirement, withdrawal or resignation from a Member of an individual whose Membership is registered for the organization which leaves the organization without a Membership, the Exchange may permit the organization to continue to act as a Member in good standing for such period as the Exchange deems reasonably necessary to enable the organization to acquire a Membership.

#### **Section 6. Obligations of Terminating Members and Transferors of Market Maker Rights and Memberships**

(a) Every Member that transfers a Membership pursuant to the provisions of this Options 3 must be current in all filings and payments of dues, fees and charges relating to that Membership, including filing fees and charges required by the SEC and Securities Investor Protection Corporation. If a Member fails to make all such filings, or to pay all such dues, fees and charges, the Exchange may, notwithstanding the other applicable provisions of this Options 3, delay the effectiveness of the Membership for the transferee, until such failures have been remedied.

(b) Every owner that transfers its Market Maker Rights or Memberships pursuant to the provisions of this Options 3 must be current in all payments of dues, fees and charges

relating to those Rights or Memberships. If an owner fails to pay all such dues, fees and charges, the Exchange may, notwithstanding the other applicable provisions of this Options 3, delay the effectiveness of the transfer of the Rights or of the Memberships until such failures have been remedied.

### **Section 7. Transfer Fees**

Members shall pay a fee for each transfer or lease of a Membership, as may be determined by the Board.

## **Options 3 Options [Market Participants]Trading Rules**

### **Section 1. Days and Hours of Business**

The Board shall determine the days the Exchange shall be open for business (referred to as "business days") and the hours of such days during which transactions may be made on the Exchange.

(a) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on a narrow-based index, as defined in Options 4A, Section 2, and individual stocks may be made on the Exchange shall correspond to the normal business days and hours for business established by the markets currently trading the stocks underlying Exchange options.

(b) Options on Fund Shares, as defined in Options 4, Section 3(h), may be traded on the Exchange until 4:15 p.m. each business day.

(c) Options on a broad-based index, as defined in Options 4A, Section 2, may be traded on the Exchange until 4:15 p.m. each business day, except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time) and 4:00 p.m. (Eastern time).

(d) Options on Index-Linked Securities, as defined in Options 4, Section 3(k)(1), may be traded on the Exchange until 4:15 p.m. each business day.

(e) The Exchange shall not be open for business on the following holidays: New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day or Christmas Day. When any holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday. When any holiday observed by the Exchange falls on a Sunday, the Exchange will not be open for business on the following Monday, unless unusual business conditions exist at the time.

### **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 the Exchange 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 the Exchange with the Clearing Corporation.



(b) General. Except as provided in paragraph (b), orders and quotations 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.

(c) Special Cases. Orders and quotations for an options contract for which the Exchange 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) 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

### **Section 3. Minimum Trading Increments**

(a) The Board may establish minimum trading increments for options traded on the Exchange. Such changes by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Options 3, Section 3 within the meaning of subparagraph (3)(A) of Section 19(b) 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 contract is trading at less than \$3.00 per option, \$.05; and

(2) if the options contract is trading at \$3.00 per option or higher, \$.10.

(b) Minimum trading increments for dealings in options contracts other than those specified in paragraph (a) may be fixed by the Exchange from time to time for options contracts of a particular series.

(c) Notwithstanding the above, the Exchange may trade in the minimum variation of the primary market in the underlying security.

### **Supplementary Material to Options 3, Section 3**

.01 Notwithstanding any other provision of this Rule, the Exchange will operate a pilot program, scheduled to expire on June 30, 2019, to permit options classes to be quoted and traded in increments as low as one cent (\$0.01). The Exchange will specify which options trade in such pilot, and in what increments, in Options Trader Alerts distributed to Members.

The Exchange may replace any penny pilot issues that have been delisted with the next most actively traded multiply listed options classes that are not yet included in the penny pilot, based on trading activity in the previous six months. The replacement issues may be added to the penny pilot on the second trading day in the first month of each quarter.

.02 Notwithstanding any other provision of this Rule, the Exchange will permit foreign currency options and options on a Foreign Currency Index to be quoted and traded in one-cent increments.

.03 Notwithstanding any other provision of this Rule, the minimum trading increment for Mini Options shall be determined in accordance with Supplementary Material .13(d) to Nasdaq ISE Options 4, Section 5.

.04 Notwithstanding any other provision of this Rule, complex strategies may be quoted and traded in the increments described in Options 3, Section 14(c)(1).

#### **Section 4. Acceptance of Quotes and Orders**

(a) All bids or offers made and accepted on the Exchange in accordance with the Rules shall constitute binding contracts, subject to applicable requirements of the By-Laws and the Rules and the Rules of the Clearing Corporation.

(b) A trade 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.

#### **Section 5. Reserved**

#### **Section 6. Collection and Dissemination of Quotations**

(a) Each Market Maker shall communicate to the Exchange its bid and offers in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act and the Rules of the Exchange.

(b) The Exchange will disseminate to quotation vendors the highest bid and the lowest offer, and the aggregate quotation size associated therewith that is available to Public Customer Orders, in accordance with the requirements of Rule 602 of Regulation NMS under the Exchange Act.

(c) *Unusual Market Conditions.*

(1) An Exchange official designated by the Board shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange 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 the Exchange. Upon making such a determination, the Exchange shall designate the market in such option to be "fast." When a market for an option is declared fast, the Exchange will provide

notice that its quotations are not firm by appending an appropriate indicator to its quotations.

(2) If a market is declared fast, designated Exchange officials shall have the power to: (i) direct that one or more trading rotations be employed pursuant to Options 5, Section 8; (ii) suspend the minimum size requirement of Options 2, Section 5(b); or (iii) take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(3) The Exchange will monitor the activity or conditions that caused a fast market to be declared, and a designated Exchange official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed by the Exchange when a designated Exchange official determines that the conditions supporting a fast market declaration no longer exist. The Exchange will provide notice that its quotations are once again firm by removing the indicator from its quotations.

(4) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures described above, then a designated Exchange official shall halt trading in the class or classes so affected.

## **Section 7. Types of Orders**

(a) *Market Orders.* A market order is an order to buy or sell a stated number of options contracts that is to be executed at the best price obtainable when the order reaches the Exchange.

(b) *Limit Orders.* A limit order is an order to buy or sell a stated number of options contracts at a specified price or better.

(1) *Marketable Limit Orders.* A marketable limit order is a limit order to buy (sell) at or above (below) the best offer (bid) on the Exchange.

(2) *Fill-or-Kill Orders.* A fill-or-kill order is a limit order that is to be executed in its entirety as soon as it is received and, if not so executed, treated as cancelled.

(3) *Immediate-or-Cancel Orders.* An immediate-or-cancel order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed is to be treated as cancelled. An immediate-or-cancel order entered by a Market Maker through the Specialized Quote Feed protocol will not be subject to the (i) Limit Order Price Protection and Size Limitation Protection as defined in Options 3, Section 15(b)(2) and (3); or (ii) Limit Order Price Protection as defined in Supplementary Material .07(d) to Options 3, Section 14.

(4) Intermarket Sweep Orders. An Intermarket Sweep Order (ISO) is a limit order that meets the requirements of Options 5, Section 1(h).

(5) Stopped Order. A stopped order is a limit order that meets the requirements of Options 1, Section 2(b)(8). To execute stopped orders, Members must enter them into the Facilitation Mechanism or Solicited Order Mechanism pursuant to Options 3, Section 11.

(c) All-Or-None Orders. An All-Or-None order is a limit or market order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.

(d) Stop Orders. A stop order is an order that becomes a market order when the stop price is elected. A stop order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop order to sell is elected when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price.

(e) Stop Limit Orders. A stop limit order is an order that becomes a limit order when the stop price is elected. A stop limit order to buy is elected when the option is bid or trades on the Nasdaq ISE at, or above, the specified stop price. A stop limit order to sell becomes a sell limit order when the option is offered or trades on the Nasdaq ISE at, or below, the specified stop price.

(f) Reserved.

(g) Reserve Orders. A Reserve Order is a limit order that contains both a displayed portion and a non-displayed portion.

1. Both the displayed and non-displayed portions of a Reserve Order are available for potential execution against incoming marketable orders. A non-marketable Reserve Order will rest on the order book.
2. The displayed portion of a Reserve Order shall be ranked at the specified limit price and the time of order entry.
3. The displayed portion of a Reserve Order will trade in accordance with Options 3, Section 10(c) and (d) for Priority Customer Orders, and Options 3, Section 10(e) and Supplementary Material .01, for Professional Orders.
4. When the displayed portion of a Reserve Order is decremented, either in full or in part, it shall be refreshed from the non-displayed portion of the resting Reserve Order. If the displayed portion is refreshed in part, the new displayed portion shall include the previously displayed portion. Upon any refresh, the entire displayed portion shall be ranked at the specified limit price and obtain a new time stamp, i.e., the time that the new displayed portion of the order was refreshed. The new displayed portion will trade in accordance with Options 3,

Section 10(c) and (d) for Priority Customer Orders, and Options 3, Section 10(e) and Supplementary Material .01, for Professional Orders.

5. The initial non-displayed portion of a Reserve Order rests on the order book and is ranked based on the specified limit price and time of order entry. Thereafter, non-displayed portions, if any, always obtain the same time stamp as that of the new displayed portion in subparagraph 4 above. The non-displayed portion of any Reserve Order is available for execution only after all displayed interest has been executed. The non-displayed portion of any Reserve Order will trade in accordance with Options 3, Section 10(c) and (d) for Priority Customer Orders, and Options 3, Section 10(e) and Supplementary Material .01, for Professional Orders.

(h) *Attributable Order.* An Attributable Order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of Attributable Orders is voluntary. Attributable Orders may not be available for all Exchange Systems. The Exchange will issue a Options Regulatory Alert specifying the Systems and the class of securities for which the Attributable Order type shall be available.

(i) *Customer Cross Orders.* A Customer Cross Order is comprised of a Priority Customer Order to buy and a Priority Customer Order to sell at the same price and for the same quantity.

(j) *Qualified Contingent Cross Order.* A Qualified Contingent Cross Order is comprised of an originating order to buy or sell at least 1000 contracts that is identified as being part of a qualified contingent trade, as that term is defined in Supplementary Material .01 below, coupled with a contra-side order or orders totaling an equal number of contracts.

(k) *Legging Orders.* A legging order is a limit order on the regular limit order book that represents one side of a Complex Options Order that is to buy or sell an equal quantity of two options series resting on the Exchange's Complex Order Book. Legging orders are firm orders that are included in the Exchange's displayed best bid or offer.

(1) A legging order may be automatically generated for one leg of a Complex Options Order at a price: (i) that matches or improves upon the best displayed bid or offer on the regular limit order book; and (ii) at which the net price can be achieved when the other leg is executed against the best displayed bid or offer on the regular limit order book. A legging order will not be created at a price that locks or crosses the best bid or offer of another exchange.

(2) A legging order is executed only after all other executable orders (including any non-displayed size) and quotes at the same price are executed in full. When a legging order is executed, the other portion of the Complex Options Order will be automatically executed against the displayed best bid or offer on the Exchange.

(3) A legging order is automatically removed from the regular limit order book if: (i) the price of the legging order is no longer at the displayed best bid or offer on the regular limit order book, (ii) execution of the legging order would no longer achieve the net price of the Complex Options Order when the other leg is executed against the best displayed bid or offer on the regular limit order book, (iii) the Complex Options Order is executed in full or in part on the Complex Order Book, or (iv) the Complex Options Order is cancelled or modified.

(l) Day Order. An order to buy or sell which, if not executed, expires at the end of the day on which it was entered. All orders by their terms are Day Orders unless otherwise specified.

(m) Do-Not-Route Orders. A do-not-route order is a market or limit order that is to be executed in whole or in part on the Exchange only. Due to prices available on another options exchange (as provided in Options 5 (Order Protection; Locked and Crossed Markets)), any balance of a do-not-route order that cannot be executed upon entry, or placed on the Exchange's limit order book, will be automatically cancelled.

(n) Add Liquidity Order. An Add Liquidity Order is a limit order that is to be executed in whole or in part on the Exchange (i) only after being displayed on the Exchange's limit order book; and (ii) without routing any portion of the order to another market center. Members may specify whether an Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the national best bid price (for sell orders) or below the national best offer price (for buy orders) if, at the time of entry, the order (i) is executable on the Exchange; or (ii) the order is not executable on the Exchange, but would lock or cross the national best bid or offer. If at the time of entry, an Add Liquidity Order would lock or cross one or more non-displayed orders on the Exchange, the Add Liquidity Order shall be cancelled or re-priced to the minimum price variation above the best non-displayed bid price (for sell orders) or below the best non-displayed offer price (for buy orders). An Add Liquidity Order will only be re-priced once and will be executed at the re-priced price. An Add Liquidity Order will be ranked in the Exchange's limit order book in accordance with Options 3, Section 10.

(o) Opening Only Order. An Opening Only order is a limit order that can be entered for the opening rotation only. Any portion of the order that is not executed during the opening rotation is cancelled.

(p) Good-Till-Date Order. A Good-Till-Date Order is a limit order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the order, or the expiration of the series.

(q) Reserved.

(r) Good-Till-Canceled Order (GTC Order). An order to buy or sell that remains in force until the order is filled, canceled or the option contract expires; provided, however, that

GTC Orders will be canceled in the event of a corporate action that results in an adjustment to the terms of an option contract.

(s) Sweep Order. A Sweep Order is a limit order that is to be executed in whole or in part on the Exchange and the portion not so executed shall be routed pursuant to Supplementary Material .05 to Options 5, Section 2 to Eligible Exchange(s) for immediate execution as soon as the order is received by the Eligible Exchange(s). Any portion not immediately executed by the Eligible Exchange(s) shall be canceled. If a Sweep Order is not marketable when it is submitted to the Exchange, it shall be canceled.

(t) QCC with Stock Orders. A QCC with Stock Order is a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12(c).

(u) Opening Sweep. An Opening Sweep is a Market Maker order submitted for execution against eligible interest in the System during the Opening Process pursuant to Options 3, Section 8(b)(1).

### **Supplementary Material to Options 3, Section 7**

.01 A "qualified contingent trade" is a transaction consisting of two or more component orders, executed as agent or principal, where:

(a) At least one component is an NMS Stock, as defined in Rule 600 of Regulation NMS under the Exchange Act;

(b) all components are effected with a product or price contingency that either has been agreed to by all the respective counterparties or arranged for by a broker-dealer as principal or agent;

(c) the execution of one component is contingent upon the execution of all other components at or near the same time;

(d) the specific relationship between the component orders (e.g., the spread between the prices of the component orders) is determined by the time the contingent order is placed;

(e) the component orders bear a derivative relationship to one another, represent different classes of shares of the same issuer, or involve the securities of participants in mergers or with intentions to merge that have been announced or cancelled; and

(f) the transaction is fully hedged (without regard to any prior existing position) as a result of other components of the contingent trade.

.02 Cancel and Replace Orders shall mean a single message for the immediate cancellation of a previously received order and the replacement of that order with a new order. 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 retain the priority of the cancelled order, if the order posts to the Order Book, provided the price is not amended, size is not increased, or in the case of Reserve Orders, size is not changed. If the replacement portion of a Cancel and Replace Order does not satisfy the System's price or other reasonability checks (e.g. Options 3, Section 15(b)(1)(A) and (b)(1)(B); and Supplementary Material .07 (a)(1)(A), (b) and (c)(1) to Options 8, Section 14) the existing order shall be cancelled and not replaced.

.03 The Exchange offers Members the following protocols for entering orders and quotes respectively:

(a) "**Financial Information eXchange**" or "**FIX**" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders and auction orders to the Exchange. Features include the following: (1) execution messages; (2) order messages; (3) risk protection triggers and cancel notifications; and (4) post trade allocation messages.

(b) "**Ouch to Trade Options**" or "**OTTO**" is an interface that allows Members and their Sponsored Customers to connect, send, and receive messages related to orders, auction orders, and auction responses to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex 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) order messages; (6) risk protection triggers and cancel notifications; (7) auction notifications; (8) auction responses; and (9) post trade allocation messages.

(c) "**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 to the Exchange. Features include the following: (1) options symbol directory messages (e.g., underlying and complex 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 requests from the Market Maker.



(d) "Nasdaq Precise" or "Precise" is a front-end interface that allows Electronic Access Members and their Sponsored Customers to send orders to the Exchange and perform other related functions. Features include the following: (1) order and execution management: enter, modify, and cancel orders on the Exchange, and manage executions (e.g., parent/child orders, inactive orders, and post-trade allocations); (2) market data: access to real-time market data (e.g., NBBO and Exchange BBO); (3) risk management: set customizable risk parameters (e.g., kill switch); and (4) book keeping and reporting: comprehensive audit trail of orders and trades (e.g., order history and done away trade reports).

### **Section 8. Opening**

(a) **Definitions.** The Exchange conducts an electronic opening for all option series traded on the Exchange using its System.

(1) The "ABBO" is the Away Best Bid or Offer.

(2) The "market for the underlying security" is either the primary listing market or the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), as determined by the Exchange by underlying and announced to the membership on the Exchange's web site.

(3) The Opening Price is described herein in sections (h) and (j).

(4) The Opening Process is described herein in section (c).

(5) The Potential Opening Price is described herein in section (g).

(6) The Pre-Market BBO is the highest bid and the lowest offer among Valid Width Quotes.

(7) A "Quality Opening Market" is a bid/ask differential applicable to the best bid and offer from all Valid Width Quotes defined in a table to be determined by the Exchange and published on the Exchange's web site. The calculation of Quality Opening Market is based on the best bid and offer of Valid Width Quotes. The differential between the best bid and offer are compared to reach this determination. The allowable differential, as determined by the Exchange, takes into account the type of security (for example, Penny Pilot versus non-Penny Pilot issue), volatility, option premium, and liquidity. The Quality Opening Market differential is intended to ensure the price at which the Exchange opens reflects current market conditions.

(8) A "Valid Width Quote" is a two-sided electronic quotation submitted by a Market Maker that meets the following requirements: differentials shall be no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2, no more than \$.40 where the bid is at least \$2 but does not

exceed \$5, no more than \$.50 where the bid is more than \$5 but does not exceed \$10, no more than \$.80 where the bid is more than \$10 but does not exceed \$20, and no more than \$1 where the bid is \$20 or greater, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. The bid/ask differentials for in-the-money options series may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(9) A "Zero Bid Market" is where the best bid for an options series is zero.

(b) Eligible interest during the Opening Process includes Valid Width Quotes, Opening Sweeps and orders. Quotes other than Valid Width Quotes will not be included in the Opening Process. All-or-None Orders that can be satisfied, and the displayed and non-displayed portions of Reserve Orders, are considered for execution and in determining the Opening Price throughout the Opening Process. Only Public Customer interest is routable during the Opening Process.

(1) Opening Sweep.

(i) A Market Maker assigned in a particular option may only submit an Opening Sweep if, at the time of entry of the Opening Sweep, that Market Maker has already submitted and maintains a Valid Width Quote. All Opening Sweeps in the affected series entered by a Market Maker will be cancelled immediately if that Market Maker fails to maintain a continuous quote with a Valid Width Quote in the affected series.

(ii) Opening Sweeps may be entered at any price with a minimum price variation applicable to the affected series, on either side of the market, at single or multiple price level(s), and may be cancelled and re-entered. A single Market Maker may enter multiple Opening Sweeps, with each Opening Sweep at a different price level. If a Market Maker submits multiple Opening Sweeps, the System will consider only the most recent Opening Sweep at each price level submitted by such Market Maker in determining the Opening Price. Unexecuted Opening Sweeps will be cancelled once the affected series is open.

(2) The System will aggregate the size of all eligible interest for a particular participant category at a particular price level for trade allocation purposes pursuant to Option 3, Section 10.

(c) Market Maker Valid Width Quotes and Opening Sweeps received starting at 9:25 AM Eastern Time are included in the Opening Process. Orders entered at any time before an option series opens are included in the Opening Process.

(1) The Opening Process for an option series will be conducted pursuant to paragraphs (f) - (j) below on or after 9:30 AM Eastern Time if: the ABBO, if any, is not crossed; and the System has received, within two minutes (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) of the opening trade or quote on the market for the underlying security in the case of equity options or, in the case of index options, within two minutes of the receipt of the opening price in the underlying index (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site), or within two minutes of market opening for the underlying security in the case of U.S. dollar-settled foreign currency options (or such shorter time as determined by the Exchange and disseminated to membership on the Exchange's web site) any of the following:

(A) the Primary Market Maker's ("PMM") Valid Width Quote;

(B) the Valid Width Quotes of at least two Competitive Market Makers ("CMM"); or

(C) if neither the PMM's Valid Width Quote nor the Valid Width Quotes of two CMMs have been submitted within such timeframe, one CMM has submitted a Valid Width Quote.

(2) For all options, the underlying security, including indexes, must be open on the primary market for a certain time period as determined by the Exchange for the Opening Process to commence. The time period shall be no less than 100 milliseconds and no more than 5 seconds.

(3) The PMM assigned in a particular equity or index option must enter a Valid Width Quote, in 90% of their assigned series, not later than one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index. The PMM assigned in a particular U.S. dollar-settled foreign currency option must enter a Valid Width Quote, in 90% of their assigned series, not later than one minute after the announced market opening. Provided an options series has not opened pursuant to Options 3, Section 8 (c)(1)(B) or (C), PMMs must promptly enter a Valid Width Quote in the remainder of their assigned series, which did not open within one minute following the dissemination of a quote or trade by the market for the underlying security or, in the case of index options, following the receipt of the opening price in the underlying index or, with respect to U.S. dollar-settled foreign currency options, following the announced market opening. Once an options series has opened pursuant to Options 3, Section 8(c)(1)(A) - (C), a PMM must submit intra-day, two-sided quotes in such options series pursuant to Options 2, Section 5(e)(2).

(4) A CMM that submits a quote pursuant to this Rule in any option series when the PMM's quote has not been submitted shall be required, once an options series has opened, to submit intra-day, two-sided quotes in such option series pursuant to Options 2, Section 5(e)(1).

(5) The Opening Process will stop and an option series will not open if the ABBO becomes crossed or when a Valid Width Quote(s) pursuant to Options 3, Section 8(c)(1) is no longer present. Once each of these conditions no longer exist, the Opening Process in the affected option series will start again pursuant to paragraphs (e) - (j) below.

(d) **Reopening After a Trading Halt.** The procedure described in this Rule will be used to reopen an option series after a trading halt. If there is a trading halt or pause in the underlying security, the Opening Process will start again irrespective of the specific times listed in paragraph (c)(1).

(e) **Opening with a BBO (No Trade).** If there are no opening quotes or orders that lock or cross each other and no routable orders locking or crossing the ABBO, the System will open with an opening quote by disseminating the Exchange's best bid and offer among quotes and orders ("BBO") that exist in the System at that time, unless all three of the following conditions exist: (1) a Zero Bid Market; (2) no ABBO; and (3) no Quality Opening Market. If all three conditions exist, the Exchange will calculate an Opening Quote Range pursuant to paragraph (i) and conduct the Price Discovery Mechanism pursuant to paragraph (j) below.

(f) **Pre-Market BBO Calculation.** If there are opening Valid Width Quotes, or orders, that lock or cross each other, the System will calculate the Pre-Market BBO.

(g) **Potential Opening Price.** To calculate the Potential Opening Price, the System will take into consideration all Valid Width Quotes and orders (including Opening Sweeps and displayed and non-displayed portions of Reserve Orders), except All-or-None Orders that cannot be satisfied, for the option series and identify the price at which the maximum number of contracts can trade ("maximum quantity criterion"). In addition, paragraphs (h)(3)(A) and (i)(5) - (7) below contain additional provisions related to Potential Opening Price.

(1) **More Than One Potential Opening Price.** When two or more Potential Opening Prices would satisfy the maximum quantity criterion and leave no contracts unexecuted, the System takes the highest and lowest of those prices and takes the mid-point; if such mid-point is not expressed as a permitted minimum price variation, it will be rounded to the minimum price variation that is closest to the closing price for the affected series from the immediately prior trading session. If there is no closing price from the immediately prior trading session, the System will round up to the minimum price variation to determine the Opening Price.

(2) If two or more Potential Opening Prices for the affected series would satisfy the maximum quantity criterion and leave contracts unexecuted, the Opening Price will be either the lowest executable bid or highest executable offer of the largest sized side.

(3) The Potential Opening Price calculation is bounded by the better away market price that may not be satisfied with the Exchange routable interest.

**(h) Opening with Trade.** The Exchange will open the option series for trading with a trade on Exchange interest only at the Opening Price, if any of these conditions occur:

(1) the Potential Opening Price is at or within the best of the Pre-Market BBO and the ABBO;

(2) the Potential Opening Price is at or within the non-zero bid ABBO if the Pre-Market BBO is crossed; or

(3) where there is no ABBO, the Potential Opening Price is at or within the Pre-Market BBO which is also a Quality Opening Market.

(A) If there is more than one Potential Opening Price which meets the conditions set forth in paragraphs (1) through (3) above where:

(i) no contracts would be left unexecuted and

(ii) any value used for the mid-point calculation (which is described in paragraph (g) above) would cross either:

a. the Pre-Market BBO, or

b. the ABBO, then, for the purposes of calculating the midpoint the Exchange will use the better of the Pre-Market BBO or ABBO as a boundary price and will open the option series for trading with an execution at the resulting Potential Opening Price. If these conditions are not met, an Opening Quote Range will be calculated pursuant to paragraph (i) below and thereafter, the Price Discovery Mechanism in paragraph (j) below will commence.

(i) The System will calculate an Opening Quote Range ("OQR") for a particular option series that will be utilized in the Price Discovery Mechanism described below, if the Exchange has not opened subject to any of the provisions above.

(1) Except as provided in paragraphs (3) and (4) below, to determine the minimum value for the OQR, an amount, as defined in a table to be determined by

the Exchange, will be subtracted from the highest quote bid among Valid Width Quotes on the Exchange and on the away market(s), if any.

(2) Except as provided in paragraphs (3) and (4) below, to determine the maximum value for the OQR, an amount, as defined in a table to be determined by the Exchange, will be added to the lowest quote offer among Valid Width Quotes on the Exchange and on the away market(s), if any.

(3) If one or more away markets are disseminating a BBO that is not crossed, (the Opening Process will stop and an option series will not open if the ABBO becomes crossed pursuant to (c)(5)) and there are Valid Width Quotes on the Exchange that are executable against each other or the ABBO:

(A) The minimum value for the OQR will be the highest away bid.

(B) The maximum value for the OQR will be the lowest away offer.

(4) If there are Valid Width Quotes on the Exchange that are executable against each other, and there is no away market disseminating a BBO in the affected option series:

(A) The minimum value for the OQR will be the lowest quote bid among Valid Width Quotes on the Exchange.

(B) The maximum value for the OQR will be the highest quote offer among Valid Width Quotes on the Exchange.

(5) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted, any price used for the mid-point calculation (which is described in paragraph (g)(1) above) that is wider than the OQR will be restricted to the OQR price on that side of the market for the purposes of the mid-point calculation.

(6) If there is more than one Potential Opening Price possible where no contracts would be left unexecuted, pursuant to paragraph (g)(3) above when contracts will be routed, the System will use the away market price as the Potential Opening Price.

(7) If the Exchange determines that non-routable interest can execute the maximum number of contracts against Exchange interest, after routable interest has been determined by the System to satisfy the away market, then the Potential Opening Price is the price at which the maximum number of contracts can execute, excluding the interest which will be routed to an away market, which may be executed on the Exchange as described in paragraph (g) above. The System will route Public Customer interest in price/time priority to satisfy the away market.

(j) **Price Discovery Mechanism.** If the Exchange has not opened pursuant to paragraphs (e) or (h) above, after the OQR calculation in paragraph (i), the Exchange will conduct the following Price Discovery Mechanism.

(1) First, the System will broadcast an Imbalance Message for the affected series (which includes the symbol, side of the imbalance (unmatched contracts), size of matched contracts, size of the imbalance, and Potential Opening Price bounded by the Pre-Market BBO) to participants, and begin an "Imbalance Timer," not to exceed three seconds. The Imbalance Timer will be for the same number of seconds for all options traded on the Exchange. Each Imbalance Message is subject to an Imbalance Timer.

(2) Any new interest received by the System will update the Potential Opening Price. If during or at the end of the Imbalance Timer, the Opening Price is at or within the OQR, the Imbalance Timer will end and the System will open with a trade at the Opening Price if the executions consist of Exchange interest only without trading through the ABBO and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price. If no new interest comes in during the Imbalance Timer and the Potential Opening Price is at or within OQR and does not trade through the ABBO, the Exchange will open with a trade at the end of the Imbalance Timer at the Potential Opening Price.

(3) Next, provided the option series has not opened pursuant to paragraph (j)(2) above, the System will:

(A) send a second Imbalance Message with a Potential Opening Price that is bounded by the OQR (and would not trade through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price) and includes away market volume in the size of the imbalance to participants; and concurrently

(B) initiate a Route Timer, not to exceed one second. The Route Timer operates as a pause before an order is routed to an away market. If during the Route Timer, interest is received by the System which would allow the Opening Price to be within OQR without trading through away markets and without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price, the System will open with trades at the Opening Price and the Route Timer will simultaneously end. The System will monitor quotes received during the Route Timer period and make ongoing corresponding changes to the permitted OQR and Potential Opening Price to reflect them.

(C) If no trade occurred pursuant to (B) above, when the Route Timer expires, if the Potential Opening Price is within OQR (and would not trade through the limit price(s) of interest within OQR that is unable to be fully

executed at the Opening Price), the System will determine if the total number of contracts displayed at better prices than the Exchange's Potential Opening Price on away markets ("better priced away contracts") would satisfy the number of marketable contracts available on the Exchange. The Exchange will open the option series by routing and/or trading on the Exchange, pursuant to paragraphs (1)-(3) below.

(1) If the total number of better priced away contracts would satisfy the number of marketable contracts available on the Exchange on either the buy or sell side, the System will route all marketable contracts on the Exchange to such better priced away markets as an ISO designated as an Immediate-or-Cancel ("IOC") order(s), and determine an opening BBO that reflects the interest remaining on the Exchange. The System will price any contracts routed to away markets at the Exchange's Opening Price; or

(2) If the total number of better priced away contracts would not satisfy the number of marketable contracts the Exchange has, the System will determine how many contracts it has available at the Exchange Opening Price. If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price would satisfy the number of marketable contracts on the Exchange on either the buy or sell side, the System will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Opening Price and trade available contracts on the Exchange at the Exchange Opening Price. The System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price pursuant to this sub-paragraph; or

(3) If the total number of better priced away contracts plus the number of contracts available at the Exchange Opening Price plus the contracts available at away markets at the Exchange Opening Price would satisfy the number of marketable contracts the Exchange has on either the buy or sell side, the System will contemporaneously route, based on price/time priority of routable interest, a number of contracts that will satisfy interest at away markets at prices better than the Exchange Opening Price (pricing any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price), trade available contracts on the Exchange at the Exchange Opening Price, and route a number of contracts that will satisfy interest at away markets at prices equal to the Exchange Opening Price.



(4) The System may send up to two additional Imbalance Messages (which may occur while the Route Timer is operating) bounded by OQR and reflecting away market interest in the volume. After the Route Timer has expired, the processes in paragraph (3) will repeat (except no new Route Timer will be initiated).

(5) *Forced Opening.* After all additional Imbalance Messages have occurred pursuant to paragraph (4) above, the System will open the series by executing as many contracts as possible by routing to away markets at prices better than the Exchange Opening Price for their disseminated size, trading available contracts on the Exchange at the Exchange Opening Price bounded by OQR (without trading through the limit price(s) of interest within OQR which is unable to be fully executed at the Opening Price), and routing contracts to away markets at prices equal to the Exchange Opening Price at their disseminated size. In this situation, the System will price any contracts routed to away markets at the better of the Exchange Opening Price or the order's limit price. Any unexecuted contracts from the imbalance not traded or routed will be cancelled back to the entering participant if they remain unexecuted and priced through the Opening Price, otherwise orders will remain in the Order Book.

(6) The System will execute orders at the Opening Price that have contingencies (such as, without limitation, All-or-None and Reserve Orders) and non-routable orders, such as a "Do-Not-Route" or "DNR" Orders, to the extent possible. The System will only route non-contingency Public Customer orders, except that only the full volume of Public Customer Reserve Orders may route.

(A) The System will cancel (i) any portion of a Do-Not-Route order that would otherwise have to be routed to the exchange(s) disseminating the ABBO for an opening to occur, or (ii) any order that is priced through the Opening Price will be cancelled. All other interest will be eligible for trading after opening.

(k) During the opening of the option series, where there is an execution possible, the System will give priority to Market Orders first, then to resting Limit Orders and quotes. The allocation provisions of Options 3, Section 10 and the Supplementary Material thereto apply with respect to other orders and quotes with the same price.

(l) Upon opening of the option series, regardless of an execution, the System disseminates the price and size of the Exchange's best bid and offer (BBO).

**Section 9. Trading Halts**

(a) Halts. An Exchange official designated by the Board may halt trading in any stock option in the interests of a fair and orderly market.

(1) The following are among the factors that may be considered in determining whether the trading in a stock option should be halted:

(A) trading in the underlying security has been halted or suspended in one or more of the markets trading the underlying security.

(B) the opening of such underlying security has been delayed because of unusual circumstances.

(C) other unusual conditions or circumstances are present.

(2) A designated Exchange official may halt trading (including a rotation) for a class or classes of options contracts whenever there is a halt of trading in an underlying security in one or more of the markets trading the underlying security. In such event, without the need for action by the Primary Market Maker, all trading in the effected class or classes of options may be halted. The Exchange shall disseminate through its trading facilities and over OPRA a symbol in respect of such class or 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. During a halt, the Exchange will maintain existing orders on the book (but not existing quotes prior to the halt), accept orders and quotes, and process cancels and modifications, except existing quotes are cancelled.

(3) No Member or person associated with a Member shall effect a trade on the Exchange 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.

(b) Resumptions. Trading in a stock option that has been the subject of a halt under paragraph (a)(1) above, may be resumed upon the determination by an Exchange official designated by the Board 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.

(c) 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. 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.

(d) This paragraph shall be in effect during a pilot period that expires at the close of business on October 18, 2019. 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 Exchange will not open an affected option.

(2) Provided the Exchange has opened an affected option for trading, the Exchange shall reject Market Orders, as defined in Options 3, Section 7(a), and Market Complex Orders as defined in Options 3, Section 14(b), and shall notify Members of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System, if the Market Complex Order becomes marketable while the affected underlying is in a Limit or Straddle State. Market Orders exposed at the NBBO pursuant to Supplementary Material .02 to Option 5, Section 2 or Market Complex Orders exposed for price improvement pursuant to Supplementary Material .01 to Options 3, Section 14, pending in the System, will continue to be processed. If at the end of the exposure period the affected underlying is in a Limit or Straddle State, the Market Order or the Market Complex Order will be cancelled. If the affected underlying is no longer in a Limit or Straddle State after the exposure period, the Market Order or the Market Complex Order will be processed with normal handling.

(3) Provided the Exchange has opened an affected option for trading, the Exchange shall elect Stop Orders if the condition as provided in Options 3, Section 7(d) is met, and, because they become Market Orders, shall cancel them back and notify Members of the reason for such rejection.

(4) When the security underlying an option class is in a Limit State or Straddle State, the maximum quotation spread requirements for Market Maker quotes contained in Options 2, Section 4(b)(4) and the intra-day quotation requirements contained in Options 2, Section 5(e) shall be suspended. The time periods associated with Limit States and Straddle States will not be considered by the Exchange when evaluating whether a Market Maker complied with the intra-day quotation requirements contained in Options 2, Section 5(e).

(e) **Trading Halts Due To Extraordinary Market Volatility.** The Exchange shall halt trading in all securities whenever a market-wide trading halt (commonly known as a circuit breaker) is initiated on the New York Stock Exchange in response to extraordinary market conditions.

### **Supplementary Material to Options 3, Section 9**

.01 The Exchange shall nullify any transaction that occurs:

(a) during a trading halt in the affected option on the Exchange; or

(b) with respect to equity options (including options overlying ETFs), during a regulatory halt as declared by the primary listing market for the underlying security.

### **Section 10. Priority of Quotes and Orders**

(a) Definitions. As provided in Options 1, Section 1(a)(5) and (a)(25), a "bid" is a quotation or limit order to buy options contracts and an "offer" is a quotation or limit order to sell options contracts. "Quotations," which are defined in Options 1, Section 1(a)(44), may only be entered on the Exchange by Market Makers in the options classes to which they are appointed under Options 2, Section 3. Limit orders may be entered by Market Makers in certain circumstances as provided in the Rules and Electronic Access Members (either as agent or as principal). "Priority Customer Orders" and "Professional Orders" are defined in Options 1, Section 1(a)(40) and (38).

(b) Priority on the Exchange. The highest bid and lowest offer shall have priority on the Exchange. In the case where the bid price for any options contract is \$0.00, a market order 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 10.

(c) Priority. Except as provided under Options 3, Section 7(g), Priority Customer Orders on the Exchange shall have priority over Professional Orders and Market Maker quotes at the same price in the same options series.

(d) Precedence of Priority Customer Orders. Except as provided under Options 3, Section 7(g), if there are two (2) or more Priority Customer Orders for the same options series at the same price on the Exchange, priority shall be afforded to such Priority Customer Orders in the sequences in which they are received by the Exchange (i.e., in time priority).

(e) Precedence of Professional Orders and Market Maker Quotes. Except as provided under Options 3, Section 7(g), if there are two (2) or more Professional Orders or Market Maker quotes at the Exchange's best bid or offer, after all Priority Customer Orders (if any) at that price have been filled, executions at that price will be allocated between the Professional Orders and Market Maker quotes pursuant to an allocation procedure to be determined by the Exchange from time to time; provided, however, that if the Primary Market Maker is quoting at the Exchange's best bid or offer, it shall have precedence over Professional Orders and Competitive Market Maker quotes for execution of orders that are for a specified number of contracts or fewer, which number shall be determined by the Exchange from time to time.

### **Supplementary Material to Options 3, Section 10**

.01 Options 3, Section 3(e) (Priority of Quotes and Orders) states that Priority Customer Orders have priority on the Exchange. That Rule further provides that the Exchange will determine a procedure for allocating executions among Professional Orders and Market Maker quotes in cases where all Priority Customer Orders have been executed and there

are two or more Professional Orders or Market Maker quotes at the best price. This procedure is as follows:

(a) Subject to the two limitations in subparagraphs (b) and (c) below and subject to paragraph .03 (Preferred Orders), Professional Orders and Market Maker quotes at the best price receive allocations based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Order or quote;

(b) If the Primary Market Maker is quoting at the best price, it has participation rights equal to the greater of (i) the proportion of the total size at the best price represented by the size of its quote, or (ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or Market Maker quotation at the best price, forty percent (40%) if there are two (2) other Professional Orders and/or Market Maker quotes at the best price, and thirty percent (30%) if there are more than two (2) other Professional Orders and/or Market Maker quotes at the best price; and

(c) Orders for five (5) contracts or fewer will be executed first by the Primary Market Maker; provided however, that on a quarterly basis the Exchange will evaluate what percentage of the volume executed on the Exchange (excluding volume resulting from the execution of orders in the Facilitation Mechanism (see Options 3, Section 11(d))) is comprised of orders for five (5) contracts or fewer executed by Primary Market Makers, and will reduce the size of the orders included in this provision if such percentage is over forty percent (40%).

This procedure only applies to the allocation of executions among Professional Orders and Market Maker quotes existing in the Exchange's central order book at the time the order is received by the Exchange. No market participant is allocated any portion of an execution unless it has an existing interest at the execution price. Moreover, no market participant can execute a greater number of contracts than is associated with the price of its existing interest. Accordingly, the Primary Market Maker participation rights and the small order preference contained in this allocation procedure are not guarantees; the Primary Market Maker (i) must be quoting at the execution price to receive an allocation of any size, and (ii) cannot execute a greater number of contracts than the size that is associated with its quote.

.02 Reserved.

.03 Preferred Orders. An Electronic Access Member may designate a "Preferred Market Maker" on orders it enters into the System ("Preferred Orders").

(a) A Preferred Market Maker may be the Primary Market Maker appointed to the options class or any Competitive Market Maker appointed to the options class.

(b) If the Preferred Market Maker is not quoting at a price equal to the NBBO at the time the Preferred Order is received, the allocation procedure contained in paragraph .01 shall be applied to the execution of the Preferred Order.

(c) If the Preferred Market Maker is quoting at the NBBO at the time the Preferred Order is received, the allocation procedure contained in paragraph .01 shall be applied to the execution of the Preferred Order except that the Primary Market Maker will not receive the participation rights described in paragraphs .01(b) and (c), and instead the Preferred Market Maker shall have participation rights equal to the greater of:

(i) the proportion of the total size at the best price represented by the size of its quote,

(ii) sixty percent (60%) of the contracts to be allocated if there is only one (1) other Professional Order or Market Maker quotation at the best price and forty percent (40%) if there are two (2) or more other Professional Orders and/or Market Maker quotes at the best price, or

(iii) the full size of a Preferred Order for five (5) contracts or fewer if the Primary Market Maker appointed to the options class is designated as the Preferred Market Maker.

(d) Preferred Competitive Market Makers are subject to enhanced quoting requirements as provided in Options 2, Section 5(e)(3).

.04 Notification of Public Customer Interest on the Book. The Exchange shall make available to Members the quantity of Public Customer contracts included in the Exchange's highest bid and lowest offer.

### **Section 11. Auction Mechanisms**

For purposes of this Rule, a "broadcast message" means an electronic message that is sent by the Exchange to all Members, and a "Response" means an electronic message that is sent by Members in response to a broadcast message. Also for purposes of this Rule, the time given to Members to enter Responses for any of the below auction mechanisms shall be designated by the Exchange via an Options Trader Alert, but no less than 100 milliseconds and no more than 1 second.

(a) **Block Order Mechanism.** The Block Order Mechanism is a process by which a Member can obtain liquidity for the execution of block-size orders. The Block Order Mechanism is for single leg transactions only. Block-size orders are orders for fifty (50) contracts or more.

(1) Upon the entry of an order into the Block Order Mechanism, a broadcast message will be sent that includes the series, and may include price, size and/or side, as specified by the Member entering the order, and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to trade with a block-size order.

(2) At the conclusion of the time given Members to enter Responses, either an execution will occur automatically, or the order will be cancelled.

(A) Responses, orders, and quotes will be executed at a single block execution price that is the price for the block-size order at which the maximum number of contracts can be executed consistent with the Member's instruction. Bids (offers) on the Exchange at the time the block order is executed that are priced higher (lower) than the block execution price, as well as Responses that are priced higher (lower) than the block execution price, will be executed in full at the block execution price.

(B) At the block execution price, Priority Customer Orders and Priority Customer Responses will be executed first and in time priority, and then quotes, Professional Orders, and Professional Responses will participate in the execution of the block-size order based upon the percentage of the total number of contracts available at the block execution price that is represented by the size of the quote, Professional Order, or Professional Response.

(3) If a trading halt is initiated after an order is entered into the Block Order Mechanism, such auction will be automatically terminated without execution.

**(b) Facilitation Mechanism.** The Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size order it represents as agent. Electronic Access Members must be willing to execute the entire size of orders entered into the Facilitation Mechanism.

(1) Upon the entry of an order into the Facilitation Mechanism, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they want to participate in the facilitation of the order.

(2) Responses may be priced at the price of the order to be facilitated or at a better price and must not exceed the size of the order to be facilitated.

(3) At the end of the period given for the entry of Responses, the facilitation order will be automatically executed.

(A) Unless there is sufficient size to execute the entire facilitation order at a better price, Priority Customer bids (offers) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Professional Orders and Market Maker quotes at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at their stated

price, thereby providing the order being facilitated a better price for the number of contracts associated with such higher bids (lower offers).

(B) The facilitating Electronic Access Member will execute at least forty percent (40%) of the original size of the facilitation order, but only after better-priced Responses, orders and quotes, as well as Priority Customer Orders at the facilitation price, are executed in full. Thereafter, Responses, quotes and Professional Orders at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Response, Professional Order or quote.

(C) Upon entry of an order into the Facilitation Mechanism, the facilitating Electronic Access Member can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the facilitating Electronic Access Member will be allocated its full size at each price point, or at each price point within its limit price is a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating Member shall be allocated at least forty percent (40%) of the original size of the facilitation order, but only after Priority Customer interest at such price point. Thereafter, all other orders, Responses, and quotes at the price point will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the order, Response or quote. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(D) If a trading halt is initiated after an order is entered into the Facilitation Mechanism, such auction will be automatically terminated without execution.

**(c) Complex Facilitation Mechanism.** Electronic Access Members may use the Facilitation Mechanism in sub-paragraph (b) above to execute block-size Complex Orders at a net price. Each options leg of a Complex Order entered into the Complex Facilitation Mechanism must meet the minimum contract size requirement. The Complex Facilitation Mechanism is a process by which an Electronic Access Member can execute a transaction wherein the Electronic Access Member seeks to facilitate a block-size Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a block-size Complex Order it represents as agent. Electronic Access Members must be willing to execute the entire size of Complex Orders entered into the Complex Facilitation Mechanism.

(1) Complex Orders entered into the Complex Facilitation Mechanism must be priced within the parameters described below. Complex Orders that do not meet



these requirements are not eligible for the Complex Facilitation Mechanism and will be rejected.

(2) Complex Options Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on the same side of the market as the Agency Order; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on the same side of the market as the Agency Order; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Options 3, Section 14(c)(2).

(3) Stock-Option Orders and Stock-Complex Orders must be entered into the Complex Facilitation Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on the same side of the market as the Agency Order; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on both sides of the market; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Options 3, Section 14(c)(2).

(4) A Complex Order entered into the Complex Facilitation Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Facilitation Mechanism, such auction will be automatically terminated without execution.

(5) Upon the entry of a Complex Order into the Complex Facilitation Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and Members will be given an opportunity to enter Responses with the net prices and sizes at which they want to participate in the facilitation of the Agency Complex Order. The time given to Members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second.

(6) Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Complex Order to be facilitated. Responses must be entered in the increments provided in Options 3, Section 14(c)(1) at the facilitation price or at a price that is at least one cent better for the Agency Order.

(7) Responses submitted by Members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the facilitation order will be automatically executed.

(A) Unless there is sufficient size to execute the entire facilitation order at a better net price, Priority Customer Complex Orders and Responses to buy (sell) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at the facilitation price. Professional Complex Orders and Responses to buy (sell) at the time the facilitation order is executed that are priced higher (lower) than the facilitation price will be executed at their stated price, thereby providing the Complex Order being facilitated a better price for the number of contracts associated with such higher bids (lower offers).

(B) The facilitating Electronic Access Member will execute at least forty percent (40%) (or such lower percentage requested by the Member) of the original size of the facilitation order, but only after better-priced Responses, Complex Orders, as well as Priority Customer Complex Orders and Responses at the facilitation price, are executed in full. Thereafter, Professional Complex Orders and Responses at the facilitation price will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Professional Complex Order or Response.

(C) Upon entry of a Complex Order into the Complex Facilitation Mechanism, the facilitating Electronic Access Member can elect to automatically match the net price and size of Complex Orders, Responses received during the exposure period up to a specified limit price or without specifying a limit price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to Members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a Member elects to auto-match, the facilitating Electronic Access Member will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the facilitating Member will be allocated at least forty percent (40%) (or such lower percentage requested by the Member) of the original size of the facilitation order, but only after Priority Customer Orders and Responses at such price point. Thereafter, Professional Complex Orders and Responses at the price point will participate in the execution of the facilitation order based upon the percentage of the total number of contracts available at the facilitation price that is represented by the size of the Professional Complex Order or Response. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(D) With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Facilitation Mechanism, the priority rules applicable to the execution of Complex Orders contained in Options 3, Section 14(c)(2) will continue to be applicable and may prevent the execution of a Complex Order entered into the Facilitation Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Responses on the Complex Order Book and, for Complex Options Orders, the ISE best bids and offers on the individual legs, the facilitation order will be executed against such interest.

(d) **Solicited Order Mechanism.** The Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute orders of 500 or more contracts it represents as agent (the "Agency Order") against contra orders that it solicited. Each order entered into the Solicited Order Mechanism shall be designated as all-or-none.

(1) Upon entry of both orders into the Solicited Order Mechanism at a proposed execution price, a broadcast message will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they would be willing to participate in the execution of the Agency Order.

(2) At the end of the period given Members to enter Responses, the Agency Order will be automatically executed in full or cancelled.

(A) If at the time of execution there is insufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed against the solicited order at the proposed execution price so long as, at the time of execution: (A) the execution price is equal to or better than the best bid or offer on the Nasdaq ISE, and (B) there are no Priority Customer Orders on the Exchange that are priced equal to the proposed execution price. If there are Priority Customer Orders on the Exchange on the opposite side of the Agency Order at the proposed execution price and there is sufficient size to execute the entire size of the Agency Order, the Agency Order will be executed against the bid or offer, and the solicited order will be cancelled. The aggregate size of all orders, quotes and Responses at the bid or offer will be used to determine whether the entire Agency Order can be executed. Both the solicited order and Agency Order will be cancelled if an execution would take place at a price that is inferior to the best bid or offer on the Nasdaq ISE, or if there is a Priority Customer on the book at the proposed execution price but there is insufficient size on the Exchange to execute the entire Agency Order.

(B) If at the time of execution there is sufficient size to execute the entire Agency Order at an improved price (or prices), the Agency Order will be executed at the improved price(s), subject to the condition in (i)(A), and the solicited order will be cancelled. The aggregate size of all orders,

quotes and Responses at each price will be used to determine whether the entire agency order can be executed at an improved price (or prices).

(C) When executing the Agency Order against the bid or offer in accordance with paragraph (i) above, or at an improved price in accordance with paragraph (ii) above, Priority Customer Orders will be executed first. Professional Orders and Market Maker quotes participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Order or Market Maker quote.

(D) If a trading halt is initiated after an order is entered into the Solicited Order Mechanism, such auction will be automatically terminated without execution.

(3) Prior to entering Agency Orders into the Solicited Order Mechanism on behalf of a customer, EAMs must deliver to the customer a written notification informing the customer that its order may be executed using the Nasdaq ISE's Solicited Order Mechanism. Such written notification must disclose the terms and conditions contained in this Rule and must be in a form approved by the Exchange.

(e) **Complex Solicited Order Mechanism.** The Complex Solicited Order Mechanism is a process by which an Electronic Access Member can attempt to execute Complex Orders it represents as agent (the "Agency Complex Order") against contra orders that it solicited according to sub-paragraph (d) above. Each Complex Order entered into the Solicited Order Mechanism shall be designated as all-or-none, and each options leg must meet the minimum contract size requirement contained in sub-paragraph (d) above.

(1) Complex Orders must be entered into the Complex Solicited Order Mechanism at a price that is (A) equal to or better than the best bid or offer on the Complex Order Book on both sides of the market; and (B) equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs on both sides of the market; provided that, if there is a Priority Customer order on the best bid or offer for any leg, the order must be entered at an improved price consistent with Options 3, Section 14(c)(2). Complex Orders that do not meet these requirements are not eligible for the Complex Solicited Order Mechanism and will be rejected.

(2) A Complex Order entered into the Complex Solicited Order Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Solicited Order Mechanism, such auction will be automatically terminated without execution.

(3) Upon entry of both orders into the Complex Solicited Order Mechanism at a proposed execution net price, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent and Members will be given an opportunity to enter Responses with the net prices and sizes at which they would be willing to participate in the execution of the Agency Complex Order. The time given to Members to enter Responses shall be designated by the Exchange via Options Trader Alert, but will be no less than 100 milliseconds and no more than 1 second. Responses are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order. Responses must be entered in the increments provided in Options 3, Section 14(c)(1) at the proposed execution net price or at a price that is at least one cent better for the Agency Order.

(4) Responses submitted by Members shall not be visible to other auction participants during the exposure period and can be modified or deleted before the exposure period has ended. At the end of the period given for the entry of Responses, the Agency Complex Order will be automatically executed in full pursuant to paragraphs (A) through (D) below, or cancelled.

(A) If at the time of execution there is insufficient size to execute the entire Agency Complex Order at an improved net price(s) pursuant to paragraph (e)(4)(C) below, the Agency Complex Order will be executed against the solicited Complex Order at the proposed execution net price so long as, at the time of execution: (i) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, (ii) the Complex Order can be executed in accordance with Options 3, Section 14(c)(2) with respect to the individual legs, (iii) the execution net price is equal to or better than the best bid or offer on the Complex Order Book, and (iv) there are no Priority Customer Complex Orders or Responses that are priced equal to the proposed execution price.

(B) If there are Priority Customer Complex Orders or Responses on the opposite side of the Agency Complex Order at the proposed execution net price and there is sufficient size to execute the entire size of the Agency Complex Order, the Agency Complex Order will be executed against such interest, and the solicited Complex Order will be cancelled, provided that: (i) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, and (ii) the Complex Order can be executed in accordance with Options 3, Section 14(c)(2) with respect to the individual legs. The aggregate size of all Complex Orders, Responses and, for Complex Options Orders, the aggregate size available from the best bids and offers for the individual legs, will be used to determine whether the entire Agency Complex Order can be executed pursuant to this paragraph.

(C) If at the time of execution there is sufficient size to execute the entire Agency Complex Order at an improved net price(s), the Agency Complex Order will be executed at the improved net price(s), and the solicited Complex Order will be cancelled, provided that: (i) the execution net price is equal to or better than the best net price achievable from the best ISE bids and offers for the individual legs, and (ii) the Complex Order can be executed in accordance with Options 3, Section 14(c)(2) with respect to the individual legs. The aggregate size of all Complex Orders, Responses, and the aggregate size available from the best bids and offers for the individual legs for a Complex Options Order, will be used to determine whether the entire Agency Complex Order can be executed at an improved net price(s).

(D) When executing the Agency Complex Order against other interest in accordance with Options 3, Section 14(d)(2)(ii), Priority Customer Complex Orders and Responses will be executed first. Professional Complex Orders and Responses participate next in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the best price that is represented by the size of the Professional Complex Order or Response. Finally, for Complex Options Orders, bids and offers for the individual legs will be executed pursuant to Options 3, Section 15 and the Supplementary Material thereto.

(5) Prior to entering Agency Orders into the Complex Solicited Order Mechanism on behalf of a customer, EAMs must deliver to the customer a written notification informing the customer that its order may be executed using Nasdaq ISE's Solicited Order Mechanism. Such written notification must disclose the terms and conditions contained in this Rule and must be in a form approved by the Exchange.

**(f) Limitation on Concurrent Complex Strategy Auctions.** Only one Exposure Auction at Supplementary Material .01 to Options 3, Section 14, Complex Price Improvement Mechanism auction at Options 3, Section 13(e), Complex Facilitation Mechanism auction at Options 3, Section 11(c), or Complex Solicited Order Mechanism auction at Options 3, Section 11(e), respectively, will be ongoing at any given time in a Complex Strategy, and such auctions will not queue or overlap in any manner. The Exchange will not initiate an Exposure Auction, Complex Price Improvement Mechanism auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction in a Complex Strategy while another Exposure Auction, Complex Price Improvement Mechanism auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction in that Complex Strategy is ongoing. If a Complex Price Improvement Mechanism auction, Complex Facilitation Mechanism auction, or Complex Solicited Order Mechanism auction for a Complex Strategy has been initiated, an Exposure Auction for that Complex Strategy will not be initiated, and an Exposure Only Complex Order for the Complex Strategy will be

cancelled back to the Member. An Exposure Order for the Complex Strategy will be processed as an order that is not marked for price improvement.

**(g) Concurrent Complex Order and single leg auctions.** An auction in the Block Order Mechanism at Options 3, Section 11(a), Facilitation Mechanism at Options 3, Section 11(b), Solicited Order Mechanism at Options 3, Section 11(d), or Price Improvement Mechanism at Options 3, Section 13(d), respectively, or an exposure period as provided in Supplementary Material .02 to Options 5, Section 2, for an option series may occur concurrently with a Complex Order Exposure Auction at Supplementary Material .01 to Options 3, Section 14, Complex Facilitation Auction at Options 3, Section 11(c), Complex Solicited Order Auction at Options 3, Section 11(e), or Complex Price Improvement Mechanism auction at Options 11, Section 13(e), respectively, for a Complex Order that includes that series. To the extent that there are concurrent Complex Order and single leg auctions involving a specific option series, each auction will be processed sequentially based on the time the auction commenced. At the time an auction concludes, including when it concludes early, the auction will be processed pursuant to Options 3, Section 11(a), (b), (d), or Section 13(a) or Supplementary Material .02 to Options 5, Section 2, as applicable, for the single option, or pursuant to Supplementary Material .01 to Options 3, Section 14, Options 3, Section 11(c), 11(e), Options 3, Section 13(e), as applicable, for the Complex Order, except as provided for at Options 3, Section 13(e)(4)(vi).

### **Supplementary Material to Options 3, Section 11**

.01 It will be a violation of a Member's duty of best execution to its customer if it were to cancel a facilitation order to avoid execution of the order at a better price. The availability of the Facilitation Mechanism does not alter a Member's best execution duty to get the best price for its customer. Accordingly, while facilitation orders can be canceled during the time period given for the entry of Responses, if a Member were to cancel a facilitation order when there was a superior price available on the Exchange and subsequently re-enter the facilitation order at the same facilitation price after the better price was no longer available without attempting to obtain that better price for its customer, there would be a presumption that the Member did so to avoid execution of its customer order in whole or in part by other brokers at the better price.

.02 Responses represent non-firm interest that can be canceled at any time prior to execution. Responses are not displayed to any market participants.

.03 Under paragraph (d) above, Members may enter contra orders that are solicited. The Solicited Order Mechanism provides a facility for Members that locate liquidity for their customer orders. Members may not use the Solicited Order Mechanism to circumvent Exchange Options 3, Section 22(d) limiting principal transactions. This may include, but is not limited to, Members entering contra orders that are solicited from (1) affiliated broker-dealers, or (2) broker-dealers with which the Member has an arrangement that allows the Member to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal.

Additionally, any solicited contra orders entered by Members to trade against Agency Orders may not be for the account of a Nasdaq ISE Market Maker that is assigned to the options class.

.04 Split Prices. Orders and Responses may be entered into the Facilitation and Solicitation Mechanisms and receive executions at the mid-price between the standard minimum trading increments for the options series ("Split Prices"). This means that orders and Responses for options with a minimum increment of 5 cents may be entered into the Facilitation and Solicitation Mechanisms and receive executions in 2.5 cent increments (e.g., \$1.025, \$1.05, \$1.075, etc.), and that orders and Responses for options with a minimum increment of 10 cents may be entered into the Facilitation and Solicitation Mechanism and receive executions at 5 cent increments (e.g., \$4.05, \$4.10, \$4.15, etc.). Orders and quotes in the market that receive the benefit of the facilitation price under paragraph (b)(3)(i) may also receive executions at Split Prices.

.07 Penny Prices. Orders and Responses may be entered into the Block Mechanism and receive executions at penny increments. Orders and quotes in the market that receive the benefit of the block execution price under paragraph (a)(2)(i) may also receive executions at penny increments.

## **Section 12. Crossing Orders**

(a) **Customer Cross Orders.** Customer Cross Orders are automatically executed upon entry provided that the execution is at or between the best bid and offer on the Exchange and (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) will not trade through the NBBO.

(1) Customer Cross Orders will be automatically canceled if they cannot be executed.

(2) Customer Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

(3) Supplementary Material .01 to Options 3, Section 22 applies to the entry and execution of Customer Cross Orders.

(b) **Complex Customer Cross Orders.** Complex Orders may be entered as Customer Cross Orders, as defined in Options 3, Section 7(i). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that comply with the provisions of Options 3, Section 14(c)(2). Complex Customer Cross Orders will be rejected if they cannot be executed. Supplementary Material .01 to Options 3, Section 22 applies to Complex Customer Cross Orders.



**(c) Qualified Contingent Cross Orders.** Qualified Contingent Cross Orders are automatically executed upon entry provided that the execution (i) is not at the same price as a Priority Customer Order on the Exchange's limit order book and (ii) is at or between the NBBO.

(1) Qualified Contingent Cross Orders will be automatically canceled if they cannot be executed.

(2) Qualified Contingent Cross Orders may only be entered in the regular trading increments applicable to the options class under Options 3, Section 3.

**(d) Complex Qualified Contingent Cross Orders.** Complex Options Orders may be entered as Qualified Contingent Cross Orders, as defined in Options 3, Section 7(j). Such orders will be automatically executed upon entry so long as: (i) the price of the transaction is at or within the best bid and offer for the same complex options strategy on the Complex Order Book; (ii) there are no Priority Customer Complex Options Orders for the same strategy at the same price on the Complex Order Book; and (iii) the options legs can be executed at prices that (A) are at or between the NBBO for the individual series, and (B) comply with the provisions of Options 3, Section 14(c)(2)(i), provided that no legs of the Complex Options Order can be executed at the same price as a Priority Customer Order on the Exchange in the individual options series. Complex Qualified Contingent Cross Orders will be rejected if they cannot be executed. Complex Qualified Contingent Cross Orders may be entered in one cent increments. Each leg of a Complex Options Order must meet the 1,000 contract minimum size requirement for Qualified Contingent Cross Orders.

**(e) Qualified Contingent Cross ("QCC") with Stock.** QCC with Stock Orders are processed as follows:

(1) When a Member enters a QCC with Stock Order, a Qualified Contingent Cross Order is entered on the Exchange pursuant to Options 3, Section 12(c).

(2) If the Qualified Contingent Cross Order is executed, the Exchange will automatically communicate the stock component to the Member's designated broker-dealer for execution.

(3) If the Qualified Contingent Cross Order cannot be executed, the entire QCC with Stock Order, including both the stock and options components, is cancelled.

(4) QCC with Stock Orders can be entered with separate prices for the stock and options components, or with a net price for both.

(5) QCC with Stock Orders are available to Members on a voluntary basis. Members that enter QCC with Stock Orders must enter into a brokerage agreement with one or more broker-dealers designated by the Exchange. The Member must designate a specific broker-dealer on each order if the Member has

entered into an agreement with more than one. The Exchange will have no financial arrangements with the designated broker-dealers with respect to communicating stock orders to them.

(6) Members that execute the options component of a qualified contingent trade entered as a QCC with Stock Order remain responsible for the execution of the stock component if they do not receive an execution from their designated broker-dealer.

**(f) Complex QCC with Stock Orders.** Complex QCC with Stock Orders are processed as follows:

(1) When a Member enters a Complex QCC with Stock Order, a Qualified Contingent Cross Complex Order is entered on the Exchange pursuant to (d) above.

(2) If the Qualified Contingent Cross Complex Order is executed, the Exchange will automatically communicate the stock component to the Member's designated broker-dealer for execution.

(3) If the Qualified Contingent Cross Complex Order cannot be executed, the entire Complex QCC with Stock Order, including both the stock and options components, is cancelled.

### **Section 13. Price Improvement Mechanism for Crossing Transactions**

(a) The Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate an order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against an order it represents as agent (a "Crossing Transaction").

(b) Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

(1) If the Agency 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 Crossing Transaction must be entered at one minimum price improvement increment better than the NBBO on the opposite side of the market from the Agency Order and better than the limit order or quote on the Nasdaq ISE order book on the same side of the Agency Order.

(2) If the Agency Order is for 50 option contracts or more, or if the difference between the NBBO is greater than \$0.01, a Crossing Transaction must be entered

only at a price that is equal to or better than the national best bid or offer ("NBBO") and better than the limit order or quote on the Nasdaq ISE order book on the same side of the Agency Order.

(3) The Crossing Transaction may be priced in one-cent increments.

(4) The Crossing Transaction may not be canceled, but the price of the Counter-Side Order may be improved during the exposure period.

(c) Exposure Period. Upon entry of a Crossing Transaction into the Price Improvement Mechanism, a broadcast message that includes the series, price and size of the Agency Order, and whether it is to buy or sell, will be sent to all Members. This broadcast message will not be included in the Nasdaq ISE disseminated best bid or offer and will not be disseminated through OPRA.

(1) The Exchange will designate via an Options Trader Alert a time of no less than 100 milliseconds and no more than 1 second for Members to indicate the size and price at which they want to participate in the execution of the Agency Order ("Improvement Orders").

(2) Improvement Orders may be entered by all Members in one-cent increments at the same price as the Crossing Transaction or at an improved price for the Agency Order, and for any size up to the size of the Agency Order.

(3) During the exposure period, Improvement Orders may not be canceled, but may be modified to (1) increase the size at the same price, or (2) improve the price of the Improvement Order for any size up to the size of the Agency Order.

(4) During the exposure period, responses (including the Counter-Side Order, Improvement Orders, and any changes to either) submitted by Members shall not be visible to other auction participants.

(5) The exposure period will automatically terminate (i) at the end of the time period designated by the Exchange pursuant to paragraph(c)(1) above, (ii) upon the receipt of a market or marketable limit order on the Exchange in the same series, or (iii) upon the receipt of a non-marketable limit order in the same series on the same side of the market as the Agency Order that would cause the price of the Crossing Transaction to be outside of the best bid or offer on the Exchange.

(d) Execution. At the end of the exposure period the Agency Order will be executed in full at the best prices available, taking into consideration orders and quotes in the Exchange market, Improvement Orders, and the Counter-Side Order. The Agency Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

(1) At a given price, "Priority Customer Interest" (Priority Customer Orders and Improvement Orders from Priority Customers) is executed in full before "Professional Interest" (Professional Orders, Improvement Orders from non-Priority Customers and Market Maker quotes).

(2) After Priority Customer Interest at a given price, Professional Interest will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

(3) In the case where the Counter-Side Order is at the same price as Professional Interest in (d)(2), the Counter-Side order will be allocated the greater of one (1) contract or forty percent (40%) of the initial size of the Agency Order before Professional Interest is executed. Upon entry of Counter-Side orders, Members can elect to automatically match the price and size of orders, quotes and responses received during the exposure period up to a specified limit price or without specifying a limit price. In this case, the Counter-Side order will be allocated its full size at each price point, or at each price point within its limit price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side order shall be allocated the greater of one contract or forty percent (40%) of the original size of the Agency Order, but only after Priority Customer Interest at such price point are executed in full. Thereafter, all Professional Interest at the price point will participate in the execution of the Agency Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Interest. An election to automatically match better prices cannot be cancelled or altered during the exposure period.

(4) When a market order or marketable limit order on the opposite side of the market from the Agency Order ends the exposure period, it will participate in the execution of the Agency Order at the price that is mid-way between the best counter-side interest and the NBBO, so that both the market or marketable limit order and the Agency Order receive price improvement. Transactions will be rounded, when necessary, to the \$.01 increment that favors the Agency Order.

(5) If a trading halt is initiated after an order is entered into the Price Improvement Mechanism, such auction will be automatically terminated without execution.

**(e) Complex Price Improvement Mechanism.** Electronic Access Members may use the Price Improvement Mechanism according to this Rule to execute Complex Orders at a net price. The Complex Price Improvement Mechanism is a process by which an Electronic Access Member can provide price improvement opportunities for a transaction wherein the Electronic Access Member seeks to facilitate a Complex Order it represents as agent, and/or a transaction wherein the Electronic Access Member solicited interest to execute against a Complex Order it represents as agent (a "Crossing Transaction").

(1) Crossing Transaction Entry. A Crossing Transaction is comprised of the order the Electronic Access Member represents as agent (the "Agency Order") and a counter-side order for the full size of the Agency Order (the "Counter-Side Order"). The Counter-Side Order may represent interest for the Member's own account, or interest the Member has solicited from one or more other parties, or a combination of both.

(2) Complex Orders must be entered into the Complex Price Improvement Mechanism at a price that is better than the best net price (i) available on the Complex Order Book on both sides of the market; and (ii) achievable from the best ISE bids and offers for the individual legs on both sides of the market (an "improved net price"). Complex Orders will be rejected unless they are entered at an improved net price.

(3) A Complex Order entered into the Complex Price Improvement Mechanism will be rejected if any component of the Complex Order has not opened for trading, or if there is a trading halt in any series underlying the Complex Order. If a trading halt is initiated after the order is entered into the Complex Price Improvement Mechanism, such auction will be automatically terminated without an execution.

(4) Exposure Period. Upon entry of a Complex Order into the Complex Price Improvement Mechanism, a broadcast message that includes the net price, side and size of the Agency Complex Order will be sent to Members.

(i) The Exchange will designate via Options Trader Alert a time of no less than 100 milliseconds and no more than 1 second for Members to indicate the size and net price at which they want to participate in the execution of the Agency Complex Order ("Improvement Complex Orders"). Improvement Complex Orders may be entered by all Members for their own account or for the account of a Public Customer. Improvement Complex Orders are only executable against the Complex Order with respect to which they are entered, and will only be considered up to the size of the Agency Complex Order. Improvement Complex Orders must be entered in the increments provided in Options 3, Section 14(c)(1) at the same price as the Crossing Transaction or at a price that is at least one cent better for the Agency Complex Order.

(ii) During the exposure period, Improvement Complex Orders may not be canceled, but may be modified to (1) increase the size at the same price, or (2) improve the price of the Improvement Complex Order for any size.

(iii) During the exposure period, responses (including the Counter-Side Order, Improvement Complex Orders, and any changes to either) submitted by Members shall not be visible to other auction participants.

(iv) The exposure period will automatically terminate (A) at the end of the time period designated by the Exchange pursuant to subparagraph (4)(i) above, (B) upon the receipt of a Complex Order in the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs, or (C) upon the receipt of a non-marketable Complex Order in the same complex strategy on the same side of the market as the Agency Complex Order that would cause the execution of the Agency Complex Order to be outside of the best bid or offer on the Complex Order Book.

(v) Pursuant to Supplementary Material .04 of this Rule, only one Complex Price Improvement Mechanism may be ongoing at any given time in a given complex strategy. However, a price improvement auction may be ongoing concurrently in series of individual legs of a complex strategy.

(vi) A Complex Price Improvement Mechanism in a complex strategy may be ongoing at the same time as a Price Improvement Auction pursuant to this Rule or during an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2 in a component leg(s) of such Complex Order. If a Complex Price Improvement Mechanism is early terminated pursuant to paragraph (iv) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the subject of a concurrent ongoing Price Improvement Auction pursuant to this Rule or an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2, then the concurrent Complex Price Improvement Mechanism and component leg auction(s) are processed in the following sequence: (1) the Complex Price Improvement Mechanism is early terminated; (2) the component leg auction(s) are early terminated and processed; and (3) legging of residual incoming Complex Order interest occurs, except with respect to Stock Option Orders and Stock Complex Orders.

(5) Execution. At the end of the exposure period the Agency Complex Order will be executed in full at the best prices available, taking into consideration Complex Orders in the Complex Order Book, Improvement Complex Orders, the Counter-Side Order, and, for Complex Options Orders, the ISE best bids and offers on the individual legs. The Agency Complex Order will receive executions at multiple price levels if there is insufficient size to execute the entire order at the best price.

(i) At a given net price, Priority Customer interest on the Complex Order Book (i.e., Priority Customer Complex Orders and Improvement Complex Orders) is executed in full before Professional interest (i.e., Professional Complex Orders and Improvement Complex Orders) on the Complex Order Book.

(ii) After Priority Customer interest on the Complex Order Book at a given net price, Professional interest on the Complex Order Book will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of such interest.

(iii) In the case where the Counter-Side Complex Order is at the same net price as Professional interest on the Complex Order Book in (ii) above, the Counter-Side Complex Order will be allocated the greater of one (1) contract or forty percent (40%) (or such lower percentage requested by the Member) of the initial size of the Agency Complex Order before other Professional interest on the Complex Order Book are executed. Upon entry of Counter-Side Complex Orders, Members can elect to automatically match the price and size of Complex Orders, Improvement Complex Orders received on the Complex Order Book during the exposure period up to a specified limit net price or without specifying a limit net price. This election will also automatically match the net price available from the ISE best bids and offers on the individual legs for the full size of the order; provided that with notice to Members the Exchange may determine whether to offer this option only for Complex Options Orders, Stock-Option Orders, and/or Stock Complex Orders. If a Member elects to auto-match, the Counter-Side Complex Order will be allocated its full size at each price point, or at each price point within its limit net price if a limit is specified, until a price point is reached where the balance of the order can be fully executed. At such price point, the Counter-Side Complex Order shall be allocated the greater of one contract or forty percent (40%) (or such lower percentage requested by the Member) of the original size of the Agency Complex Order, but only after Priority Customer Complex Orders and Improvement Complex Orders at such price point are executed in full. Thereafter, all Professional Complex Orders and Improvement Complex Orders at the price point will participate in the execution of the Agency Complex Order based upon the percentage of the total number of contracts available at the price that is represented by the size of the Professional Complex Order or Improvement Complex Order on the Complex Order Book.

(iv) When a marketable Complex Order on the opposite side of the Agency Complex Order ends the exposure period, it will participate in the execution of the Agency Complex Order at the price that is mid-way between the best counter-side interest and the same side best bid or offer on the Complex Order Book or net price from ISE best bid or offer on individual legs, whichever is better, so that both the marketable Complex Order and the Agency Complex Order receive price improvement.

(v) With respect to bids and offers for the individual legs of a Complex Order entered into the Complex Price Improvement Mechanism, the

priority rules applicable to the execution of Complex Orders contained in Options 3, Section 14(c)(2) will continue to be applicable and may prevent the execution of a Complex Order entered into the Complex Price Improvement Mechanism, in which case the transaction will be cancelled. If an improved net price for the Complex Order being executed can be achieved from Complex Orders, Improvement Complex Orders on the Complex Order Book and, for Complex Options Orders, the ISE best bids and offers on the individual legs, the Agency Complex Order will be executed against such interest.

### **Supplementary Material to Options 3, Section 13**

.01 It shall be considered conduct inconsistent with just and equitable principles of trade for any Member to enter orders, quotes, Agency Orders, Counter-Side Orders or Improvement Orders for the purpose of disrupting or manipulating the Price Improvement Mechanism. Such conduct includes, but is not limited to, engaging in a pattern of conduct where the Member submitting the Agency Order into the PIM breaks-up the Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Member would have otherwise received in accordance with the allocation procedures contained in paragraph (d) above.

.02 The Price Improvement Mechanism may only be used to execute bona fide Crossing Transactions.

.03 There will be no minimum size requirements for orders to be eligible for the Price Improvement Mechanism.

.04 Only one PIM may be ongoing at any given time in a series. PIMs will not queue or overlap in any manner.

.05 Pursuant to Options 3, Section 13(c)(2), Electronic Access Members may enter Improvement Orders for the account of Public Customers.

.06 Any solicited Counter-Side Orders submitted by an Electronic Access Member to trade against Agency Orders may not be for the account of a Nasdaq ISE Market Maker assigned to the options class.

.07 Counter-Side Orders and Improvement Orders entered into the Price Improvement Mechanism only will execute against the Agency Order, and any unexecuted interest will be automatically cancelled.

.08 PIM ISO Order. A PIM ISO order (PIM ISO) is the transmission of two orders for crossing pursuant to this Rule without regard for better priced Protected Bids or Protected Offers (as defined in Options 5, Section 1) because the Member transmitting the PIM ISO to the Exchange has, simultaneously with the routing of the PIM ISO, routed one or more ISOs, as necessary, to execute against the full displayed size of any Protected Bid or



Protected Offer that is superior to the starting PIM auction price and has swept all interest in the Exchange's book priced better than the proposed auction starting price. Any execution(s) resulting from such sweeps shall accrue to the PIM order.

#### **Section 14. Complex Orders**

##### **(a) Definitions.**

(1) *Complex Options Strategy.* A Complex Options Strategy is the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00) and for the purpose of executing a particular investment strategy. Only those Complex Options Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

(2) *Stock-Option Strategy.* A Stock-Option Strategy is the purchase or sale of 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 options 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 necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.

(3) *Stock-Complex Strategy.* A Stock-Complex Strategy is the purchase or sale of 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 a Complex Options Strategy 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 necessary to create a delta neutral position, but in no case in a ratio greater than eight-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option legs to the total number of units of the underlying stock or convertible security in the stock leg. Only those Stock-Complex Strategies with no more than the applicable number of legs, as determined by the Exchange on a class-by-class basis, are eligible for processing.

(4) The term "complex strategy" includes Complex Options Strategies, Stock-Option Strategies, and Stock-Complex Strategies.

(5) The terms "Complex Options Order," "Stock-Option Order," and "Stock-Complex Order" refer to orders for a Complex Options Strategy, Stock-Option Strategy, and Stock-Complex Strategy, respectively. The term "Complex Order"

includes Complex Options Orders, Stock-Option Orders, and Stock-Complex Orders.

(b) Types of Complex Orders. Unless otherwise specified, the definitions used below have the same meaning contained in Options 3, Section 7. Complex Orders may be entered using the following orders or designations:

(1) Market Complex Order. A Market Complex Order is a Complex Order to buy or sell a complex strategy that is to be executed at the best price obtainable. If not executable upon entry, such orders will rest on the Complex Order Book unless designated as fill-or-kill or immediate-or-cancel.

(2) Limit Complex Order. A Limit Complex Order is a Complex Order to buy or sell a complex strategy that is entered with a limit price expressed as a net purchase or sale price for the components of the order.

(3) All-Or-None Complex Order. A Complex Order may be designated as an All-or-None Order that is to be executed in its entirety or not at all. An All-Or-None Order may only be entered as an Immediate-or-Cancel Order.

(4) Attributable Complex Order. A Market or Limit Complex Order may be designated as an Attributable Order as provided in Options 3, Section 7(h).

(5) Customer Cross Complex Order. A Customer Cross Complex Order is comprised of a Priority Customer Complex Order to buy and a Priority Customer Complex Order to sell at the same price and for the same quantity. Such orders will trade in accordance with Options 3, Section 12(b).

(6) Qualified Contingent Cross Complex Order. A Complex Options Order may be entered as a Qualified Contingent Cross Order, as defined in Options 3, Section 7(j). Qualified Contingent Cross Complex Orders will trade in accordance with Options 3, Section 12(d).

(7) Day Complex Order. A Complex Order may be designated as a Day Order that if not executed, expires at the end of the day on which it was entered.

(8) Fill-or-Kill Complex Orders. A Complex Order may be designated as a Fill-or-Kill Order that is to be executed in its entirety as soon as it is received and, if not so executed, cancelled.

(9) Immediate-or-Cancel Complex Orders. A Complex Order may be designated as an Immediate-or-Cancel Order that is to be executed in whole or in part upon receipt. Any portion not so executed is cancelled.

(10) Opening Only Complex Order. An Opening Only Complex Order is a Limit Complex Order that may be entered for execution during the Complex Opening

Process described in Supplementary Material .04 to Options 3, Section 14. Any portion of the order that is not executed during the Complex Opening Process is cancelled.

(11) Good-Till-Date Complex Order. A Good-Till-Date Complex Order is an order to buy or sell which, if not executed, will be cancelled at the sooner of the end of the expiration date assigned to the Complex Order, or the expiration of any individual series comprising the order.

(12) Good-Till-Cancel Complex Order. A Good-Till-Cancel Complex Order is an order to buy or sell that remains in force until the order is filled, canceled or any series of the order expires; provided, however, that a Good-Till-Cancel Complex Order will be cancelled in the event of a corporate action that results in an adjustment to the terms of any series underlying the Complex Order.

(13) Exposure Complex Order. An Exposure Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Options 3, Section 12 if eligible, or entered on the Complex Order Book if not eligible. Any unexecuted balance of an Exposure Complex Order remaining upon the completion of the exposure process will be entered on the Complex Order Book.

(14) Exposure Only Complex Order. An Exposure Only Complex Order is an order that will be exposed upon entry as provided in Supplementary Material .01 to this Rule if eligible, or cancelled if not eligible. Any unexecuted balance of an Exposure Only Complex Order remaining upon the completion of the exposure process will be cancelled.

(15) Complex QCC with Stock Orders. A Complex QCC with Stock Order is a Qualified Contingent Cross Complex Order, as defined in subparagraph (b)(6), entered with a stock component to be communicated to a designated broker-dealer for execution pursuant to Options 3, Section 12(e).

(c) *Applicability of Exchange Rules.* Except as otherwise provided in this Rule, complex strategies shall be subject to all other Exchange Rules that pertain to orders and quotes generally.

(1) *Minimum Increments.* Bids and offers for Complex Options Strategies may be expressed in one cent (\$0.01) increments, and the options leg of Complex Options Strategies may be executed in one cent (\$0.01) increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order. Bids and offers for Stock-Option Strategies or Stock-Complex Strategies may be expressed in any decimal price determined by the Exchange, and the stock leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in any decimal price permitted in the equity market. The options leg of a Stock-Option Strategy or Stock-Complex Strategy may be executed in one cent (\$0.01)

increments, regardless of the minimum increments otherwise applicable to the individual options legs of the order.

(2) *Complex Order*. Complex strategies will not be executed at prices inferior to the best net price achievable from the best ISE bids and offers for the individual legs. Notwithstanding the provisions of Options 3, Section 10:

(i) a Complex Options Strategies may be executed at a total credit or debit price with one other Member without giving priority to bids or offers established on the Exchange that are no better than the bids or offers in the individual options series comprising such total credit or debit; provided, however, that if any of the bids or offers established on the Exchange consist of a Priority Customer Order, the price of at least one leg of the complex strategy must trade at a price that is better than the corresponding bid or offer on the Exchange by at least one minimum trading increment for the series as defined in Options 3, Section 3.

(ii) The option leg of a Stock-Option Strategy has priority over bids and offers for the individual options series established on the Exchange by Professional Orders and market maker quotes that are no better than the price of the options leg, but not over such bids and offers established by Priority Customer Orders.

(iii) The options legs of a Stock-Complex Strategy are executed in accordance with subparagraph (c)(2)(i) above.

(3) Internalization. Complex Orders represented as agent may be executed (i) as principal as provided in Options 3, Section 22(d), or (ii) against orders solicited from Members and non-Member broker-dealers as provided in Options 3, Section 22(e). The exposure requirements of Options 3, Section 22(d) or (e) must be met on the Complex Order Book unless the order is executed in one of the mechanisms described in Options 3, Sections 11, 12 and 13.

(d) *Execution of Complex Strategies*. Complex strategies will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts. Complex strategies are not executable unless all of the terms of the strategy can be satisfied and the options legs can be executed at prices that comply with the provisions of paragraph (c)(2) above. Complex strategies, other than those that are executed as crossing transactions pursuant to Options 3, Sections 11, 12 and 13, are automatically executed as follows:

(1) Each Complex Order must specify upon entry whether it should be exposed upon entry if eligible, or whether such Complex Order should be processed without being exposed. Eligible incoming Complex Orders that are designated for exposure will be exposed for price improvement pursuant to Supplementary Material .01 to this Rule.

(2) Complex Options Orders will be executed at the best net price available from Complex Order Exposure pursuant to Supplementary Material .01 to this Rule, executable Complex Orders on the Complex Order Book, and bids and offers for the individual options series; provided that at each price, executable Complex Options Orders will be automatically executed first against executable bids and offers on the Complex Order book prior to legging in the single leg order book. Notwithstanding the foregoing, executable Complex Options Orders will execute against Priority Customer interest on the single leg book at the same price before executing against the Complex Order Book. Thus, Priority Customer Orders on the single leg order book shall retain priority and will execute prior to any other Complex Order or non-Priority Customer single leg interest at the same price. Stock Option Orders and Stock Complex Orders will be executed at the best net price available from Complex Order Exposure pursuant to Supplementary Material .01 to this Rule and executable Complex Orders on the Complex Order Book. The Exchange may designate on a class basis whether bids and offers at the same price on the Complex Order Book will be executed:

(i) in time priority; or

(ii) pro-rata based on size.

(3) If there is no executable contra-side complex interest on the Complex Order Book at a particular price, executable Complex Options Orders up to a maximum number of legs (determined by the Exchange on a class basis as either two legs, three legs or four legs) may be automatically executed against bids and offers on the Exchange for the individual options series provided the Complex Order can be executed in full or in a permissible ratio by such bids and offers. Legging orders may be automatically generated on behalf of Complex Options Orders so that they are represented at the best bid and/or offer on the Exchange for the individual legs of the Complex Options Order as provided in Options 3, Section 7(k). Notwithstanding the foregoing:

(A) Complex Orders with 2 option legs where both legs are buying or both legs are selling and both legs are calls or both legs are puts may only trade against other Complex Orders in the Complex Order Book. The System will not generate legging orders for these Complex Orders.

(B) Complex Orders with 3 or 4 option legs where all legs are buying or all legs are selling may only trade against other Complex Orders in the Complex Order Book.

(4) Complex strategies that are not executable may rest on the Complex Order Book until they become executable.

#### **Supplementary Material to Options 3, Section 14**

.01 Complex Order Exposure. If designated by a Member for exposure, eligible Complex Orders are exposed upon entry for a period of up to one (1) second pursuant to subparagraph (d)(1) as follows:

(a) A Complex Order that improves upon the best price for the same complex strategy on the Complex Order Book (i.e., a limit order to buy priced higher than the best bid, a limit order to sell priced lower than the best offer, and a market order to buy or sell) is eligible to be exposed upon entry for a period of up to one (1) second as provided in Supplementary Material .01 to this Rule. Incoming orders will not be eligible to be exposed if there are market orders on the Complex Order Book on the same side of the market for the same complex strategy.

(b) Upon entry of an eligible Complex Order, a broadcast message that includes net price or at market, size, and side will be sent and Members will be given an opportunity to enter Responses with the prices and sizes at which they are willing to participate in the execution of the Complex Order.

(i) Responses are only executable against the Complex Order with respect to which they are entered, can be modified or withdrawn at any time prior to the end of the exposure period, and will be considered up to the size of the Complex Order being exposed. During the exposure period, the Exchange will broadcast the best Response price, and the aggregate size of Responses available at that price. At the conclusion of the exposure period, any unexecuted balance of a Response is automatically cancelled.

(ii) The exposure period for a Complex Order will end immediately: (A) upon the receipt of a Complex Order for the same complex strategy on either side of the market that is marketable against the Complex Order Book or bids and offers for the individual legs; (B) upon the receipt of a non-marketable Complex Order for the same complex strategy on the same side of the market that would cause the price of the exposed Complex Order to be outside of the best bid or offer for the same complex strategy on the Complex Order Book; or (C) when a resting Complex Order for the same complex strategy on either side of the market becomes marketable against interest on the Complex Order book or bids and offers for same individual legs of the complex strategy.

(iii) A Complex Order Exposure in a complex strategy may be ongoing in a complex strategy at the same time as a Price Improvement Auction pursuant to Options 3, Section 13 or during an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2 in a component leg(s) of such complex strategy. If a Complex Order Exposure is early terminated pursuant to paragraph (ii) above, and the incoming Complex Order that causes the early termination in the complex strategy is also marketable against a component leg(s) of the complex strategy that is the

subject of a concurrent ongoing Price Improvement Auction pursuant to Options 3, Section 13 or an exposure period pursuant to Supplementary Material .02 to Options 5, Section 2, then the concurrent Complex Order and component leg auction(s) are processed in the following sequence: (1) the Complex Order exposure is early terminated; (2) the component leg auction(s), which are early terminated and processed; and (3) legging of residual incoming Complex Order interest occurs.

(c) At the end of the exposure period, if the Complex Order still improves upon the best price for the complex strategy on the same side of the market, it is automatically executed to the greatest extent possible pursuant to subparagraph (d)(2)-(3), taking into consideration: (i) bids and offers on the Complex Order Book (including interest received during the exposure period), (ii) bids and offers on the Exchange for the individual options series (including interest received during the exposure period), and (iii) Responses received during the exposure period, provided that when allocating pursuant to subparagraph (d)(2)(ii), Responses are allocated pro-rata based on size. Thereafter, any unexecuted balance will be placed on the Complex Order Book (or cancelled in the case of an Exposure Only Complex Order). Notwithstanding the foregoing, Supplementary Material .01(c)(ii) to this Rule shall not be applicable with respect to Stock Option Orders and Stock Complex Orders.

(d) If a trading halt is initiated during the exposure period in any series underlying the Complex Order, the Complex Order exposure process will be automatically terminated without execution.

.02 Stock-Option and Stock-Complex Orders. The Exchange will electronically communicate the stock leg of an executable Stock-Option Order and Stock-Complex Order to a broker-dealer for execution. To execute Stock-Option Orders and Stock-Complex Orders on the Exchange, Members must enter into a brokerage agreement with a broker-dealer designated by the Exchange. The Member may also enter into a brokerage agreement with one or more other broker-dealers to which the Exchange is able to route stock orders. The Exchange will automatically transmit the stock leg of a trade to one-or more broker-dealer(s) with which a Member has an agreement for execution on behalf of the Member using routing logic that takes into consideration objective factors such as execution cost, speed of execution and fill-rates. The Exchange will have no financial arrangements with the brokers with respect to routing stock orders to them. Members may also indicate preferred execution brokers, and such preferences will determine order routing priority whenever possible. A trade of a Stock-Option Order or a Stock-Complex Order will be automatically cancelled if market conditions prevent the execution of the stock or option leg(s) at the prices necessary to achieve the agreed upon net price. When a Stock-Option Order or Stock-Complex Order has been matched with another Stock-Option Order or Stock-Complex Order that is for less than the full size of the Stock-Option Order or Stock-Complex Order, the full size of the Stock-Option Order or Stock Complex Order being processed by the stock execution venue will be unavailable for trading while the order is being processed.

.03 Trade Value Allowance. To facilitate the execution of the stock leg and options leg(s) of Stock-Option Strategies and Stock-Complex Strategies at valid increments pursuant to subparagraph (c)(1), Stock-Option Strategies and Stock-Complex Strategies may trade outside of their expected notional trade value by a specified amount ("Trade Value Allowance"). The Trade Value Allowance is the percentage difference between the expected notional value of a trade and the actual notional value of the trade. The amount of Trade Value Allowance permitted may be determined by the Member, or a default value determined by the Exchange and announced to Members; provided that any amount of Trade Value Allowance is permitted in mechanisms pursuant to Options 3, Section 11 when auction orders do not trade solely with their contra-side order.

.04 Complex Opening Process. After each of the individual component legs have opened, or reopened following a trading halt, Complex Options Strategies will be opened pursuant to the Complex Opening Price Determination described in Supplementary Material .05 to this Rule, and Stock-Option Strategies and Stock-Complex Strategies will be opened pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.

.05 Complex Opening Price Determination.

(a) Definitions.

(1) "Boundary Price" is described herein in paragraph (d)(1).

(2) "Opening Price" is described herein in paragraph (d)(4).

(3) "Potential Opening Price" is described herein in paragraph (d)(2).

(b) Eligible Interest. Eligible interest during the Complex Opening Price Determination includes Complex Orders on the Complex Order Book. Bids and offers for the individual legs of the complex strategy are not eligible to participate in the Complex Opening Price Determination.

(c) If the best bid for a complex strategy does not lock or cross the best offer, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.

(d) If the best bid for a complex strategy locks or crosses the best offer, the System will open the complex strategy as follows:

(1) Boundary Prices. The System calculates Boundary Prices at or within which Complex Orders may be executed during the Complex Opening Price Determination based on the NBBO for the individual legs; provided that, if the NBBO for any leg includes a Priority Customer Order on the



Exchange, the System adjusts the Boundary Prices according to subparagraph (c)(2).

(2) *Potential Opening Price.* The System will calculate the Potential Opening Price by identifying the price(s) at which the maximum number of contracts can trade ("maximum quantity criterion") taking into consideration all eligible interest pursuant to Supplementary Material .06(b) to this Rule.

(3) *More Than One Potential Opening Price.* When two or more Potential Opening Prices would satisfy the maximum quantity criterion: (A) without leaving unexecuted contracts on the bid or offer side of the market of Complex Orders to be traded at those prices, the System takes the highest and lowest of those prices and takes the mid-point; provided that (1) if the highest and/or lowest price described above is through the price of a bid or offer that is priced to not allocate in the Complex Opening Price Determination, the highest and/or lowest price will be rounded to the price of such bid or offer that is priced to not allocate before taking the mid-point, and (2) if the midpoint is not expressed as a permitted minimum trading increment, it will be rounded down to the nearest permissible minimum trading increment; or (B) leaving unexecuted contracts on the bid (offer) side of the market of Complex Orders to be traded at those prices, the Potential Opening Price is the highest (lowest) executable bid (offer) price. Notwithstanding the foregoing: (C) if there are Market Complex Orders on the bid (offer) side of the market that would equal the full quantity of Complex Orders on offer (bid) side of the market, the limit price of the highest (lowest) priced Limit Complex Order is the Potential Opening Price; and (D) if there are only Market Complex Orders on both sides of the market, or if there are Market Complex Orders on the bid (offer) side of the market for greater than the total size of Complex Orders on the offer (bid) side of the market, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.

(4) *Opening Price.* If the Potential Opening Price is at or within the Boundary Prices, the Potential Opening Price becomes the Opening Price. If the Potential Opening Price is not at or within the Boundary Prices, the Opening Price will be the price closest to the Potential Opening Price that satisfies the maximum quantity criteria without leaving unexecuted contracts on the bid or offer side of the market at that price and is at or within the Boundary Prices. If the bid Boundary Price is higher than the offer Boundary Price, or if no valid Opening Price can be found at or within the Boundary Prices, there will be no trade in the Complex Opening Price Determination and the complex strategy will open pursuant

to the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule.

(5) Allocation. During the Complex Opening Price Determination, where there is an execution possible, the System will give priority to Market Complex Orders first, then to resting Limit Complex Orders on the Complex Order Book. The allocation provisions of subparagraph (d)(2) apply with respect to Complex Orders with the same price with priority given first to better priced interest.

(6) Uncrossing. If the Complex Order Book remains locked or crossed following paragraphs (d)(1) - (5), the System will process any remaining Complex Orders, including Opening Only Complex Orders in accordance with the Complex Uncrossing Process described in Supplementary Material .06(b) to this Rule. Bids and offers for the individual legs of the Complex Option Order will also be eligible to trade in the Complex Uncrossing Process.

.06 Complex Uncrossing Process.

(a) The Complex Order Book will be uncrossed using the Complex Uncrossing Process described in paragraph (b) below if a resting Complex Order that is locked or crossed with other interest becomes executable during regular trading or as part of the Complex Opening Process.

(b) Complex Strategies are uncrossed using the following procedure:

(1) The System identifies the oldest Complex Order among the best priced bids and offers on the Complex Order Book. A Complex Order entered with an instruction that it must be executed at a price that is equal to or better than the national best bid or offer pursuant to paragraph (a) above is considered based on its actual limit or market price and not the price of the national best bid or offer for the component legs.

(2) The selected Complex Order is matched pursuant to subparagraph (d)(2)-(3) with resting contra-side interest on the Complex Order Book and, for Complex Option Orders, bids and offers for the individual legs of the complex strategy.

(3) The process described in (1) through (2) is repeated until the Complex Order Book is no longer executable.

.07 Qualified Contingent Trade Exemption. Members may only submit Complex Orders in Stock-Option Strategies and Stock-Complex Strategies if such Complex Orders comply with the Qualified Contingent Trade Exemption from Rule 611(a) of Regulation NMS under the Exchange Act. Members submitting Complex Orders in Stock-Option

Strategies and Stock-Complex Strategies represent that they comply with the Qualified Contingent Trade Exemption. In addition, the stock leg of a stock-option order must be marked "buy," "sell," "sell short," or "sell short exempt" in compliance with Regulation SHO under the Exchange Act.

### **Section 15. Simple Order Risk Protections**

Incoming single leg orders that are executable against orders and quotes in the System will be executed automatically by the System subject to the following:

(a) NBBO Price Protection. Orders, other than Intermarket Sweep Orders (as defined in Rule Options 5, Section 1(h)), will not be automatically executed by the System at prices inferior to the NBBO (as defined in Options 5, Section 1(j)).

(1) Orders that are not automatically executed will be handled as provided in Supplementary Material .02 to Options 5, Section 2; provided that Members may specify that a Non-Customer order should instead be rejected automatically by the System at the time of receipt.

(2) There is no NBBO price protection with respect to any other market whose quotations are Non-Firm (as defined in Options 5, Section 1(k)).

(b) Other Single Leg Risk Protections. Subject to the NBBO price protection in (a) above, the following additional risk protections are automatically enforced by the System. In the event of unusual market conditions and in the interest of a fair and orderly market, the Exchange may temporarily establish the levels at which the order protections contained in this paragraph are triggered as necessary and appropriate.

(1) The following are order risk protections on ISE:

(A) **Limit Order Price Protection.** There is a limit on the amount by which incoming limit orders to buy may be priced above the Exchange's best offer and by which incoming limit orders to sell may be priced below the Exchange's best bid. Limit orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for orders to buy (sell) as the greater of the Exchange's best offer (bid) plus (minus): (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the Exchange's best bid/offer not to exceed 10%. Limit Order Price Protection shall not apply to the Opening Process or during a trading halt.

(B) **Market Order Spread Protection.** Market Orders will be rejected if the NBBO 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.

(C) **Size Limitation.** There is a limit on the number of contracts an incoming order may specify. Orders that exceed the maximum number of contracts are rejected. The maximum number of contracts, which shall not be less than 10,000, is established by the Exchange from time-to-time.

(D) **Market Wide Risk Protection.** All Members must provide parameters for the order entry and execution rate protections described in this Rule. The Exchange will also establish default values for each of these parameters that apply to Members that do not submit the required parameters, and will announce these default values in an Options Trader Alert to be distributed to Members. The System will maintain one or more counting programs for each Member that count orders entered and contracts traded on Nasdaq ISE or across both Nasdaq ISE and Nasdaq GEMX. Members can use multiple counting programs to separate risk protections for different groups established within the Member. The counting programs will maintain separate counts, over rolling time periods specified by the Member for each count, of: (1) the total number of orders entered in the regular order book; (2) the total number of orders entered in the complex order book with only options legs; (3) the total number of orders entered in the complex order book with both stock and options legs; (4) the total number of contracts traded in regular orders; and (5) the total number of contracts traded in complex orders with only options legs. The minimum and maximum duration of the applicable time period will be established by the Exchange and announced via an Options Trader Alert.

(i) If, during the applicable time period, the Member exceeds thresholds that it has set for any of the order entry or execution counts described above on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, in either case as set by the Member, the System will automatically reject all subsequent incoming orders entered by the Member on Nasdaq ISE or, if applicable, across both Nasdaq ISE and Nasdaq GEMX, including both regular and Complex Orders.

(ii) Members may also choose to have the System automatically cancel all of their existing orders on Nasdaq ISE, or across both Nasdaq ISE and Nasdaq GEMX, in either case as set by the Member, when the Market Wide Risk Protection is triggered.

(iii) The Market Wide Risk Protection will remain engaged until the Member manually notifies the Exchange to enable the acceptance of new orders. For Members that still have open orders on the order book that have not been cancelled pursuant to subparagraph (b)(1)(D)(ii) above, the System will continue to allow those Members to interact with existing orders entered

before the protection was triggered, including sending cancel order messages and receiving trade executions for those orders.

(2) The following are order and quote risk protections on ISE:

**(A) Acceptable Trade Range.**

(i) The System will calculate an Acceptable Trade Range to limit the range of prices at which an order or quote 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/quotes and the reference price + (x) for buy orders or quotes). The Acceptable Trade Range will not be available for all-or-none orders.

(ii) The reference price is the NBB for sell orders/quotes and the NBO for buy orders/quotes. The reference price is calculated upon receipt of a new order or quote, provided that if the applicable NBB or NBO price is improved at the time an order is routed to an away market, a new reference price is calculated based on the NBB or NBO at that time.

(iii) If an order or quote reaches the outer limit of the Acceptable Trade Range without being fully executed then any unexecuted balance will be cancelled.

(iv) There will be three categories of options for Acceptable Trade Range: (1) Penny Pilot Options trading in one cent increments for options trading at less than \$3.00 and increments of five cents for options trading at \$3.00 or more, (2) Penny Pilot Options trading in one-cent increments for all prices, and (3) Non-Penny Pilot Options.

(3) The following are Market Maker risk protections on ISE:

**(A) Anti-Internalization.** Quotes and orders entered by Market Makers will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same Market Maker identifiers, or alternatively, if selected by the Member, the same Exchange account number or Member firm identifier. In such a case, the System will cancel the resting quote or order back to the entering party prior to execution. This functionality shall not apply in any auction or with respect to Complex Order transactions.

**(B) Automated Quotation Adjustments.**

(i) Market Makers are required to utilize the Percentage, Volume, Delta and Vega Thresholds, each a Threshold, described in (a) - (d) below. For each of these features, the System will automatically remove a Market Maker's quotes in all series in an options class when any of the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, as described below, has been exceeded. A Market Maker is required to specify a period of time not to exceed 30 seconds ("Specified Time Period") during which the System will automatically remove a Market Maker's quotes in all series of an options class. The Specified Time Period will commence for an options class every time an execution occurs in any series in such option class and will continue until the System removes quotes as described in (ii) or (iii) or the Specified Time Period expires. The Specified Time Period operates on a rolling basis among all series in an options class in that there may be Specified Time Periods occurring simultaneously for each Threshold and such Specified Time Periods may overlap. The Specified Time Periods will be the same value for each protection described in (a) - (d) below.

(a) Percentage Threshold. A Market Maker must provide a specified percentage ("Percentage Threshold"), of not less than 1%, by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each series in an options class, the System will determine (i) during a Specified Time Period and for each side in a given series, a percentage calculated by dividing the size of a Market Maker's quote size executed in a particular series (the numerator) by the Market Maker's quote size available at the time of execution plus the total number of the Market Maker's quote size previously executed during the unexpired Specified Time Period (the denominator) ("Series Percentage"); and (ii) the sum of the Series Percentage in the options class ("Issue Percentage") during a Specified Time Period. The System tracks and calculates the net impact of positions in the same options class; 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 exceeds the Percentage Threshold the System will automatically remove a Market Maker's quotes in all series of the options class during the Specified Time Period.

(b) Volume Threshold. A Market Maker must provide a Volume Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class when the Market Maker executes a number of contracts which exceeds the designated number of contracts in all series in an options class.

(c) Delta Threshold. A Market Maker must provide a Delta Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Delta counter, which tracks the absolute value of the difference between (i) purchased call contracts plus sold put contracts and (ii) sold call contracts plus purchased put contracts. If the Delta counter exceeds the Delta Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

(d) Vega Threshold. A Market Maker must provide a Vega Threshold by which the System will automatically remove a Market Maker's quotes in all series of an options class. For each class of options, the System will maintain a Vega counter, which tracks the absolute value of purchased contracts minus sold contracts. If the Vega counter exceeds the Vega Threshold established by the Member, the System will automatically remove a Market Maker's quotes in all series of the options class.

(ii) The System will automatically remove quotes in all series of an options class when the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold has been exceeded. The System will send a Purge Notification Message to the Market Maker for all affected series when the above thresholds have been exceeded.

(a) The Percentage Threshold, Volume Threshold, Delta Threshold and Vega Threshold are considered independently of each other.

(b) Quotes will be automatically executed up to the Market Maker's size regardless of whether the execution would cause the Market Maker to exceed the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold

(iii) Notwithstanding subparagraph (b)(3)(B)(i) and (ii) above, if a Market Maker requests the System to remove quotes in all series of an options class, the System will automatically reset all Thresholds.

(iv) When the System removes quotes as a result of exceeding the Percentage Threshold, Volume Threshold, Delta Threshold or Vega Threshold, the Market Maker must send a re-entry indicator to re-enter the System.

(v) If a Market Maker does not provide a parameter for each of the automated quotation removal protections described in (B)(i)(a) - (d)

above, the Exchange will apply default parameters, which are announced to Members.

(vi) In addition to the automated quotation removal protections described in (B)(i)(a) - (d) above, a Market Maker must provide a market wide parameter by which the Exchange will automatically remove a Market Maker's quotes in all classes when, during a time period established by the Market Maker, the total number of quote removal events specified in (B)(i)(a) - (d) above and in Supplementary Material .04 to Options 3, Section 14 exceeds the market wide parameter provided to the Exchange by the Market Maker. Market Makers may request the Exchange to set the market wide parameter to apply to just Nasdaq ISE or across Nasdaq ISE and Nasdaq GEMX. Market Makers must request the Exchange enable re-entry by contacting the Exchange's Operations Department.

### **Section 16. Complex Order Risk Protections**

The following are Complex Order risk protections on ISE:

(a) **Price limits for Complex Orders.** As provided in Options 5, Section 14(d)(2), the legs of a complex strategy may be executed at prices that are inferior to the prices available on other exchanges trading the same options series. Notwithstanding, the System will not permit any leg of a complex strategy to trade through the NBBO for the series or any stock component by a configurable amount calculated as the lesser of (i) an absolute amount not to exceed \$0.10, and (ii) a percentage of the NBBO not to exceed 500%, as determined by the Exchange on a class, series or underlying basis. A Member can also include an instruction on a Complex Order that each leg of the Complex Order is to be executed only at a price that is equal to or better than the NBBO for the options series or any stock component, as applicable.

(1) The System will reject orders for a complex strategy where all legs are to buy if entered at a price that is less than the minimum net price, which is calculated as the sum of the ratio on each leg of the complex strategy multiplied by the minimum increment applicable to that leg pursuant to Options 5, Section 14(c)(1).

(b) **Strategy Protections.** The following protections will apply throughout the trading day, including pre-market, during the Opening Process and during a trading halt. The protections will not apply to Complex Orders being auctioned and auction responses in the Facilitation Mechanism, Solicited Order Mechanism, and Price Improvement Mechanism and will not apply to Customer Cross Orders pursuant to Options 5, Section 12(a).

(1) **Vertical Spread Protection.** The Vertical Spread Protection will apply to a vertical spread. A vertical spread is an order to buy a call (put) option and to sell another call (put) option in the same security with the same expiration but at a higher (lower) strike price).



(A) The System will reject a Vertical Spread order when entered with a net price of less than zero (minus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is less than zero (minus a pre-set value) when entered as a Market Order to sell. The Exchange will set a pre-set value not to exceed \$1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

(B) The System will reject a Vertical Spread order when entered with a net price greater than the value of the higher strike price minus the lower strike price (plus a pre-set value), and will prevent the execution of a Vertical Spread order at a price that is greater than the value of the higher strike price minus the lower strike price (plus a pre-set value) when entered as a Market Order to buy. The pre-set value used by the vertical spread check will be the lesser of (1) an absolute amount not to exceed \$1.00 and (2) a percentage of the difference between the strike prices not to exceed 10% to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

**(2) Calendar Spread Protection.** The Calendar Spread Protection will apply to a Calendar Spread. A calendar spread is an order to buy a call (put) option with a longer expiration and to sell another call (put) option with a shorter expiration in the same security at the same strike price.

(A) The System will reject a Calendar Spread order when entered with a net price of less than zero (minus a preset value), and will prevent the execution of a Calendar Spread order at a price that is less than zero (minus a pre-set value) when entered as a Market Complex Order to sell. The Exchange will set a pre-set value not to exceed \$1.00 to be applied uniformly across all classes. The Exchange may amend the pre-set value uniformly across all classes.

**(3) Butterfly Spread Protection.** The Butterfly Spread Protection will apply to a butterfly spread. A butterfly spread is a three legged Complex Order with the following: (1) two legs to buy (sell) the same number of calls (puts); (2) one leg to sell (buy) twice the number of calls (puts) with a strike price at mid-point of the two legs to buy (sell); (3) all legs have the same expiration; and (4) each leg strike price is equidistant from the next sequential strike price.

(A) A Butterfly Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Butterfly Spread Market Order (or Butterfly Spread Limit Order entered with a net price inside the Butterfly Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The

Butterfly Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike price of the leg with the mid-point strike and either of the outer leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to Members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to Members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(4) **Box Spread Protection.** The Box Spread Protection will apply to a box spread. A box spread is a four legged Complex Order with the following: (1) one pair of legs with the same strike price with one leg to buy a call (put) and one leg to sell a put (call); (2) a second pair of legs with a different strike price from the pair described in (1) with one leg to sell a call (put) and one leg to buy a put (call); (3) all legs have the same expiration; and (4) all legs have equal volume.

(A) A Box Spread Limit Order that is priced higher than the Maximum Value or lower than the Minimum Value will be rejected. A Box Spread Market Order (or Box Spread Limit Order entered with a net price inside the Box Spread Protection Range) to buy (sell) will be restricted from executing by legging into the single leg market with a net price higher (lower) than the Maximum (Minimum) Value. The Box Spread Protection Range is the absolute difference between the Minimum Value and the Maximum Value.

(i) The Initial Maximum Value is the distance between the strike prices of each pair of leg strike prices. The Maximum Value Buffer is the lesser of a configurable absolute dollar value or percentage of the Initial Maximum Value set by the Exchange and announced via a notice to Members. The Maximum Value is calculated by adding the Initial Maximum Value and Maximum Value Buffer.

(ii) The Initial Minimum Value is zero. The Minimum Value Buffer is a configurable absolute dollar value set by the Exchange and announced via a notice to Members. The Minimum Value is calculated by subtracting the Minimum Value Buffer from the Initial Minimum Value of zero.

(c) Other Price Protections which apply to Complex Orders.

(1) **Limit Order Price Protection.** There is a limit on the amount by which the net price of an incoming Limit Complex Order to buy may exceed the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg, and by which the net price of an incoming Limit Complex Order to sell may be below the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg. Limit Complex Orders that exceed the pricing limit are rejected. The limit is established by the Exchange from time-to-time for Limit Complex Orders to buy (sell) as the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg plus (minus) the greater of: (i) an absolute amount not to exceed \$2.00, or (ii) a percentage of the net price available from the individual options series on the Exchange and the national best bid or offer for any stock leg not to exceed 10%.

(2) **Size Limitation.** There is a limit on the number of contracts (and shares in the case of a Stock-Option Strategy or Stock-Complex Strategy) any single leg of an incoming Complex Order may specify. Orders that exceed the maximum number of contracts (or shares) are rejected. The maximum number of contracts (or shares), which shall not be less than 10,000 (or 100,000 shares), is established by the Exchange from time-to-time.

(3) **Price Level Protection.** There is a limit on the number of price levels at which an incoming Complex Order to sell (buy) will be executed automatically with the bids or offers of each component leg when there are no bids (offers) from other exchanges at any price for the options series. Complex Orders are executed at each successive price level until the maximum number of price levels is reached on any component leg where the protection has been triggered, and any balance is canceled. The number of price levels for the component leg, which may be from one (1) to ten (10), is determined by the Exchange from time-to-time on a class-by-class basis.

**Section 17. Kill Switch**

(a) Kill Switch enables Members to initiate a message to the System to promptly cancel orders and restrict entry of new orders until re-entry has been enabled. Members may submit a request to the System to cancel orders for that Member. The System will send an automated message to the Member when a Kill Switch request has been processed by the Exchange's System.

(1) If orders are cancelled by the Member utilizing the Kill Switch, it will result in the cancellation of all orders for the Member. The Member will be unable to enter additional orders until re-entry has been enabled pursuant to section (a)(2).

(2) After orders are cancelled by the Member utilizing the Kill Switch, the Member will be unable to enter additional orders until the Member 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 Member. The applicable Clearing Member also will be notified of the re-entry into the System after orders are cancelled as a result of the Kill Switch, provided the Clearing Member has requested to receive such notification.

## **Section 18. Detection of Loss of Communication**

### **(a) Definitions**

(1) A "Heartbeat" message is a communication which acts as a virtual pulse between the SQF, OTTO, or FIX Port and the Client Application. The Heartbeat message sent by the Member and subsequently received by the Exchange allows the SQF, OTTO, or FIX Port to continually monitor its connection with the Member.

(2) SQF Port is the Exchange's proprietary System component through which ISE Market Makers communicate their quotes from the Client Application.

(3) OTTO Port is the Exchange's proprietary System component through which Members communicate their orders from the Client Application.

(4) FIX Port is the Exchange's universal System component through which Members communicate their orders from the Client Application.

(5) Client Application is the System component of the Member through which the Exchange Member communicates its quotes and orders to the Exchange.

(6) Session of Connectivity shall mean each time the Member connects to the Exchange's System. Each new connection, intra-day or otherwise, is a new Session of Connectivity.

(b) When the SQF Port detects the loss of communication with a Member'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 Member's affected Client Application and automatically cancel all of the Member's open quotes pursuant to Section 18(e). Quotes will be cancelled across all Client Applications that are associated with the same ISE Market Maker ID and underlying issues.

(c) When the OTTO Port detects the loss of communication with a Member'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 Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Section 18(f) automatically cancel all orders.

(d) When the FIX Port detects the loss of communication with a Member'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 Member's affected Client Application and if the Member has elected to have its orders cancelled pursuant to Section 18(g) automatically cancel all orders.

(e) The default time period ("nn" seconds) for SQF Ports shall be fifteen (15) seconds. A Member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (b) 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 Member and may not be disabled.

(1) If the Member 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 Member may change the default setting 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 Member shall persist for each subsequent Session of Connectivity until the Member either contacts Exchange operations by phone and changes the setting or the Member selects another time period through the Client Application prior to the next Session of Connectivity.

(f) The default period of "nn" seconds for OTTO Ports shall be fifteen (15) seconds for the disconnect and, if elected, the removal of orders. A Member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (c) above, to trigger the disconnect and, if so elected, the 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 Member will be disconnected.

(1) If the Member 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 Member may change the default setting 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 Member shall persist for each subsequent Session of Connectivity until the Member either contacts Exchange operations by phone and changes the setting or the Member selects another time period through the Client Application prior to the next Session of Connectivity.

(g) The default period of "nn" seconds for FIX Ports shall be thirty (30) seconds for the disconnect and, if elected, the removal of orders. A Member may determine another time period of "nn" seconds of no technical connectivity, as required in paragraph (d) above, to trigger the disconnect and, if so elected, the 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 Member will be disconnected.

(1) If the Member 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 Member may change the default setting 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 Member shall persist for each subsequent Session of Connectivity until the Member either contacts Exchange operations by phone and changes the setting or the Member selects another time period through the Client Application prior to the next Session of Connectivity.

(h) The trigger for the SQF, OTTO, and FIX Ports is Client Application specific. The automatic cancellation of the ISE Market Maker's quotes for SQF Ports and open orders, if elected by the Member, for OTTO and FIX Ports entered into the respective SQF, OTTO, or FIX Ports via a particular Client Application will neither impact nor determine the treatment of the quotes of other ISE Market Makers entered into SQF Ports or orders of the same or other Members entered into OTTO or FIX Ports via a separate and distinct Client Application.

### **Section 19. Reserved.**

### **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 Member 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, Customer has the same definition as Priority Customer in Options 1, Section 1(a)(36).

(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, an Official is an Officer of the Exchange or such other employee designee of the Exchange that is trained in the application of this Rule.

(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 - 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 the Exchange's receipt of the order. The Exchange will rely on this paragraph (b) and Supplementary Material .06 of this Rule when determining Theoretical Price.

(1) Transactions at the Open. For a transaction occurring during the opening rotation (see 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 Market Control in the manner specified from time to time by the Exchange in an Options Trader Alert distributed to Members. Such notification must be received by the Exchange's Market Control 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) Official Acting on Own Motion. An Official 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 Official 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 Official 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 Official 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 Official not to review a transaction or determination not to nullify or adjust a transaction for which a review was conducted on an Official'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 sub-paragraph (C) below.

(C) If any Member submits requests to the Exchange for review of transactions pursuant to this Rule, and in aggregate that Member 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 Market Control in the manner specified from time to time by the Exchange in an Options Trader Alert distributed to Members. Such notification must be received by the Exchange's Market Control 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 Market Control 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>Above \$5.00 to \$10.00</u>	<u>\$1.50</u>	<u>\$1.50</u>
<u>Above \$10.00 to \$20.00</u>	<u>\$2.00</u>	<u>\$2.00</u>
<u>Above \$20.00 to \$50.00</u>	<u>\$2.50</u>	<u>\$2.50</u>
<u>Above \$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 sub-paragraph (a)(4) above.

Theoretical Price  
(TP)

Buy Transaction Adjustment -  
TP Plus

Sell Transaction Adjustment - TP  
Minus

<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 Options 8, Section 9.

(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 Market Control 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 Market Control 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 sub-paragraph (c)(4) this

Rule, provided a party notifies the Exchange's Market Control 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 Market Control in accordance with sub-paragraph (c)(2) above.

(i) *Stop (and Stop-Limit) Order Trades Triggered by Erroneous Trades.* Transactions resulting from the triggering of a stop or stop-limit order by an erroneous trade in an option contract shall be nullified by the Exchange, provided a party notifies the Exchange's Market Control in a timely manner as set forth below. If a party believes that it participated in an erroneous transaction pursuant to this paragraph it must notify the Exchange's Market Control within the timeframes set forth in sub-paragraph (c)(2) above, with the allowed notification timeframe commencing at the time of notification of the nullification of transaction(s) that triggered the stop or stop-limit order.

(j) *Linkage Trades.* If the Exchange routes an order pursuant to the Plan (as defined in Options 5, Section 1(n)) 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) *Appeals.* If a Member affected by a determination made under this Rule so requests within the time permitted below, an Exchange Review Council panel will review decisions made by the Official under this Rule, including whether an obvious error occurred and whether the correct determination was made.

(1) An 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) A request for review on appeal must be made in writing via e-mail or other electronic means specified from time to time by the Exchange in an Options Trader Alert distributed to Members within thirty (30) minutes after the party making the appeal is given notification of the initial determination being appealed. The Exchange Review Council panel shall review the facts and render a decision as soon as practicable, but generally on the same trading day as the execution(s) under review. On requests for appeal received after 3:00 p.m. Eastern Time, a decision will be rendered as soon as practicable, but in no case later than the trading day following the date of the execution under review.

(3) The Exchange Review Council panel may overturn or modify an action taken by the Official under this Rule. All determinations by the Exchange Review Council panel shall constitute final action by the Exchange on the matter at issue.

(4) If the Exchange Review Council panel votes to uphold the decision made pursuant to paragraph (k) above, the Exchange will assess a \$5,000.00 fee against the Member(s) who initiated the request for appeal. In addition, in instances where the Exchange, on behalf of a Member, requests a determination by another market center that a transaction is clearly erroneous, the Exchange will pass any resulting charges through to the relevant Member.

(5) Any determination by an Official or by the Exchange Review Council panel shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.

**(l) Erroneous Trades due to System Disruptions and Malfunctions**

*(1) Verifiable Disruptions or Malfunctions of Exchange Systems.*

(A) Transactions arising out of a "verifiable disruption or malfunction" in the use or operation of any Exchange automated quotation, dissemination, execution, or communication system may either be nullified or adjusted by Market Control. Transactions that qualify for price adjustment will be adjusted in accordance with the guidelines contained in Options 3, Section 20(b)(2)(i)(A) and (B).

(B) Absent extraordinary circumstances, any such action by Market Control pursuant to this Rule shall be initiated within sixty (60) minutes of the occurrence of the erroneous transaction that resulted from a verifiable disruption or malfunction. Each Member involved in the transaction shall be notified as soon as practicable.

(C) Any Member aggrieved by the action of Market Control taken pursuant to paragraph (A) above may appeal such action in accordance with the provisions of subsection (2).

*(2) Procedures for Review of Decisions Made Pursuant to Options 3, Section 20(l)(1).*

(A) If a party to a ruling by Market Control made pursuant to subsection (1) of this Rule requests within the time permitted below, an Exchange Review Council panel will be utilized to review decisions made by Market Control under this Rule.

(i) An 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.

(ii) A request for review on appeal must be made via facsimile or e-mail within thirty (30) minutes after the party making the appeal is given notification of the initial determination being appealed. The Exchange Review Council panel shall review the facts and render a decision within the time frame prescribed by the Exchange.

(iii) The Exchange Review Council panel may overturn or modify an action taken by the Exchange under this Rule. All determinations by the Exchange Review Council panel shall constitute final action by the Exchange on the matter at issue.

### **Supplementary Material to Options 3, Section 20**

.01 Limit Up-Limit Down State. During a pilot period that expires at the close of business on October 18, 2019, an execution will not be subject to review as an Obvious Error or Catastrophic Error pursuant to paragraph (c) or (d) of this Rule if it occurred while the underlying security was in a "Limit State" or "Straddle State," as defined in the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS under the Act (the "Limit Up-Limit Down Plan"). Nothing in this provision shall prevent such execution from being reviewed on an Official's own motion pursuant to sub-paragraph (c)(3) of this Rule, or a bust or adjust pursuant to paragraphs (e) through (j) of this Rule.

.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 When Market Control determines that an Error has occurred and action is warranted under paragraphs (c) or (d) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.

.04 Complex Order Executions. If both parties to a trade that is one component of a complex order execution are parties to all of the trades that together comprise the execution of a complex order at a single net debit or credit, then if one of those component trades can be nullified under this Options 3, Section 20, all component trades that were part of the same complex order shall be nullified as well.

.05 Complex Orders and Stock-Option Orders.

(a) If a complex order executes against individual legs and at least one of the legs qualifies as an Obvious Error under

paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraphs (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, any Customer order subject to this paragraph (a) 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 on the complex order or individual leg(s). If any leg of a complex order is nullified, the entire transaction is nullified.

(b) If a complex order executes against another complex order and at least one of the legs qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the leg(s) that is an Obvious or Catastrophic Error will be adjusted or busted in accordance with paragraph (c)(4) or (d)(3), respectively, so long as either: (i) the width of the National Spread Market for the complex order strategy just prior to the erroneous transaction was equal to or greater than the amount set forth in the wide quote table of paragraph (b)(3) or (ii) the net execution price of the complex order is higher (lower) than the offer (bid) of the National Spread Market for the complex order strategy just prior to the erroneous transaction by an amount equal to at least the amount shown in the table in paragraph (c)(1). If any leg of a complex order is nullified, the entire transaction is nullified. For purposes of this Rule, the National Spread Market for a complex order strategy is determined by the National Best Bid/Offer of the individual legs of the strategy.

(c) If the option leg of a stock-option order qualifies as an Obvious Error under paragraph (c)(1) or a Catastrophic Error under paragraph (d)(1), then the option leg that is an Obvious or Catastrophic Error will be adjusted in accordance with paragraph (c)(4)(A) or (d)(3), respectively, regardless of whether one of the parties is a Customer. However, the option leg of any Customer order subject to this paragraph (c) 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 on the stock-option order, and the Exchange will attempt to nullify the stock leg. Whenever a stock trading venue nullifies the stock leg of a stock option order or whenever the stock leg cannot be executed, the Exchange will nullify the option leg upon request of one of the parties to the transaction or in accordance with paragraph (c)(3).

.06 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 .06. 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 the Exchange**

(a) Access to Exchange. Unless otherwise provided in the Rules, no one but a Member or a person associated with a Member shall effect any Exchange Transactions. The Exchange may share any Member-designated risk settings in the System with the Clearing Member that clears transactions on behalf of the Member.

(b) Exchange Conduct. Members and persons employed by or associated with any Member, while using the facilities of the 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 may 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;

(2) failure of a Market Maker to bid or offer within the ranges specified by Options 2, Section 4(b)(4);

(3) failure of a Member to supervise a person employed by or associated with such Member adequately to ensure that person's compliance with this paragraph (b);

(4) failure to abide by a determination of the Exchange;

(5) refusal to provide information requested by the Exchange; and

(6) failure to abide by the provisions of Options 3, Section 22.

### **Supplementary Material to Options 3, Section 21**

.01 General. The Exchange shall be available for entry and execution of orders by Sponsored Customers with authorized access. Sponsored Access shall mean an arrangement whereby a Member permits its customers to enter orders into the System that bypass the Member's trading system and are routed directly to the Exchange, including routing through a service bureau or other third party technology provider.

.02 Sponsored Customers. A Sponsored Customer may obtain authorized access to the Exchange only if such access is authorized in advance by one or more Sponsoring Members as follows:

(1) Sponsored Customers must enter into and maintain customer agreements with one or more Sponsoring Members establishing proper relationship(s) and account(s) through which the Sponsored Customers may trade on the Exchange ("Customer Agreement"). Such Customer Agreement(s) must incorporate the sponsorship provisions set forth in paragraph (2) below.

(2) For a Sponsored Customer to obtain and maintain authorized access to the Exchange, a Sponsored Customer and its Sponsoring Member must agree in writing to the following sponsorship provisions:

(A) The authorized access must comply with Rule 15c3-5 under the Securities Exchange Act of 1934.

(B) Sponsoring Member acknowledges and agrees that:

(1) All orders entered by the Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Member, and

(2) Sponsoring Member is responsible for any and all actions taken by such Sponsored Customer and any person acting on behalf of or in the name of such Sponsored Customer.

(3) Sponsoring Member shall comply with the Exchange's Certificate of Formation, By-Laws, Rules and procedures with regard to the Exchange and Sponsored Customer shall comply with Exchange's Certificate of Formation, By-Laws, Rules and procedures with regard to the Exchange, as if Sponsored Customer were a Nasdaq ISE Member.

(4) Sponsored Customer shall maintain, keep current and provide to the Sponsoring Member a list of persons who have been granted access to the Exchange on behalf of the Sponsored Customer ("Authorized Traders").

(5) Sponsored Customer shall familiarize its Authorized Traders with all of the Sponsored Customer's obligations under this Rule and will assure that they receive appropriate training prior to any use or access to the Exchange.

(6) Sponsored Customer may not permit anyone other than Authorized Traders to use or obtain access to the Exchange.

(7) Sponsored Customer shall take reasonable security precautions to prevent unauthorized use or access to the Exchange, including unauthorized entry of information into the Exchange's System, or the information and data made available therein. Sponsored Customer understands and agrees that Sponsored Customer is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of Authorized Traders, and for the trading and other consequences thereof.

(8) Sponsored Customer acknowledges its responsibility to establish adequate procedures and controls that permit it to effectively monitor its employees, agents and customers' use and access to the Exchange for compliance with this Rule.

(9) Sponsored Customer shall pay when due all amounts, if any, payable to Sponsoring Member, the Exchange or any other third parties that arise from the Sponsored Customer's access to and use of the Exchange. Such amounts include, but are not limited to applicable exchange and regulatory fees.

## **Section 22. Limitations on Orders**

(a) Limit Orders. Electronic Access Members shall not enter Priority 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.

(b) Principal Transactions. Electronic Access Members may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one (1) second, (ii) the Electronic Access Member has been bidding or offering on the Exchange for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(d), or (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Options 3, Section 13.

(c) Solicitation Orders. Electronic Access Members may not execute orders they represent as agent on the Exchange against orders solicited from Members and non-Member broker-dealers to transact with such orders unless (i) the unsolicited order is first exposed on the Exchange for at least one (1) second, (ii) the Member utilizes the Solicited Order Mechanism pursuant to Options 3, Section 11(e), (iii) the Member utilizes the Facilitation Mechanism pursuant to Options 3, Section 11(d) or (iv) the Member utilizes the Price Improvement Mechanism for Crossing Transactions pursuant to Options 3, Section 13.

(d) Orders for the Account of Another Member. Electronic Access Members shall not cause the entry of orders for the account of a Nasdaq ISE Market Maker that is exempt from the provisions of Regulation T of the Board of Governors of the Federal Reserve System pursuant to Section 7(c)(2) of the Exchange Act unless such orders are identified as orders for the account of a Nasdaq ISE Market Maker in the manner prescribed by the Exchange.

## **Supplementary Material to Options 3, Section 22**

.01 Options 3, Section 22(d) prevents an Electronic Access Member from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on the Exchange an opportunity to either trade with the

agency order or to trade at the execution price when the Member was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Electronic Access Member to establish a relationship with a customer or other person (including affiliates) 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 will be a violation of Options 3, Section 22(d) for an Electronic Access Member to be a party to any arrangement designed to circumvent Options 3, Section 22(d) by providing an opportunity for a customer or other person (including affiliates) to regularly execute against agency orders handled by the Electronic Access Member immediately upon their entry into the System.

.02 It will be a violation of Options 3, Section 22(e) for an Electronic Access Member to cause the execution of an order it represents as agent on the Exchange by orders it solicited from Members and non-Member broker-dealers to transact with such orders, whether such solicited orders are entered into the System directly by the Electronic Access Member or by the solicited party (either directly or through another Member), if the Member fails to expose orders on the Exchange as required by Options 3, Section 22(e).

.03 With respect to the non-displayed reserve portion of a reserve order, the exposure requirement of paragraphs (b) and (c) are satisfied if the displayable portion of the reserve order is displayed at its displayable price for one second.

.04 The exposure requirement of paragraph (b) and (c) of Options 3, Section 22 applies to the entry of orders with knowledge that there is a pre-existing unexecuted agency, proprietary, or solicited order on the Exchange. Members may demonstrate that orders were entered without knowledge by providing evidence that effective information barriers between the persons, business units and/or systems entering the orders onto the Exchange were in existence at the time the orders were entered. Such information barriers must be fully documented and provided to the Exchange upon request.

### **Section 23. Data Feeds and Trade Information**

(a) The following data feeds contain ISE trading information offered by ISE:

(1) **Nasdaq ISE Depth of Market Data Feed ("Depth of Market Feed")** provides aggregate quotes and orders at the top five price levels on ISE, and provides subscribers with a consolidated view of tradable prices beyond the BBO, showing additional liquidity and enhancing transparency for ISE traded 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 ISE and identifies if the series is available for closing transactions only. In addition, subscribers are provided with total aggregate quantity, Public Customer aggregate quantity, Priority Customer aggregate quantity, price, and side (i.e., bid/ask). This information is provided for each of the top five price levels on the Depth Feed. The feed also provides order imbalances on opening/reopening.

(2) Nasdaq ISE Order Feed ("Order Feed") provides information on new orders resting on the book (e.g. price, quantity and market participant capacity). In addition, the feed also announces all auctions. The data provided for each option 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 ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

(3) Nasdaq ISE Top Quote Feed ("Top Quote Feed") calculates and disseminates ISE's best bid and offer position, with aggregated size (including total size in aggregate, for Professional Order size in the aggregate and Priority Customer Order size in the aggregate), based on displayable order and quote interest in the System. The feed also provides last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option 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 ISE and identifies if the series is available for closing transactions only. The feed also provides order imbalances on opening/reopening.

(4) Nasdaq ISE Trades Feed ("Trades Feed") displays last trade information along with opening price, daily trading volume, high and low prices for the day. The data provided for each option 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 ISE and identifies if the series is available for closing transactions only.

(5) Nasdaq ISE Spread Feed ("Spread Feed") is a feed that consists of: (1) options orders for all Complex Orders (i.e., spreads, buy-writes, delta neutral strategies, etc.); (2) data aggregated at the top five price levels (BBO) on both the bid and offer side of the market; (3) last trades information. The Spread Feed provides updates, including prices, side, size and capacity, for every Complex Order placed on the ISE Complex Order book. The Spread Feed shows: (1) aggregate bid/ask quote size; (2) aggregate bid/ask quote size for Professional Customer Orders; and (3) aggregate bid/ask quote size for Priority Customer Orders for ISE traded options. The feed also provides Complex Order auction notifications.

(b) The following order and execution information is available to Members:

(1) Clearing Trade Interface ("CTI") is a real-time cleared trade update message that is sent to a Member after an execution has occurred and contains trade details specific to that Member. The information includes, among other things, the following: (i) The Clearing Member Trade Agreement ("CMTA") or The Options Clearing Corporation ("OCC") number; (ii) badge or mnemonic; (iii)



account number; (iv) information which identifies the transaction type (e.g. auction type) for billing purposes; and (v) market participant capacity.

(2) TradeInfo, a user interface, permits a Member 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) view orders and executions; and (iii) download orders and executions for recordkeeping purposes. TradeInfo users may also cancel open orders at the order, port or firm mnemonic level through TradeInfo.

(3) FIX DROP is a real-time order and execution update message that is sent to a Member after an order been received/modified or an execution has occurred and contains trade details specific to that Member. 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. Reserved**

#### **Section 26. Message Traffic Mitigation**

In order to control the number of quotations the Exchange disseminates, the Exchange shall utilize a mechanism so that newly-received quotations and other changes to the Exchange's best bid and offer are not disseminated for a period of up to, but not more than one second.

#### **Section 27. Limitation of Liability**

(a) The Exchange, its Directors, officers, committee members, employees, contractors or agents shall not be liable to Members nor any persons associated with Members for any loss, expense, damages or claims arising out of the use of the facilities, systems or equipment afforded by the Exchange, nor any interruption in or failure or unavailability of any such facilities, systems or equipment, whether or not such loss, expense, damages or claims result or are alleged to result from negligence or other unintentional errors or omissions on the part of the Exchange, its Directors, officers, committee members, employees, contractors, agents or other persons acting on its behalf, or from systems failure, or from any other cause within or outside the control of the Exchange. Without limiting the generality of the foregoing, the Exchange shall have no liability to any person for any loss, expense, damages or claims which result from any error, omission or delay in calculating or disseminating any current or closing index value or any reports of transactions in or quotations for options or other securities, including underlying securities.

(b) The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of any data transmitted or disseminated by or on behalf of the Exchange or any reporting authority designated by the Exchange, including but not limited to, reports of transactions in or quotations for securities traded on the Exchange or underlying securities, or reports of interest rate measures or index values or related data, and the Exchange makes no express or implied warranties of merchantability or fitness for a particular purpose or use with respect to any such data.

(c) No Member or person associated with a Member shall institute a lawsuit or other legal proceeding against the Exchange or any Director, officer, employee, contractor, agent or other official of the Exchange or any subsidiary of the Exchange, for actions taken or omitted to be taken in connection with the official business of the Exchange or any subsidiary, except to the extent such actions or omissions constitute violations of the federal securities laws for which a private right of action exists. This provision shall not apply to appeals of disciplinary actions or other actions by the Exchange as provided for in the Rules.

(d) Notwithstanding paragraph (a) above, the Exchange, subject to the express limits set forth below, may compensate users of the Exchange for losses directly resulting from the actual failure of the System, or any other Exchange quotation, transaction reporting, execution, order routing or other systems or facility to correctly process an order, quote, message, or other data, provided that the Exchange has acknowledged receipt of the order, quote, message, or data.

(1) For the aggregate of all claims made by all market participants related to the use of the Exchange during a single calendar month, the Exchange's payments shall not exceed the larger of \$500,000, or the amount of the recovery obtained by the Exchange under any applicable insurance policy.

(2) In the event that all of the claims arising out of the use of the Exchange cannot be fully satisfied because in the aggregate they exceed the limitations provided for in this Rule, then the maximum permitted amount will be proportionally allocated among all such claims arising during a single calendar month.

(3) All claims for compensation pursuant to this Rule shall be in writing and must be submitted no later than 12:00 P.M. ET on the next business day following the day on which the use of the Exchange gave rise to such claims. Nothing in this Rule shall obligate the Exchange to seek recovery under any applicable insurance policy.

## **Options 4 Options Listing Rules**

### **Section 1. Designation of Securities**

The Exchange trades options contracts, each of which is designated by reference to the issuer of the underlying security, expiration month or expiration date, exercise price and type (put or call).

**Section 2. Rights and Obligations of Holders and Writers**

The rights and obligations of holders and writers shall be set forth in the Rules of the Clearing Corporation.

**Section 3. Criteria for Underlying Securities**

(a) Underlying securities with respect to which put or call options contracts are approved for listing and trading on the Exchange must meet the following criteria:

(1) the security must be registered and be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(2) the security shall be characterized by a substantial number of outstanding shares that are widely held and actively traded.

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

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

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

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

(4) Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve (12) months.

(5) Either:

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

(ii) If the underlying security is not a "covered security," the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days.

(6) Notwithstanding the requirements set forth in Paragraphs 1, 2, 4 and 5 above, the Exchange may list and trade an options contract if (i) the underlying security meets the guidelines for continued approval in Options 4, Section 4; and (ii) options on such underlying security are traded on at least one other registered national securities exchange.

(c) *Securities of Restructured Companies.*

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

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

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

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

(D) "Relevant Percentage" refers to either:

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

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

(2) "Share" and "Number of Shareholder" Guidelines. In determining whether a Restructure Security satisfies the share guideline set forth in Options 4, Section 3(b)(1) (the "Share Guideline") or the number of holders guideline set forth in Options 4, Section 3(b)(2) (the "Number of Shareholders Guideline"), the Exchange may rely upon the facts and circumstances that it expects to exist on the

option's intended listing date, rather than on the date on which the Exchange selects for options trading the underlying Restructure Security.

(A) The Exchange may assume that:

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

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

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

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

(3) "Trading Volume" Guideline. In determining whether a Restructure Security that is issued or distributed to the holders of shares of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies the trading volume guideline set forth in Options 4, Section 3(b)(4) (the "Trading Volume Guideline"), the Exchange may consider the trading volume history of the Original Equity Security prior to the "ex-date" of the Restructuring Transaction if the Restructure Security satisfies the "Substantiality Test" set forth in subparagraph (c)(5) below.

(4) "Market Price" Guideline. In determining whether a Restructure Security satisfies the market price history guideline set forth in Options 4, Section 3(b)(5) (the "Market Price Guideline"), the Exchange may consider the market price history of the Original Equity Security prior to the "ex-date" of the Restructuring Transaction if:

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

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

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

(ii) at the close of trading on each trading day on which the Restructure Security trades "regular way" prior to the date of selection, and the opening of trading on the date of selection, the market price of the Restructure Security was at least \$7.50, or, if the Restructure Security is a "covered security," as defined in Options 4, Section 3(b)(5)(I), the market price of the Restructure Security was at least \$3.00.

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

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

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

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

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

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

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

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

opening price on its primary market on the selection date and shall use the corresponding closing or opening price of the related Original Equity Security.

(8) In calculating comparative asset values and revenues, the Exchange shall use (i) the issuer's latest annual financial statements or (ii) the issuer's most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

(9) Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, the Exchange may not rely upon the trading volume or market price history of an Original Equity Security as this paragraph (c) permits for any trading day unless it relies upon both of those measures for that trading day.

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

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

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

(e) The word "security" shall be broadly interpreted to mean any equity security, as defined in Rule 3a11-1 under the Exchange Act, which is appropriate for options trading, and the word "shares" shall mean the unit of trading of such security.

(f) Securities deemed appropriate for options trading shall include nonconvertible preferred stock issues and American Depositary Receipts ("ADRs") if they meet the criteria and guidelines set forth in this Rule and if, in the case of ADRs:

(1) the Exchange has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded;

(2) the combined trading volume of the ADR and other related ADRs and securities (as defined below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share equivalent basis) at least fifty percent (50%) of the

combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (together "other related ADRs and securities") over the three month period preceding the date of selection of the ADR for options trading;

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

(4) the SEC otherwise authorizes the listing.

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

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

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

(h) Securities deemed appropriate for options trading shall include shares or other securities ("Exchange-Traded Fund Shares") that are traded on a national securities exchange and are defined as an "NMS" stock under Rule 600 of Regulation NMS, and that (i) represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that hold portfolios of securities and/or financial instruments, including, but not limited to, stock index futures contracts, options on futures, options on securities and indices, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the "Financial Instruments"), and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the "Money Market Instruments") comprising or otherwise based on or representing investments in broad-based indexes or portfolios of securities and/or Financial Instruments and Money Market Instruments (or that hold securities in



one or more other registered investment companies that themselves hold such portfolios of securities and/or Financial Instruments and Money Market Instruments) or (ii) represent interests in a trust or similar entity that holds a specified non-U.S. currency or currencies deposited with the trust when aggregated in some specified minimum number may be surrendered to the trust or similar entity by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust ("Currency Trust Shares") or (iii) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or non-U.S. currency ("Commodity Pool ETFs") or (iv) represent interests in the SPDR® Gold Trust, the iShares COMEX Gold Trust, the iShares Silver Trust, the ETFS Gold Trust, the ETFS Silver Trust, the ETFS Palladium Trust, the ETFS Platinum Trust or the Sprott Physical Gold Trust or (v) represents an interest in a registered investment company ("Investment Company") organized as an open-end management company or similar entity, that invests in a portfolio of securities selected by the Investment Company's investment adviser consistent with the Investment Company's investment objectives and policies, which is issued in a specified aggregate minimum number in return for a deposit of a specified portfolio of securities and/or a cash amount with a value equal to the next determined net asset value ("NAV"), and when aggregated in the same specified minimum number, may be redeemed at a holder's request, which holder will be paid a specified portfolio of securities and/or cash with a value equal to the next determined NAV ("Managed Fund Share"); provided that all of the following conditions are met:

(1) the Exchange-Traded Fund Shares either (i) meet the criteria and guidelines set forth in paragraphs (a) and (b) above; or (ii) the Exchange-Traded Fund Shares are available for creation or redemption each business day from or through the issuing trust, investment company, commodity pool or other entity in cash or in kind at a price related to net asset value, and the issuer is obligated to issue Exchange-Traded Fund Shares in a specified aggregate number even if some or all of the investment assets and/or cash required to be deposited have not been received by the issuer, subject to the condition that the person obligated to deposit the investment assets has undertaken to deliver them as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the issuer of the Exchange-Traded Fund Shares, all as described in the Exchange-Traded Fund Shares' prospectus; and

(2) the Exchange-Traded Fund Shares meet the following criteria:

(A) are listed pursuant to generic listing standards for series of portfolio depositary receipts and index fund shares based on international or global indexes under which a comprehensive surveillance agreement is not required; or

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

(C) component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index;

(D) component securities of an index or portfolio of securities on which the Exchange-Traded Fund Shares are based for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index;

(E) For Currency Trust Shares, the Exchange has entered into an appropriate comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in derivatives (options or futures) on the specified non-U.S. currency or currencies, which are utilized by the national securities exchange where the underlying Currency Trust Shares are listed and traded; and

(F) For Commodity Pool ETFs that engage in holding and/or managing portfolios or baskets commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities, options on non-U.S. currency and/or securities, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in such commodity futures contracts and/or options on commodity futures contracts on the specified commodities or non-U.S. currency, which are utilized by the national securities exchange where the underlying Commodity Pool ETFs are listed and traded.

(i) A "market information sharing agreement" for purposes of this Rule is an agreement that would permit the Exchange to obtain trading information relating to the securities held by the fund including the identity of the Member of the foreign exchange executing a trade. International Fund shares not meeting criteria of paragraph (h) shall be deemed appropriate for options trading if the SEC specifically authorizes the listing.

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

(A) the Trust Issued Receipts (i) meet the criteria and guidelines for underlying securities set forth in paragraph (b) to this Rule; or (ii) must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and

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

(k) Securities deemed appropriate for options trading shall include shares or other securities ("Equity Index-Linked Securities," "Commodity-Linked Securities," "Currency-Linked Securities," "Fixed Income Index-Linked Securities," "Futures-Linked Securities," and "Multifactor Index-Linked Securities," collectively known as "Index-Linked Securities") that are principally traded on a national securities exchange and an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934), and represent ownership of a security that provides for the payment at maturity, as described below:

(1) Equity Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an underlying index or indexes of equity securities ("Equity Reference Asset");

(A) Commodity-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more physical commodities or commodity futures, options on commodities, or other commodity derivatives or Commodity-Based Trust Shares or a basket or index of any of the foregoing ("Commodity Reference Asset");

(B) Currency-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more currencies, or options on currencies or currency futures or other currency derivatives or Currency Trust Shares (as defined in Options 4, Section 3(h)), or a basket or index of any of the foregoing ("Currency Reference Asset");

(C) Fixed Income Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof or a basket or index of any of the foregoing ("Fixed Income Reference Asset");

(D) Futures-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an index or indexes of futures contracts or options or derivatives on futures contracts ("Futures Reference Asset"); and

(E) Multifactor Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of any combination of two or more Equity Reference Assets, Commodity Reference Assets, Currency Reference Assets, Fixed Income Reference Assets, or Futures Reference Assets ("Multifactor Reference Asset");

(2) For purposes of this Options 4, Section 3(k), Equity Reference Assets, Commodity Reference Asset, Currency Reference Assets, Fixed Income Reference Assets, Futures Reference Assets together with Multifactor Reference Assets, collectively will be referred to as "Reference Assets."

(3) (A) The Index-Linked Securities must meet the criteria and guidelines for underlying securities set forth in Options 4, Section 3(b); or (B) the Index-Linked Securities must be redeemable at the option of the holder at least on a weekly basis through the issuer at a price related to the applicable underlying Reference Asset. In addition, the issuing company is obligated to issue or repurchase the securities in aggregation units for cash, or cash equivalents, satisfactory to the issuer of Index-Linked Securities which underlie the option as described in the Index-Linked Securities prospectus.

(4) The Exchange will implement surveillance procedures for options on Index-Linked Securities, including adequate comprehensive surveillance sharing agreements with markets trading in non-U.S. components, as applicable.

#### **Section 4. Withdrawal of Approval of Underlying Securities**

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

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

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

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

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

(3) The trading volume (in all markets in which the underlying security is traded) has been less than 1,800,000 shares in the preceding twelve (12) months.

(4) The underlying security ceases to be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act.

(5) If an underlying security is approved for options listing and trading under the provisions of Options 4, Section 3(c), the trading volume of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including "when-issued" trading, may be taken into account in determining whether the trading volume requirement of (3) of this paragraph (b) is satisfied.

(c) In considering whether any of the events specified in paragraph (b) of this Rule have occurred with respect to an underlying security, the Exchange shall ordinarily rely on information made publicly available by the issuer and/or the markets in which such security is traded.

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

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

(f) If an ADR was initially deemed appropriate for options trading on the grounds that fifty percent (50%) or more of the worldwide trading volume (on a share-equivalent basis) in the ADR and other related ADRs and securities takes place in U.S. markets or in markets with which the Exchange has in place an effective surveillance sharing agreement, or if an ADR was initially deemed appropriate for options trading based on the daily trading volume standard Options 4, Section 3(f)(3), the Exchange may not open for trading additional series of options on the ADR unless:

(1) The percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which the Exchange has in place effective surveillance sharing agreements for any consecutive three (3) month period is either (i) at least thirty percent (30%) without regard to the average daily trading volume in the ADR, or (ii) at least fifteen percent (15%) when the average U.S. daily trading volume in the ADR for the previous three (3) months is at least 70,000 shares; or

(2) the Exchange then has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or

(3) the SEC has otherwise authorized the listing.

(g) Exchange-Traded Fund Shares approved for options trading pursuant to Options 4, Section 3(h) will not be deemed to meet the requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares if the Exchange-Traded Fund Shares are delisted from trading as provided in subparagraph (b)(5) of this Rule or the Exchange-Traded Fund Shares are halted or suspended from trading on their primary market. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

(1) In the case of options covering Exchange-Traded Fund Shares approved pursuant to Options 4, Section 3(h)(A)(i), in accordance with the terms of subparagraphs (b)(1), (2), (3) and (4) of this Rule;

(2) In the case of options covering Fund Shares approved pursuant to Options 4, Section 3(h)(A)(ii), following the initial twelve-month period beginning upon the commencement of trading in the Exchange-Traded Fund Shares on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, there were fewer than 50 record and/or beneficial holders of such Exchange-Traded Fund Shares for 30 or more consecutive trading days;

(3) the value of the index or portfolio of securities or non-U.S. currency, portfolio of commodities including commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities

and/or Financial Instruments and Money Market Instruments, on which the Exchange-Traded Fund Shares are based is no longer calculated or available; or

(4) such other event occurs or condition exists that in the opinion of the Exchange makes further dealing in such options on the Exchange inadvisable.

(h) Absent exceptional circumstances, securities initially approved for options trading pursuant to paragraph (j) of Options 4, Section 3 (such securities are defined and referred to in that paragraph as "Trust Issued Receipts") shall not be deemed to meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

(1) in accordance with the terms of paragraph (b) this Rule in the case of options covering Trust Issued Receipts when such options were approved pursuant to subparagraph (j)(1)(i) under this Rule;

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

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

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

or

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

(i) For Holding Company Depository Receipts (HOLDRs), the Exchange will not open additional series of options overlying HOLDRs (without prior Commission approval) if:

(1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or

(2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.

(j) Absent exceptional circumstances, Index-Linked Securities ("Securities") initially approved for options trading pursuant to Options 4, Section 3(k) shall not be deemed to

meet the Exchange's requirements for continued approval, and the Exchange shall not open for trading any additional series or option contracts of the class covering such Securities whenever the underlying Securities are delisted and trading in the Securities is suspended on a national securities exchange, or the Securities are no longer an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934). In addition, the Exchange shall consider the suspension of opening transactions in any series of options of the class covering Index-Linked Securities in any of the following circumstances:

(i) The underlying Index-Linked Security fails to comply with the terms of Options 4, Section 3(k);

(2) In accordance with the terms of paragraph (b), in the case of options covering Index-Linked Securities when such options were approved pursuant to Options 4, Section 3(k), except that, in the case of options covering Index-Linked Securities approved pursuant to Options 4, Section 3(k)(3)(ii) that are redeemable at the option of the holder at least on a weekly basis, then option contracts of the class covering such Securities may only continue to be open for trading as long as the Securities are listed on a national securities exchange and are "NMS" stock as defined in Rule 600 of Regulation NMS;

(3) In the case of any Index-Linked Security trading pursuant to Options 4, Section 3(k), the value of the Reference Asset is no longer calculated; or

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

#### **Supplementary Material to Options 4, Section 4**

.01 If an option series is listed but restricted to closing transactions on another national securities exchange, the Exchange may list such series (even if such series would not otherwise be eligible for listing under the Exchange's Rules), which shall also be restricted to closing transactions on the Exchange.

#### **Section 5. Series of Options Contracts Open for Trading**

(a) After a particular class of options has been approved for listing and trading on the Exchange, the Exchange from time to time may open for trading series of options in that class. Only options contracts in series of options currently open for trading may be purchased or written on the Exchange. Prior to the opening of trading in a given series, the Exchange will fix the type of option, expiration month, year and exercise price of that series. Exercise-price setting parameters adopted as part of the Options Listing Procedures Plan ("OLPP") are set forth in Options 4, Section 6. For Short Term Option Series, the Exchange will fix a specific expiration date and exercise price, as provided in Supplementary Material .02. For Quarterly Options Series, the Exchange will fix a specific expiration date and exercise price, as provided in Supplementary Material .03.



(b) Except as otherwise provided in this Rule and Supplementary Material hereto, at the commencement of trading on the Exchange of a particular type of option of a class of options, the Exchange shall open a minimum of one expiration month and series for each class of options open for trading on the Exchange. The exercise price of each series will be fixed at a price per share which is reasonably close to the price per share at which the underlying stock is traded in the primary market at about the time that class of options is first opened for trading on the Exchange.

(c) Additional series of options of the same class 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 market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened.

(d) Except as otherwise provided in this Rule and Supplementary Material hereto, the interval between strike prices of series of options on individual stocks will be:

(1) \$2.50 or greater where the strike price is \$25.00 or less;

(2) \$5.00 or greater where the strike price is greater than \$25.00; and

(3) \$10.00 or greater where the strike price is greater than \$200.00.

(e) Reserved.

(f) New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, the Exchange, in its discretion, may add new series of options on an individual stock until the close of trading on the business day prior to expiration in the case of an option contract expiring on a business day, or, in the case of an option contract expiring on a day that is not a business day, on the second business day prior to expiration.

(g) The Exchange may select up to 60 options classes on individual stocks for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50 (the "\$2.50 Strike Price Program"). On any option class that has been selected as part of this \$2.50 Strike Price Program, \$2.50 strike prices between \$50 and \$100 may be listed, provided that \$2.50 strike prices between \$50 and \$100 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, if an options class has been selected as part of the \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary market, the Exchange may list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the Exchange may list the \$52.50 strike price, the \$57.50 strike price and the \$62.50 strike price on the next business day. The Exchange may list a strike price interval of \$2.50 in any multiply-traded option once an exchange selects an option as part of the \$2.50 Strike Price Program.

(h) The interval between strike prices of series of options on Fund Shares approved for options trading pursuant to Section 5(h) shall be fixed at a price per share which is reasonably close to the price per share at which the underlying security is traded in the primary market at or about the same time such series of options is first open for trading on the Exchange, or at such intervals as may have been established on another options exchange prior to the initiation of trading on the Exchange.

### **Supplementary Material to Options 4, Section 5**

#### **.01 \$1 Strike Price Interval Program**

(a) Program Description. The interval between strike prices of series of options on individual stocks may be \$1.00 or greater strike price intervals where the strike price is \$50.00 or less, but not less than \$1. Except as provided in subparagraph (c) below, the listing of \$1 strike price intervals shall be limited to options classes overlying no more than 150 individual stocks as specifically designated by the Exchange. The Exchange may list \$1 strike price intervals on any other option classes if those classes are specifically designated by other securities exchanges that employ a \$1 Strike Price Interval Program under their respective rules. If a class participates in the \$1 Strike Price Interval Program, \$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPs.

(b) Initial and Additional Series. To be eligible for inclusion into the \$1 Strike Price Interval Program, an underlying stock must close below \$50 in its primary market on the previous trading day. After a stock 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 Options 4, Section 6(b)(i).

(iv) No additional series in \$1 strike price intervals may be listed if the underlying stock closes at or above \$50 in its primary market. Additional series in \$1 strike price intervals may not be added until the underlying stock closes again below \$50.

(v) LEAPS. For stocks in the \$1 Strike Price Interval Program, the Exchange may list one \$1 strike price interval between each standard \$5 strike interval, with the \$1 strike price interval being \$2 above the standard strike for each interval above the price of the underlying stock, and \$2 below the standard strike for each interval below the price of the underlying stock ("2 wings"). For example, if the price of the underlying stock is \$24.50, the Exchange may list the following standard strikes in \$5 intervals: \$15, \$20, \$25, \$30 and \$35. Between these standard \$5 strikes, the Exchange may list the following \$2 wings: \$18, \$27 and \$32.

In addition, the Exchange may list the \$1 strike price interval which is \$2 above the standard strike just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price (\$24.50) is \$20, the Exchange may list a \$22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP. Additional long-term option strikes may not be listed within \$1 of an existing strike until less than nine months to expiration.

(c) The Exchange may list \$1 strike prices up to \$5 in LEAPS in up to 200 option classes on individual stocks. The Exchange may not list \$1 strike price intervals within \$0.50 of an existing \$2.50 strike in the same expiration.

(d) Delisting Policy. For options classes selected to participate in the \$1 Strike Price Interval Program, the Exchange will, on a monthly basis, review series that were originally listed under the \$1 Strike Price Interval Program with strike prices that are more than \$5 from the current value of an options class and delist those series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

If the Exchange identifies series for delisting pursuant to this policy, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work jointly with such other exchanges to develop a uniform list of series to be delisted so as to ensure uniform series delisting of multiply listed options classes.

Notwithstanding the above delisting policy, Member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to the \$1 Strike Price Interval Program that are eligible for delisting may be granted.

(e) A stock shall remain in the \$1 Strike Price Interval Program until otherwise designated by the Exchange.

.02 Short Term Option Series Program: After an 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 at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly options series or Quarterly Options Series expire ("Short Term Option Expiration Dates"). The Exchange may have no more than a total of five Short Term Option Expiration Dates, not including any Monday or Wednesday SPY Expirations as provided below. 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 a Friday, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. With respect to Wednesday SPY Expirations, the Exchange may open for trading on any Tuesday or Wednesday that is a business day series of options on the SPDR S&P 500 ETF Trust (SPY) to expire on any Wednesday of the month that is a business day and is not a Wednesday in which Quarterly Options Series expire ("Wednesday SPY Expirations"). With respect to Monday SPY Expirations, the Exchange may open for trading on any Friday or Monday that is a business day series of options on the SPY to expire on any Monday of the month that is a business day and is not a Monday in which Quarterly Options Series expire ("Monday SPY Expirations"), provided that Monday SPY Expirations that are listed on a Friday must be listed at least one business week and one business day prior to the expiration. The Exchange may list up to five consecutive Wednesday SPY Expirations and five consecutive Monday SPY Expirations at one time; the Exchange may have no more than a total of five Wednesday SPY Expirations and a total of five Monday SPY Expirations. Monday and Wednesday SPY Expirations will be subject to the provisions of this Rule. Regarding Short Term Option Series:

(a) Classes. The Exchange may select up to fifty (50) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the 50 option class restriction, the Exchange may also 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 option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to 30 Short Term Option Series 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.

(b) Expiration. With the exception of Monday and Wednesday SPY Expirations, no Short Term Option Series may expire in the same week in which monthly option series on the same class expire. In the case of Quarterly Options Series, no Short Term Option Series may expire on the same day as an expiration of Quarterly Options Series.

(c) Initial Series. The Exchange may open up to 30 initial series for each option class that participates in the Short Term Option Series Program. 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 value of the underlying security at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven series are initially opened, there will be at least three strike prices above and three strike prices below the value of the underlying security). Any strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

(d) Additional Series. If the Exchange opens less than thirty (30) 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 market price of the underlying security moves substantially from the exercise price or prices of the series already opened.

Any additional strike prices listed by the Exchange shall be reasonably close to the price of the underlying equity security and within the following parameters: (i) if the price of the underlying security is less than or equal to \$20, additional strike prices shall be not more than one hundred percent (100%) above or below the price of the underlying security; and (ii) if the price of the underlying security is greater than \$20, additional strike prices shall be not more than fifty percent (50%) above or below the price of the underlying security.

The Exchange may also open additional strike prices on Short Term Option Series that are more than 50% above or below the current price of the underlying security (if the price is greater than \$20); 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.

In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration week; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration week. The opening of new Short Term Option Series shall not affect the series of options of the same class previously opened. Notwithstanding

any other provisions in this Rule, Short Term Option Series may be added up to and including on the Short Term Option Expiration Date for that options series.

(e) Strike Interval. The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same option class that expire in accordance with the normal monthly expiration cycle. During the month prior to expiration of an option class that is selected for the Short Term Option Series Program pursuant to this Rule ("Short Term Option"), the strike price intervals for the related non-Short Term Option ("Related non-Short Term Option") shall be the same as the strike price intervals for the Short Term Option.

.03 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 ("ETFs"). 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.

(a) Expiration. 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.

(b) The Exchange will not list a Short Term Option Series on an options class whose expiration coincides with that of a Quarterly Options Series on that same options class.

(c) Initial Series. The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the approximate value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying on the preceding day.

(d) Additional Series. Additional Quarterly Options Series of the same class 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 market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing price of the underlying ETF (or "Exchange-Traded Fund Shares") as defined in Options 4, Section 3(h)) on the preceding day. The Exchange may also open additional strike prices of Quarterly Options Series in ETF options that are more than 30% above or below the current price of the underlying ETF 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 new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(e) Strike Interval. 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.

(f) Reserved.

(g)

(i) Delisting Policy. With respect to Quarterly Options Series in ETF options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current price of the underlying ETF, and delist series with no open interest in both the put and the call series having a: (1) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (2) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(ii) Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series in ETF options in series eligible for delisting shall be granted.

(iii) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Quarterly Options Series in ETF options.

.04 Notwithstanding Supplementary Material .01 above, the intervals between strike prices for Mini-Nasdaq-100 Index ("MNX" or "Mini-NDX") options series shall be determined in accordance with Options4A, Section 12(c)(5).

.05 \$0.50 Strike Program: The interval of strike prices of series of options on individual stocks may be \$0.50 or greater beginning at \$0.50 where the strike price is \$5.50 or less, but only for options classes whose underlying security closed at or below \$5.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation during the preceding three calendar months. The listing of \$0.50 strike prices shall be limited to options classes overlying no more than 20 individual stocks (the "\$0.50 Strike Program") as specifically designated by the Exchange. The Exchange may list \$0.50 strike prices on any other option classes if those classes are

specifically designated by other securities exchanges that employ a similar \$0.50 Strike Program under their respective rules. A stock shall remain in the \$0.50 Strike Program until otherwise designated by the Exchange.

.06 Notwithstanding Supplementary Material .01 above, the interval between strike prices of series of options on Index-Linked Securities, as defined in Options 4, Section 3(k)(1), will be \$1 or greater when the strike price is \$200 or less and \$5 or greater when the strike price is greater than \$200.

.07 Notwithstanding Supplementary Material .01 above, the interval between strike prices of series of options on Trust Issued Receipts, including Holding Company Depository Receipts (HOLDRs), will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.

.08 Reserved.

.09 \$5 Strike Program: The interval of strike prices may be \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks or on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$5 Strike Program under their respective rules.

.10 Notwithstanding the requirements set forth in this Rule and any Supplementary Material thereto, the Exchange may list additional expiration months on options classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange.

.11 \$0.50 and \$1.00 Strike Price Intervals for Options Used to Calculate Volatility Indexes. Notwithstanding the requirements set forth in Section 5(g) and Supplementary Material .01, .06, and .07 above, the Exchange may open for trading series at \$0.50 or greater strike price intervals where the strike price is less than \$75 and \$1.00 or greater strike price intervals where the strike price is between \$75 and \$150 for options that are used to calculate a volatility index.

.12 Notwithstanding the requirements set forth in this Rule and any Supplementary Material thereto, the Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration Date at strike price intervals of (i) \$0.50 or greater where the strike price is less than \$100, and \$1 or greater where the strike price is between \$100 and \$150 for all option classes that participate in the Short Term Options Series Program; (ii) \$0.50 for option classes that trade in one dollar increments and are in the Short Term Option Series Program; or (iii) \$2.50 or greater where the strike price is above \$150.

.13 Mini Option Contracts.

(a) After an option class on a stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security with a 100



share deliverable has been approved for listing and trading on the Exchange, series of option contracts with a 10 share deliverable on that stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security may be listed for all expirations opened for trading on the Exchange. Mini Option contracts may currently be listed on SPDR S&P 500 ("SPY"), Apple Inc. ("AAPL"), SPDR Gold Trust ("GLD"), Google Inc. ("GOOGL") and Amazon.com Inc. ("AMZN").

(b) Strike prices for Mini Options shall be set at the same level as for regular options. For example, a call series strike price to deliver 10 shares of stock at \$125 per share has a total deliverable value of \$1250, and the strike price will be set at 125.

(c) No additional series of Mini Options may be added if the underlying security is trading at \$90 or less. The underlying security must trade above \$90 for five consecutive days prior to listing Mini Options contracts in an additional expiration month.

(d) The minimum trading increment for Mini Options shall be the same as the minimum trading increment permitted for standard options on the same underlying security. For example, if a security participates in the Penny Pilot Program, Mini Options in the same underlying security may be quoted and traded in the same minimum increments, e.g., \$0.01 for all quotations in series that are quoted at less than \$3 per contract and \$0.05 for all quotations in series that are quoted at \$3 per contract or greater, \$0.01 for all SPY option series.

(e) Exchange Rules that have a minimum contract threshold shall be adjusted for Mini Options by a multiple of ten (10) and shall be as follows: (i) a block-size order in Mini Options for execution in the Block Order Mechanism must be for 500 or more Mini Option contracts; (ii) Mini Options executed in the Solicited Order Mechanism must be for 5,000 or more Mini Option contracts; and (iii) a Qualified Contingent Cross Order in Mini Options must be comprised of an originating order to buy or sell at least 10,000 Mini Option contracts coupled with a contra-side order or orders totaling an equal number of Mini Option contracts.

.14 Notwithstanding any other provision regarding the interval of strike prices of series of options on Exchange-Traded Fund Shares in this Rule, the interval of strike prices on SPDR S&P 500 ETF ("SPY"), iShares Core S&P 500 ETF ("IVV"), PowerShares QQQ Trust ("QQQ"), iShares Russell 2000 Index Fund ("IWM"), and the SPDR Dow Jones Industrial Average ETF ("DIA") options will be \$1 or greater.

### **Section 6. Select Provisions of Options Listing Procedures Plan**

(a) The provisions set forth in this Rule were adopted by the Exchange as a quote mitigation strategy and are codified in the OLPP. A complete copy of the current OLPP may be accessed at:

[http://www.optionsclearing.com/products/options\\_listing\\_procedures\\_plan.pdf](http://www.optionsclearing.com/products/options_listing_procedures_plan.pdf).

(b) 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 Options 4, Section 3(h)) or Trust Issued Receipt ("TIR") at or about the time the Exchange determines to list such series. Additionally,

(i) Except as provided in subparagraphs (ii) through (iv) below, if the price of the underlying security is less than or equal to \$20, the Exchange shall not list new options 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 options class. Except as provided in Supplementary Material .02(d) to Options 3, Section 5, if the price of the underlying security is greater than \$20, the Exchange shall not list new options series with an exercise price more than 50% above or below the price of the underlying security.

The price of the underlying security is measured by:

(1) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges;

(2) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines its preliminary notification of new series; and

(3) for options series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 8:45 a.m. and 9:30 a.m. Eastern Time.

(ii) The series exercise price range limitations contained in subparagraph (i) above do not apply with regard to:

(1) the listing of \$1 strike prices in options classes participating in the \$1 Strike Program. Instead, the Exchange shall be permitted to list \$1 strike prices to the fullest extent as permitted under its Rules for the \$1 Strike Program; or

(2) the listing of series of Flexible Exchange Options.

(iii) The Exchange may designate up to five options classes to which the series exercise price range may be up to 100% above and below the price of the underlying security (which underlying security price shall be determined in accordance with subparagraph (i) above). Such designations shall be made on an annual basis and shall not be removed during the calendar year unless the options class is delisted by the Exchange, in which case the Exchange may designate another options class to replace the delisted class. If a designated options class is

delisted by the Exchange but continues to trade on at least one options exchange, the options class shall be subject to the limitations on listing new series set forth in subparagraph (i) above unless designated by another exchange.

(iv) If the Exchange that has designated five options classes pursuant to subparagraph (iii) above requests that one or more additional options classes be excepted from the limitations on listing new series set forth in subparagraph (i) above, the additional options class(es) shall be so designated upon the unanimous consent of all exchanges that trade the options class(es). Additionally, pursuant to the Exchange's request, the percentage range for the listing of new series may be increased to more than 100% above and below the price of the underlying security for an options class, by the unanimous consent of all exchanges that trade the designated options class.

Exceptions for an additional class or for an increase of the exercise price range shall apply to all standard expiration months existing at the time of the vote, plus the next standard expiration month to be added, and also to any non-standard expirations that occur prior to the next standard monthly expiration.

(v) The provisions of this subparagraph (b) shall not permit the listing of series that are otherwise prohibited by the Rules of the Exchange or the OLPP. To the extent the Rules of the Exchange permit the listing of new series that are otherwise prohibited by the provisions of the OLPP, the provisions of the OLPP shall govern.

(vi) The Exchange may list an options series that is listed by another options exchange, provided that at the time such series was listed it was not prohibited under the provisions of the OLPP or the rules of the exchange that initially listed the series.

### **Section 7. Adjustments**

Options contracts shall be subject to adjustments in accordance with the Rules of the Clearing Corporation. When adjustments have been made, the Exchange will announce that fact, and such changes will be effective for all subsequent transactions in that series at the time specified in the announcement.

### **Section 8. Long-Term Options Contracts**

(a) Notwithstanding conflicting language in Options 3, Section 5, the Exchange may list long-term options contracts that expire from twelve (12) to thirty-nine (39) months from the time they are listed. There may be up to ten expiration months for options on the SPDR® S&P 500® exchange-traded fund (the "SPY ETF") and up to six (6) expiration months for options on all other securities. 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.

(b) After a new long-term options contract 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.

### **Section 9. Limitation on the Liability of Index Licensors for Options on Fund Shares**

(a) The term "index licensor" as used in this Rule refers to any entity that grants the Exchange a license to use one or more indexes or portfolios in connection with the trading of options on Fund Shares (as defined in Options 4, Section 3(h)).

(b) No index licensor with respect to any index or portfolio underlying an option on Fund Shares traded on the Exchange makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of such index or portfolio, any opening, intra-day or closing value therefor, or any data included therein or relating thereto, in connection with the trading of any option contract on Fund Shares based thereon or for any other purpose. The index licensor shall obtain information for inclusion in, or for use in the calculation of, such index or portfolio from sources it believes to be reliable, but the index licensor does not guarantee the accuracy or completeness of such index or portfolio, any opening, intra-day or closing value therefor, or any data included therein or related thereto. The index licensor hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any such index or portfolio, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Fund Shares based thereon. The index licensor 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 or portfolio, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Fund Shares based thereon, or arising out of any errors or delays in calculating or disseminating such index or portfolio.

### **Section 10. Back-up Trading Arrangements**

(a) *Nasdaq ISE is Disabled Exchange.*

#### (1) Nasdaq ISE Exclusively Listed Options.

(i) For purposes of this Rule, the term "exclusively listed option" means an option that is listed exclusively by an exchange (because the exchange has an exclusive license to use, or has proprietary rights in, the interest underlying the option).

(ii) The Exchange ("Nasdaq ISE") may enter into arrangements with one or more other exchanges (each a "Back-up Exchange") to permit Nasdaq ISE and its Members to use a portion of the Back-up Exchange's facilities to conduct the trading of some or all of Nasdaq ISE's exclusively listed

options in the event that the functions of Nasdaq ISE are severely and adversely affected by an emergency or extraordinary circumstances (a "Disabling Event"). Such option classes shall trade as listings of Nasdaq ISE. The facility of the Back-up Exchange used by Nasdaq ISE for this purpose will be deemed to be a facility of Nasdaq ISE.

(iii) Trading of Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange shall be conducted in accordance with the rules of the Back-up Exchange, except that (A) such trading shall be subject to Nasdaq ISE rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements and position limits and (B) Nasdaq ISE Members that are trading on Nasdaq ISE's facility at the Back-up Exchange (not including members of the Back-up Exchange who become temporary Members of Nasdaq ISE pursuant to paragraph (a)(1)(vi)) will be subject to Nasdaq ISE rules governing or applying to the maintenance of a person's or a firm's status as a Member of Nasdaq ISE. In addition, Nasdaq ISE and the Back-up Exchange may agree that other Nasdaq ISE rules will apply to such trading. Nasdaq ISE and the Back-up Exchange have agreed to communicate to their members which rules apply in advance of trading. The Back-up Exchange rules that govern trading on Nasdaq ISE's facility at the Back-up Exchange shall be deemed to be Nasdaq ISE rules for purposes of such trading.

(iv) The Back-up Exchange has agreed to perform the related regulatory functions with respect to trading of Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange, in each case except as Nasdaq ISE and the Back-up Exchange may specifically agree otherwise. The Back-up Exchange and Nasdaq ISE have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange. Nasdaq ISE shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to Nasdaq ISE's facility at the Back-up Exchange.

(v) Nasdaq ISE shall have the right to designate its Members that will be authorized to trade Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange and, if applicable, its Member(s) that will be a PMM or CMM in those options. If the Back-up Exchange is unable to accommodate all Nasdaq ISE Members that desire to trade on Nasdaq ISE's facility at the Back-up Exchange, Nasdaq ISE may determine which Members shall be eligible to trade at that facility. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the Member is a PMM or CMM in the applicable product(s), the number of contracts traded by the Member in

the applicable product(s), market performance, and other factors relating to a Member's contribution to the market in the applicable product(s).

(vi) Members of the Back-up Exchange shall not be authorized to trade in any Nasdaq ISE exclusively listed options, except that (i) Nasdaq ISE may deputize willing brokers of the Back-up Exchange as temporary Nasdaq ISE Members to permit them to execute orders as brokers in Nasdaq ISE exclusively listed options traded on Nasdaq ISE's facility at the Back-up Exchange, and (ii) the Back-up Exchange has agreed that it will, at the instruction of Nasdaq ISE, select members of the Back-up Exchange that are willing to be deputized by Nasdaq ISE as temporary Nasdaq ISE Members authorized to trade Nasdaq ISE exclusively listed options on Nasdaq ISE's facility at the Back-up Exchange for such period of time following a Disabling Event as Nasdaq ISE determines to be appropriate, and Nasdaq ISE may deputize such members of the Back-up Exchange as temporary Nasdaq ISE Members for that purpose.

(2) Nasdaq ISE Singly Listed Options.

(i) For purposes of this Rule, the term "singly listed option" means an option that is not an "exclusively listed option" but that is listed by an exchange and not by any other national securities exchange.

(ii) Nasdaq ISE may enter into arrangements with a Back-up Exchange under which the Back-up Exchange will agree, in the event of a Disabling Event, to list for trading singly listed option classes that are then singly listed only by Nasdaq ISE and not by the Back-up Exchange. Any such option classes listed by the Back-up Exchange shall trade on the Back-up Exchange and in accordance with the rules of the Back-up Exchange. Such option classes shall be traded by members of the Back-up Exchange and by Nasdaq ISE Members selected by Nasdaq ISE to the extent the Back-up Exchange can accommodate Nasdaq ISE Members in the capacity of temporary members of the Back-up Exchange. If the Back-up Exchange is unable to accommodate all Nasdaq ISE Members that desire to trade singly listed options at the Back-up Exchange, Nasdaq ISE may determine which Members shall be eligible to trade such options at the Back-up Exchange. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the Member is a PMM or CMM in the applicable product(s), the number of contracts traded by the Member in the applicable product(s), market performance, and other factors relating to a Member's contribution to the market in the applicable product(s).

(iii) Any options class listed by the Back-up Exchange pursuant to paragraph (a)(2)(ii) that does not satisfy the standard listing and maintenance criteria of the Back-up Exchange will be subject, upon listing

by the Back-up Exchange, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in the rules of the Back-up Exchange).

(3) Multiply Listed Options. Nasdaq ISE may enter into arrangements with a Back-up Exchange to permit Nasdaq ISE Members to conduct trading on a Back-up Exchange of some or all of Nasdaq ISE's multiply listed options in the event of a Disabling Event. Such options shall trade as a listing of the Back-up Exchange and in accordance with the rules of the Back-up Exchange. Such options shall be traded by members of the Back-up Exchange and by Nasdaq ISE Members selected by Nasdaq ISE to the extent the Back-up Exchange can accommodate Nasdaq ISE Members in the capacity of temporary members of the Back-up Exchange. If the Back-up Exchange is unable to accommodate all Nasdaq ISE Members that desire to trade multiply listed options at the Back-up Exchange, Nasdaq ISE may determine which Members shall be eligible to trade such options at the Back-up Exchange. Factors to be considered in making such determinations may include, but are not limited to, any one or more of the following: whether the Member is a PMM or CMM in the applicable product(s), the number of contracts traded by the Member in the applicable product(s), market performance, and other factors relating to a Member's contribution to the market in the applicable product(s).

(b) Nasdaq ISE is Back-up Exchange.

(1) Disabled Exchange Exclusively Listed Options.

(i) Nasdaq ISE may enter into arrangements with one or more other exchanges (each a "Disabled Exchange") to permit the Disabled Exchange and its members to use a portion of Nasdaq ISE's facilities to conduct the trading of some or all of the Disabled Exchange's exclusively listed options in the event of a Disabling Event. Such option classes shall trade as listings of the Disabled Exchange. The facility of Nasdaq ISE used by the Disabled Exchange for this purpose will be deemed to be a facility of the Disabled Exchange.

(ii) Trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Nasdaq ISE shall be conducted in accordance with Nasdaq ISE rules, except that (A) such trading shall be subject to the Disabled Exchange's rules with respect to doing business with the public, margin requirements, net capital requirements, listing requirements and position limits, and (B) members of the Disabled Exchange that are trading on the Disabled Exchange's facility at Nasdaq ISE (not including Nasdaq ISE Members who become temporary members of the Disabled Exchange pursuant to paragraph (b)(1)(iv)) will be subject to the rules of the Disabled Exchange governing or applying to the maintenance of a person's or a firm's status as a member of the

Disabled Exchange. In addition, the Disabled Exchange and Nasdaq ISE may agree that other Disabled Exchange rules will apply to such trading. The Disabled Exchange and Nasdaq ISE have agreed to communicate to their members which rules apply in advance of trading.

(iii) Nasdaq ISE will perform the related regulatory functions with respect to trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Nasdaq ISE, in each case except as the Disabled Exchange and Nasdaq ISE may specifically agree otherwise. Nasdaq ISE and the Disabled Exchange have agreed to coordinate with each other regarding surveillance and enforcement respecting trading of the Disabled Exchange's exclusively listed options on the Disabled Exchange's facility at Nasdaq ISE. The Disabled Exchange has agreed that it shall retain the ultimate legal responsibility for the performance of its self-regulatory obligations with respect to the Disabled Exchange's facility at Nasdaq ISE.

(iv) Nasdaq ISE Members shall not be authorized to trade in any exclusively listed options of the Disabled Exchange, except (A) that the Disabled Exchange may deputize willing Nasdaq ISE Electronic Access Members as temporary members of the Disabled Exchange to permit them to execute orders as Electronic Access Members in exclusively listed options of the Disabled Exchange traded on the facility of the Disabled Exchange at Nasdaq ISE, and (B) at the instruction of the Disabled Exchange, Nasdaq ISE shall select Nasdaq ISE Members that are willing to be deputized by the Disabled Exchange as temporary members of the Disabled Exchange authorized to trade the Disabled Exchange's exclusively listed options on the facility of the Disabled Exchange at Nasdaq ISE for such period of time following a Disabling Event as the Disabled Exchange determines to be appropriate, and the Disabled Exchange may deputize such Nasdaq ISE Members as temporary members of the Disabled Exchange for that purpose.

(2) Disabled Exchange Singly Listed Options.

(i) Nasdaq ISE may enter into arrangements with a Disabled Exchange under which Nasdaq ISE will agree, in the event of a Disabling Event, to list for trading singly listed option classes that are then singly listed only by the Disabled Exchange and not by Nasdaq ISE. Any such option classes listed by Nasdaq ISE shall trade on Nasdaq ISE and in accordance with Nasdaq ISE rules. Such option classes shall be traded by Nasdaq ISE Members and by members of the Disabled Exchange selected by the Disabled Exchange to the extent Nasdaq ISE can accommodate members of the Disabled Exchange in the capacity of temporary Members of Nasdaq ISE. Nasdaq ISE may allocate such option classes to a Nasdaq ISE PMM in advance of a Disabling Event, without utilizing the allocation



process under Nasdaq ISE Options 2, Section 3, to enable Nasdaq ISE to quickly list such option classes upon the occurrence of a Disabling Event.

(ii) Any options class listed by Nasdaq ISE pursuant to paragraph (b)(2)(i) that does not satisfy the listing and maintenance criteria under Nasdaq ISE rules will be subject, upon listing by Nasdaq ISE, to delisting (and, thus, restrictions on opening new series, and engaging in opening transactions in those series with open interest, as may be provided in Nasdaq ISE rules).

(3) Multiply Listed Options. Nasdaq ISE may enter into arrangements with a Disabled Exchange to permit the Disabled Exchange's members to conduct trading on Nasdaq ISE of some or all of the Disabled Exchange's multiply listed options in the event of a Disabling Event. Such options shall trade as a listing of Nasdaq ISE and in accordance with Nasdaq ISE rules. Such options shall be traded by Nasdaq ISE Members and by members of the Disabled Exchange to the extent Nasdaq ISE can accommodate members of the Disabled Exchange in the capacity of temporary Members of Nasdaq ISE.

(c) Member Obligations.

(1) Temporary Members of the Disabled Exchange

(i) A Nasdaq ISE Member acting in the capacity of a temporary member of the Disabled Exchange pursuant to paragraph (b)(1)(iv) shall be subject to, and obligated to comply with, the rules that govern the operation of the facility of the Disabled Exchange at Nasdaq ISE, including the rules of the Disabled Exchange to the extent applicable during the period of such trading. Additionally, (A) such Nasdaq ISE Member shall be deemed to have satisfied, and the Disabled Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Disabled Exchange, including all dues, fees and charges imposed generally upon members of the Disabled Exchange based on their status as such, (B) such Nasdaq ISE Member shall have none of the rights of a member of the Disabled Exchange except the right to conduct business on the facility of the Disabled Exchange at Nasdaq ISE to the extent described in this Rule, (C) the Nasdaq ISE Member shall be responsible for all obligations arising out of its activities on or relating to the Disabled Exchange, and (D) the Clearing Member of such Nasdaq ISE Member shall guarantee and clear the transactions of such Nasdaq ISE Member on the Disabled Exchange.

(ii) A member of a Back-up Exchange acting in the capacity of a temporary Member of Nasdaq ISE pursuant to paragraph (a)(1)(vi) shall be subject to, and obligated to comply with, the rules that govern the operation of the facility of Nasdaq ISE at the Back-up Exchange,

including Nasdaq ISE rules to the extent applicable during the period of such trading. Additionally, (A) such temporary Member shall be deemed to have satisfied, and Nasdaq ISE will waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a Member of Nasdaq ISE, including all dues, fees and charges imposed generally upon Nasdaq ISE Members based on their status as such, (B) such temporary Member shall have none of the rights of a Nasdaq ISE Member except the right to conduct business on the facility of Nasdaq ISE at the Back-up Exchange to the extent described in this Rule, (C) the member organization associated with such temporary Member, if any, shall be responsible for all obligations arising out of that temporary Member's activities on or relating to Nasdaq ISE, and (D) the Clearing Member of such temporary Member shall guarantee and clear the transactions on Nasdaq ISE of such temporary Member.

## (2) Temporary Members of the Back-up Exchange

(i) A Nasdaq ISE Member acting in the capacity of a temporary member of the Back-up Exchange pursuant to paragraphs (a)(2)(ii) or (a)(3) shall be subject to, and obligated to comply with, the rules of the Back-up Exchange that are applicable to the Back-up Exchange's own members. Additionally, (A) such Nasdaq ISE Member shall be deemed to have satisfied, and the Back-up Exchange has agreed to waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a member of the Back-up Exchange, including all dues, fees and charges imposed generally upon members of the Back-up Exchange based on their status as such, (B) such Nasdaq ISE Member shall have none of the rights of a member of the Back-up Exchange except the right to conduct business on the Back-up Exchange to the extent described in this Rule, (C) the Nasdaq ISE Member shall be responsible for all obligations arising out of its activities on or relating to the Back-up Exchange, (D) the Clearing Member of such Nasdaq ISE Member shall guarantee and clear the transactions of such Nasdaq ISE Member on the Back-up Exchange, and (E) such Nasdaq ISE Member shall only be permitted (x) to act in those capacities on the Back-up Exchange that are authorized by the Back-up Exchange and that are comparable to capacities in which the Nasdaq ISE Member has been authorized to act on Nasdaq ISE, and (y) to trade in those option classes in which the Nasdaq ISE Member is authorized to trade on Nasdaq ISE.

(ii) A member of a Disabled Exchange acting in the capacity of a temporary Member of Nasdaq ISE pursuant to paragraphs (b)(2)(i) or (b)(3) shall be subject to, and obligated to comply with, Nasdaq ISE rules that are applicable to Nasdaq ISE's own Members. Additionally, (A) such temporary Member shall be deemed to have satisfied, and Nasdaq ISE will waive specific compliance with, rules governing or applying to the maintenance of a person's or a firm's status as a Member of Nasdaq ISE, including all dues, fees and charges imposed generally upon Nasdaq ISE Members based on their status as such, (B) such temporary

Member shall have none of the rights of a Nasdaq ISE Member except the right to conduct business on Nasdaq ISE to the extent described in this Rule, (C) the member organization associated with such temporary Member, if any, shall be responsible for all obligations arising out of that temporary Member's activities on or relating to Nasdaq ISE, (D) the Clearing Member of such temporary Member shall guarantee and clear the transactions of such temporary Member on the Nasdaq ISE, and (E) such temporary Member shall only be permitted (x) to act in those Nasdaq ISE capacities that are authorized by Nasdaq ISE and that are comparable to capacities in which the temporary Member has been authorized to act on the Disabled Exchange, and (y) to trade in those option classes in which the temporary Member is authorized to trade on the Disabled Exchange.

(d) Member Proceedings.

(1) If Nasdaq ISE initiates an enforcement proceeding with respect to the trading during a back-up period of the singly or multiply listed options of the Disabled Exchange by a temporary Member of Nasdaq ISE or the exclusively listed options of the Disabled Exchange by a member of the Disabled Exchange (other than a Nasdaq ISE Member who is a temporary member of the Disabled Exchange), and such proceeding is in process upon the conclusion of the back-up period, Nasdaq ISE may transfer responsibility for such proceeding to the Disabled Exchange following the conclusion of the back-up period. Arbitration of any disputes with respect to any trading during a back-up period of singly or multiply listed options of the Disabled Exchange or of exclusively listed options of the Disabled Exchange on the Disabled Exchange's facility at Nasdaq ISE will be conducted in accordance with Nasdaq ISE rules, unless the parties to an arbitration agree that it shall be conducted in accordance with the rules of the Disabled Exchange.

(2) If the Back-up Exchange initiates an enforcement proceeding with respect to the trading during a back-up period of Nasdaq ISE singly or multiply listed options by a temporary member of the Back-up Exchange or Nasdaq ISE exclusively listed options by a Nasdaq ISE Member (other than a member of the Back-up Exchange who is a temporary Member of Nasdaq ISE), and such proceeding is in process upon the conclusion of the back-up period, the Back-up Exchange may transfer responsibility for such proceeding to Nasdaq ISE following the conclusion of the back-up period. Arbitration of any disputes with respect to any trading during a back-up period of Nasdaq ISE singly or multiply listed options on the Back-up Exchange or of Nasdaq ISE exclusively listed options on the facility of Nasdaq ISE at the Back-up Exchange will be conducted in accordance with the rules of the Back-up Exchange, unless the parties to an arbitration agree that it shall be conducted in accordance with Nasdaq ISE rules.

(e) Member Preparations. Nasdaq ISE Members are required to take appropriate actions as instructed by Nasdaq ISE to accommodate Nasdaq ISE's back-up trading arrangements with other exchanges and Nasdaq ISE's own back-up trading arrangements.

Supplementary Material to Options 4, Section 10

.01 This Rule reflects back-up trading arrangements that Nasdaq ISE has entered into or may enter into with one or more other exchanges. To the extent that this Rule provides that another exchange will take certain action, the Rule is reflecting what that exchange has agreed to do by contractual agreement with Nasdaq ISE, but the Rule itself is not binding upon the other exchange.

**Options 4A Options Index Rules**

**Section 1 Application of Index Rules**

The Rules in this Options 4A are applicable only to index options (options on indices of securities as defined below). The Rules in other Chapters are also applicable to the options provided for in this Options 4A, unless such Rules are specifically replaced or are supplemented by Rules in this Options 4A. Where the Rules in this Options 4A indicate that particular indices or requirements with respect to particular indices will be "Specified," the Exchange 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, including the business day of expiration in the case of an option contract expiring on a business day.

(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 Options 4A, Section 12(a)(5).

(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 the Exchange. 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) 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, the last business day prior to the day it expires.

(h) The term "Foreign Currency Index" means an index designed to track the performance of a basket of currencies, as provided in the table in Nasdaq ISE Options 4A, Section 8

(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 terms "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries or an index whose constituents are all headquartered within a single country.

(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 Options Series" means, for the purposes of Options 4A, a series in an index options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

(n) The term "reporting authority" with respect to a particular index means the institution or reporting service designated by the Exchange 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 the Exchange shall be Specified (as provided in Options 4A, Section 1) in the Supplementary Material to Options 4A, Section 1.

(o) The term "Short Term Option Series" means, for the purposes of this Options 4A, a series in an index 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 following business week that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday.

(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 Options 4A, Section 2**

.01 The reporting authorities designated by the Exchange in respect of each index underlying an index options contract traded on the Exchange are as provided in the chart below.

<u>Underlying Index</u>	<u>Reporting Authority</u>
<u>S&amp;P SmallCap 600 Index</u>	<u>Standard &amp; Poor's</u>
<u>Morgan Stanley Technology Index</u>	<u>American Stock Exchange</u>
<u>S&amp;P MidCap 400 Index</u>	<u>Standard &amp; Poor's</u>
<u>S&amp;P 1000 Index</u>	<u>Standard &amp; Poor's</u>
<u>Nasdaq 100 Index</u>	<u>The Nasdaq Stock Market</u>
<u>Russell 3000 Index</u>	<u>Frank Russell Company</u>
<u>Russell 3000 Value Index</u>	<u>Frank Russell Company</u>
<u>Russell 3000 Growth Index</u>	<u>Frank Russell Company</u>
<u>Russell 2500 Index</u>	<u>Frank Russell Company</u>
<u>Russell 2500 Value Index</u>	<u>Frank Russell Company</u>
<u>Russell 2500 Growth Index</u>	<u>Frank Russell Company</u>
<u>Russell 2000 Index</u>	<u>Frank Russell Company</u>
<u>Russell 2000 Value Index</u>	<u>Frank Russell Company</u>
<u>Russell 2000 Growth Index</u>	<u>Frank Russell Company</u>
<u>Russell 1000 Index</u>	<u>Frank Russell Company</u>
<u>Russell 1000 Value Index</u>	<u>Frank Russell Company</u>
<u>Russell 1000 Growth Index</u>	<u>Frank Russell Company</u>
<u>Russell Top 200 Index</u>	<u>Frank Russell Company</u>

<u>Russell Top 200 Value Index</u>	<u>Frank Russell Company</u>
<u>Russell Top 200 Growth Index</u>	<u>Frank Russell Company</u>
<u>Russell MidCap Index</u>	<u>Frank Russell Company</u>
<u>Russell MidCap Value Index</u>	<u>Frank Russell Company</u>
<u>Russell MidCap Growth Index</u>	<u>Frank Russell Company</u>
<u>Russell Small Cap Completeness Index</u>	<u>Frank Russell Company</u>
<u>Russell Small Cap Completeness Value Index</u>	<u>Frank Russell Company</u>
<u>Russell Small Cap Completeness Growth Index</u>	<u>Frank Russell Company</u>
<u>NYSE U.S. 100 Index</u>	<u>New York Stock Exchange and Dow Jones &amp; Company</u>
<u>NYSE International 100 Index</u>	<u>New York Stock Exchange and Dow Jones &amp; Company</u>
<u>NYSE World Leaders Index</u>	<u>New York Stock Exchange and Dow Jones &amp; Company</u>
<u>NYSE TMT Index</u>	<u>New York Stock Exchange and Dow Jones &amp; Company</u>
<u>ISE-CCM Homeland Security Index</u>	<u>Nasdaq ISE</u>
<u>ISE Oil &amp; Gas Services Index</u>	<u>Nasdaq ISE</u>
<u>ISE Semiconductors Index</u>	<u>Nasdaq ISE</u>
<u>ISE Gold Index</u>	<u>Nasdaq ISE</u>
<u>ISE Homebuilders Index</u>	<u>Nasdaq ISE</u>
<u>ISE 250 Index</u>	<u>Nasdaq ISE and Standard &amp; Poor's</u>

<u>ISE 100 Index</u>	<u>Nasdaq ISE and Standard &amp; Poor's</u>
<u>ISE 50 Index</u>	<u>Nasdaq ISE and Standard &amp; Poor's</u>
<u>ISE U.S. Regional Banks Index</u>	<u>Nasdaq ISE</u>
<u>ISE SIndex</u>	<u>Nasdaq ISE</u>
<u>ISE Bio-Pharmaceuticals Index</u>	<u>Nasdaq ISE</u>
<u>ISE Water Index</u>	<u>Nasdaq ISE</u>
<u>ISE-CCM Alternative Energy Index</u>	<u>Nasdaq ISE</u>
<u>ISE-CCM Nanotechnology Index</u>	<u>Nasdaq ISE</u>
<u>FTSE 100 Index</u>	<u>FTSE International Limited</u>
<u>FTSE 250 Index</u>	<u>FTSE International Limited</u>
<u>ISE-Revere Natural Gas Index</u>	<u>Nasdaq ISE</u>
<u>KBW Bank Index</u>	<u>Keefe, Bruyette &amp; Woods, Inc.</u>
<u>ISE Integrated Oil and Gas Index</u>	<u>Nasdaq ISE</u>
<u>ISE-Revere Wal-Mart Supplier Index</u>	<u>Nasdaq ISE</u>
<u>KBW Mortgage Finance Index</u>	<u>Keefe, Bruyette &amp; Woods, Inc.</u>
<u>ISE Electronic Trading Index</u>	<u>Nasdaq ISE</u>
<u>NASDAQ Q-50 Index</u>	<u>The Nasdaq Stock Market</u>
<u>Morgan Stanley Retail Index</u>	<u>Morgan Stanley &amp; Co. Incorporated</u>
<u>DAX Index</u>	<u>Deutsche Bourse AG</u>
<u>Dow Jones FXCM Dollar Index</u>	<u>S&amp;P Dow Jones Indices</u>
<u>Nations VolDex Index</u>	<u>Nasdaq ISE</u>



**Section 3. Designation of an Index**

(a) The component securities of an index underlying an index option contract need not meet the requirements of Options 4, Section 3. Except as set forth in subparagraph (b) below, the listing of a class of index options on an industry index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) The Exchange may trade options on a narrow-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 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 10 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 percent 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 percent 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 percent 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 percent 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 percent (65 percent 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 percent of the weight of the index and at least 80 percent of the total number of component securities in the index satisfy the requirements of Options 4, Section 3 applicable to individual underlying securities;

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

- (9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20 percent of the weight of the index;
- (10) The current underlying index value will be reported at least once every 15 seconds during the time the index options are traded on the Exchange;
- (11) An equal dollar-weighted index will be rebalance 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) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:
- (1) The requirements stated in subparagraphs (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (d)(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 percent 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 percent of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months; and
- (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 percent of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months. In the event a class of index options listed on the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless such failure is determined by the Exchange not to be significant and the SEC concurs in that determination, or 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.

(d) The Exchange 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 Options 4A, Section 2(j);
- (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, NIDS or one or more major market data vendors during the time options on the index are traded on the Exchange;
- (12) The Exchange reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of the Exchange's current 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) The Exchange has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The requirements set forth in subparagraphs (d)(1) - (d)(3) and (d)(9) - (d)(15) must continue to be satisfied. The requirements set forth in subparagraphs (d)(5) - (d)(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 the Exchange fails to satisfy the maintenance listing standards set forth herein, the Exchange shall not open for trading any additional series of options of that class unless 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. Reserved**

#### **Section 5. Dissemination of Information**

(a) The Exchange 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 the Exchange.

(b) The Exchange shall maintain, in files available to the public, information identifying the components 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 9, Section 13 generally shall govern position limits for broad-based index options, as modified by this Options 4A, Section 6. There may be no position limit for certain Specified (as provided in Options \$A, Section 1) broad-based index options contracts. Except as otherwise indicated below, the position limit for a broad-based index option shall be 25,000 contracts on the same side of the market. Reduced-value options on broad-based security indexes for which full-value options have no position and exercise limits will similarly have no position and exercise limits. All other broad-based

index options contracts shall be subject to a contract limitation fixed by the Exchange, which shall not be larger than the limits provided in the chart below.

<u>Broad-Based Underlying Index</u>	<u>Standard Limit (on the same side of the market)</u>	<u>Restrictions</u>
<u>S&amp;P SmallCap 600 Index</u>	<u>100,000 contracts</u>	<u>No more than 60,000 near-term</u>
<u>S&amp;P MidCap 400 Index</u>	<u>45,000 contracts</u>	<u>No more than 25,000 near-term</u>
<u>Reduced Value S&amp;P 1000 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Micro S&amp;P 1000 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Nasdaq 100 Index</u>	<u>None</u>	<u>None</u>
<u>Mini Nasdaq 100 Index</u>	<u>None</u>	<u>None</u>
<u>Russell 3000 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 3000 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 3000 Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 3000 Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 3000 Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 3000 Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 2500 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>

<u>Mini Russell 2500 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 2500 Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 2500 Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 2500 Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 2500 Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 2000 Index</u>	<u>None</u>	<u>None</u>
<u>Mini Russell 2000 Index</u>	<u>None</u>	<u>None</u>
<u>Russell 2000 Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 2000 Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 2000 Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 2000 Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 1000 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 1000 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 1000 Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell 1000 Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell 1000 Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>

		<u>term</u>
<u>Mini Russell 1000 Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell Top 200 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell Top 200 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell Top 200 Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell Top 200 Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell Top 200 Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell Top 200 Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell MidCap Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell MidCap Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell MidCap Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell MidCap Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell MidCap Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell MidCap Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell Small Cap Completeness Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>

<u>Mini Russell Small Cap Completeness Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell Small Cap Completeness Value Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell Small Cap Completeness Value Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Russell Small Cap Completeness Growth Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini Russell Small Cap Completeness Growth Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Mini NYSE U.S. 100 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Micro NYSE U.S. 100 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Mini NYSE International 100 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Micro NYSE International 100 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>Mini NYSE World Leaders Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Micro NYSE World Leaders Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>ISE 250 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini ISE 250 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>ISE 100 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini ISE 100 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>



<u>ISE 50 Index</u>	<u>50,000 contracts</u>	<u>No more than 30,000 near-term</u>
<u>Mini ISE 50 Index</u>	<u>500,000 contracts</u>	<u>No more than 300,000 near-term</u>
<u>FTSE 100 Index</u>	<u>25,000 contracts</u>	<u>No more than 15,000 near-term</u>
<u>Mini FTSE 100 Index</u>	<u>250,000 contracts</u>	<u>No more than 150,000 near-term</u>
<u>Micro FTSE 100 Index</u>	<u>2,500,000 contracts</u>	<u>No more than 1,500,000 near-term</u>
<u>FTSE 250 Index</u>	<u>25,000 contracts</u>	<u>No more than 15,000 near-term</u>
<u>Mini FTSE 250 Index</u>	<u>250,000 contracts</u>	<u>No more than 150,000 near-term</u>
<u>Micro FTSE 250 Index</u>	<u>2,500,000 contracts</u>	<u>No more than 1,500,000 near-term</u>
<u>Mini DAX Index</u>	<u>250,000 contracts</u>	<u>No more than 150,000 near-term</u>
<u>Nations VolDex Index</u>	<u>None</u>	<u>None</u>
<u>Nasdaq 100 Reduced Value Index</u>	<u>None</u>	<u>None</u>

(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, reduced-value contracts will be counted consistent with their value (e.g., 5 NQX reduced-value contracts equal 1 NDX full-value contract).

(d) Positions in Short Term Option Series and Quarterly Options Series shall be aggregated with positions in options contracts on the same index. Nonstandard Expirations (as provided for in Supplementary Material .07 to Options 4A, Section 12) on a broadbased index shall be aggregated with option contracts on the same broad-based index and shall be subject to the overall position limit.

### **Section 7. Position Limits for Industry Index Options**

(a) (1) Options 9 , Section 13 generally shall govern position limits for industry index options, as modified by this Options 4A, Section 7. Options contracts on an industry index shall, subject to the procedures specified in subparagraph (3) of this Rule, be subject to the following position limits:

(i) 18,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (2) of this paragraph (a), that any single underlying stock accounted, on average, for thirty percent (30%) or more of the index value during the thirty (30) -day period immediately preceding the review; or

(ii) 24,000 contracts if the Exchange determines, at the time of a review conducted pursuant to subparagraph (2) of this paragraph (a), that any single underlying stock accounted, on average, for twenty percent (20%) or more of the index value or that any five (5) underlying stocks together accounted, on average, for more than fifty percent (50%) of the index value, but that no single stock in the group accounted, on average, for thirty percent (30%) or more of the index value, during the thirty (30)-day period immediately preceding the review; or

(iii) 31,500 contracts if the Exchange determines that the conditions specified above which would require the establishment of a lower limit have not occurred.

(iv) 44,000 contracts total with respect to the KBW Bank Index.

(2) The Exchange shall make the determinations required by subparagraph (1) of this paragraph (a) with respect to options on each industry index at the commencement of trading of such options on the Exchange and thereafter review the determination semi-annually on January 1 and July 1.

(3) If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index is lower than the maximum position limit permitted by the criteria set forth in paragraph (1) of this paragraph (a), the Exchange may effect an appropriate position limit increase immediately. If the Exchange determines, at the time of a semi-annual review, that the position limit in effect with respect to options on a particular industry index exceeds the maximum position limit permitted by the criteria set forth in subparagraph (1) of this paragraph (a), the Exchange shall reduce the position limit applicable to such options to a level consistent with such criteria; provided, however, that such a reduction shall not become effective until after the expiration date of the most distantly expiring options series relating to the industry index that is open for trading on the date of the review; and provided further that such a reduction shall not become effective if the Exchange determines, at the next semi-annual review, that the existing position limit

applicable to such options is consistent with the criteria set forth in subparagraph (1) of this paragraph (a).

(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.

(d) Positions in Short Term Option Series and Quarterly Options Series shall be aggregated with positions in options contracts on the same index.

### **Section 8. Position Limits for Foreign Currency Index Options**

(a) Option contracts on a Foreign Currency Index shall be subject to the following position limits:

<u>Foreign Currency Index</u>	<u>Standard Limit (on the same side of the market)</u>	<u>Restrictions</u>
<u>Dow Jones FXCM Dollar Index</u>	<u>600,000 contracts</u>	<u>No more than 300,000 near-term</u>

### **Section 9. Exemptions from Position Limits**

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

(1) The account in which the exempt options positions are held ("hedge exemption account") must have received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Rule. The hedge exemption account must have provided all information required on Exchange-approved forms and must have kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days, or such other time period designated by the Exchange, furnish the Exchange with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Member must be carried by a Member of a self-regulatory organization participating in the Intermarket Surveillance Group.

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

(i) a net long or short position 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 or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio; or

(ii) a net long or short position in index futures contracts or in options on index futures contracts, or long or short positions in index options or index warrants, for which the underlying index is included in the same margin or cross-margin product group cleared at the Clearing Corporation as the index options class to which the hedge exemption applies.

To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity.

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

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

(ii) 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

(iii) 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.

(5) Positions in broad-based index options that are traded on the Exchange are exempt from the standard limits to the extent specified below.

Broad-Based  
Index Option Type

Broad-Based Index Hedge  
Exemption

(is in addition to standard limit)

Broad-based indexes other than for those that 75,000  
do not have any position limits

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

- (i) Long put(s) used to hedge the holdings of a qualified portfolio;
- (ii) Long call(s) used to hedge a short position in a qualified portfolio;
- (iii) Short call(s) used to hedge the holdings of a qualified portfolio; and
- (iv) Short put(s) used to hedge a short position in a qualified portfolio.

The following strategies may be effected only in conjunction with a qualified stock portfolio for non-P.M. settled, European style index options only:

(v) A short call position accompanied by long put(s), where the short call(s) expires with the long put(s), and the strike price of the short call(s) equals or exceeds the strike price of the long put(s)(a "collar"). Neither side of the collar transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Options 9, Section 12 and this Options 4A, Section 9, a collar position will be treated as one contract;

(vi) 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 position"); and

(vii) A short call position accompanied by a debit put spread position, where the short call(s) expires with the puts and the strike price of the short call(s) equals or exceeds the strike price of the long put(s). Neither side of the short call, long put transaction can be in-the-money at the time the position is established. For purposes of determining compliance with Options 9, Section 13 and this Options 4A, Section 9, the short call and long put positions will be treated as one contract.

(7) The hedge exemption account shall:

(i) liquidate and establish options, stock positions, their equivalent or other qualified portfolio products in an orderly fashion; not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate a stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;

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

(iii) promptly notify the Exchange of any material change in the qualified portfolio which materially affects the unhedged value of the qualified portfolio.

(8) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.

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

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

(11) Any Member that maintains a broad-based index options position in such Member's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Options 9, Section 13 and this Options 4A, Section 9 by the Member.

(12) Violation of any of the provisions of this Rule, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.

(13) Each Member (other than Exchange market-makers) that maintains a broad-based index option position on the same side of the market in excess of 100,000 contracts in NDX or RUT for its own account or for the account of a customer, shall report information as to whether the positions are hedged and provide documentation as to how such contracts are hedged, in the manner and form required by the Exchange. In calculating the applicable contract-reporting amount, reduced-value contracts will be aggregated with full-value contracts and

counted by the amount by which they equal a full-value contract (e.g., 10 MNX options equal 1 NDX full-value contract). The Exchange may impose other reporting requirements as well as the limit at which the reporting requirement may be triggered.

(14) Whenever the Exchange determines that additional margin is warranted in light of the risks associated with an under-hedged NDX or RUT options position, the Exchange may impose additional margin upon the account maintaining such under-hedged position pursuant to its authority under Options 6C, Section 5. The clearing firm carrying the account also will be subject to capital charges under Rule 15c3-1 under the Exchange Act to the extent of any margin deficiency resulting from the higher margin requirements.

(b) *Industry Index Hedge Exemption.* The industry (narrow-based) index hedge exemption is in addition to the other exemptions available under Exchange Rules, interpretations and policies, and may not exceed twice the standard limit established under Options 4A, Section 7. Industry index options positions may be exempt from established position limits for each options contract "hedged" by an equivalent dollar amount of the underlying component securities or securities convertible into such components; provided that, in applying such hedge, each options position to be exempted is hedged by a position in at least seventy-five percent (75%) of the number of component securities underlying the index. In addition, the underlying value of the options position may not exceed the value of the underlying portfolio. The value of the underlying portfolio is: (1) the total market value of the net stock position; and (2) for positions in excess of the standard limit, subtract the underlying market value of: (i) any offsetting calls and puts in the respective index option; (ii) any offsetting positions in related stock index futures or options; and (iii) any economically equivalent positions (assuming no other hedges for these contracts exist). The following procedures and criteria must be satisfied to qualify for an industry index hedge exemption:

(1) The hedge exemption account must have received prior Exchange approval for the hedge exemption specifying the maximum number of contracts that may be exempt under this Interpretation. The hedge exemption account must have provided all information required on Exchange-approved forms and must have kept such information current. Exchange approval may be granted on the basis of verbal representations, in which event the hedge exemption account shall within two business days, or such other time period designated by the Exchange, furnish the Exchange with appropriate forms and documentation substantiating the basis for the exemption. The hedge exemption account may apply from time to time for an increase in the maximum number of contracts exempt from the position limits.

(2) A hedge exemption account that is not carried by a Member must be carried by a Member of a self-regulatory organization participating in the Intermarket Surveillance Group.

- (3) The hedge exemption account: shall liquidate and establish options, stock positions, or economically equivalent positions in an orderly fashion; shall not initiate or liquidate positions in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and shall not initiate or liquidate a stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The hedge exemption account shall liquidate any options prior to or contemporaneously with a decrease in the hedged value of the portfolio which options would thereby be rendered excessive. The hedge exemption account shall promptly notify the Exchange of any change in the portfolio which materially affects the unhedged value of the portfolio.
- (4) If an exemption is granted, it will be effective at the time the decision is communicated. Retroactive exemptions will not be granted.
- (5) The hedge exemption account shall promptly provide to the Exchange any information requested concerning the portfolio.
- (6) Positions included in a portfolio that serve to secure an index hedge exemption may not also be used to secure any other position limit exemption granted by the Exchange or any other self regulatory organization or futures contract market.
- (7) Any Member that maintains an industry index options position in such Member's own account or in a customer account, and has reason to believe that such position is in excess of the applicable limit, shall promptly take the action necessary to bring the position into compliance. Failure to abide by this provision shall be deemed to be a violation of Options 9, Section 13 and this Options 4A, Section 9 by the Member.
- (8) Violation of any of the provisions of this Options 4A, Section 9, absent reasonable justification or excuse, shall result in withdrawal of the index hedge exemption and may form the basis for subsequent denial of an application for an index hedge exemption hereunder.
- (c) Exemptions Granted by Other Options Exchanges - A Member 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 the Exchange provided that such Member:
- (1) provides the Exchange 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 Exchange regulatory staff to verify the validity of that exemption with the issuing options exchange, and



(2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the Member's trading on the Exchange.

(d) *Delta-Based Index hedge Exemption.* The Delta-Based Index Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange Rules. An index option position of a Member or non-Member affiliate of a Member that is delta neutral shall be exempt from established position limits as prescribed under Options 4A, Sections 6 and 7, subject to the following:

(1) The term "delta neutral" refers to an index option position that is hedged, in accordance with a permitted pricing model, by a position in one or more correlated instruments, for the purpose of offsetting the risk that the value of the option position will change with incremental changes in the value of the underlying index. The term "correlated instruments" means securities and/or other instruments that track the performance of or are based on the same underlying index as the index underlying the option position (but not including baskets of securities).

(2) An index option position that is not delta neutral shall be subject to position limits in accordance with Options 4A, Sections 6 and 7 (subject to the availability of other position limit exemptions). Only the options contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by units of trade that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an index option position will change with incremental changes in the value of the underlying index, as determined in accordance with a permitted pricing model.

(3) A "permitted pricing model" shall have the meaning as defined in Options 9, Section 14(a)(7)(C).

(4) Effect on Aggregation of Accounts

(i) Members and non-Member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in correlated instruments that are owned or controlled by such Member or non-Member affiliate.

(ii) Notwithstanding subparagraph (iv)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in correlated instruments held by an affiliated entity or by another trading unit within the same entity, provided that:

(A) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Options 9, Section 13(f), exists between such affiliates or trading units\*; and

(B) the entity has provided (by the Member carrying the account as applicable) the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

(5) Notwithstanding subparagraph (iv)(1) or (iv)(2), a Member or non-Member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange (to be obtained and provided by the Member carrying the account as applicable), each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such Member or non-Member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(1) the permitted pricing model shall be applied, for purposes of calculating such Member's or affiliate's net delta, only to the positions in correlated instruments owned and controlled by those entities and trading units who are relying on this exemption; and

(2) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the non-exempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such Member or affiliate.

(6) Obligations of Members

(1) A Member that relies on this exemption for a proprietary index options position:

(A) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (iii) above; and

(B) by such reliance authorizes any other person carrying for such Member an account including, or with whom such Member has entered into, a position in a correlated instrument to provide to the Exchange or the Options Clearing Corporation such information regarding such account or position as the Exchange or Options Clearing Corporation may request as part of the Exchange's

confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The index option positions of a non-Member relying on this exemption must be carried by a Member with which it is affiliated.

(3) A Member carrying an account that includes an index option position for a non-Member affiliate that intends to rely on this exemption must obtain from such non-Member affiliate and must provide to the Exchange.

(A) a written certification to the Exchange that the non-Member affiliate is using a permitted pricing model pursuant to subparagraph (iii) above; and

(B) a written statement confirming that such non-Member affiliate:

(i) is relying on this exemption;

(ii) will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

(iii) will promptly notify the Member if it ceases to rely on this exemption;

(iv) authorizes the Member to provide to the Exchange or the Options Clearing Corporation such information regarding positions of the non-Member affiliate as the Exchange or Options Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

(e) if the non-Member affiliate is using the OCC Model, has duly executed and delivered to the Member such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(7) Reporting. Each Member (other than an Exchange Market Maker using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Options 9, Section 16, all index option positions (including those that are delta neutral) that are reportable thereunder. Each such Member on its own behalf or on behalf of a designated aggregation unit pursuant to Options 4A, Section 9(c)(iv) shall also report, in accordance with Exchange Options 9, Section 16 for each such account that holds an index option position

subject to this exemption in excess of the levels specified in Options 4A, Section 6 and 7, the net delta and the options contract equivalent of the net delta of such position.

(8) Records. Each Member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-Member affiliate of the Member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

### **Section 10. Exercise Limits**

(a) In determining compliance with Options 9, Section 15, exercise limits for index options contracts, including for options on a Foreign Currency Index, shall be equivalent to the position limits prescribed for options contracts with the nearest expiration date in Options 4A, Sections 6, 7 or 8. There may be no exercise limits for Specified (as provided in Options 4A, Section 1) broad-based index options.

(b) For a market-maker granted an exemption to position limits pursuant to Options 9, section 14(b), 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 Options 4A, Section 9(a), 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 the President or his designee, transactions in index options, including Foreign Currency Index options, may be effected on the Exchange between the hours of 9:30 a.m. and 4:15 p.m. Eastern time, except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time) and 4:00 p.m. (Eastern time). With respect to options on foreign indexes, an Exchange official designated by the Board shall determine the days and hours of business.

(b) Trading Rotations. The opening rotation for index options shall be held at or as soon as practicable after 9:30 a.m. Eastern time. An Exchange official designated by the Board may delay the commencement of the opening rotation in an index option whenever in the judgment of that official such action is appropriate in the interests of a fair and orderly

market. Among the factors that may be considered in making these determinations are: (1) unusual conditions or circumstances in other markets; (2) an influx of orders that has adversely affected the ability of the Primary Market Maker to provide and to maintain fair and orderly markets; (3) activation of opening price limits in stock index futures on one or more futures exchanges; (4) activation of daily price limits in stock index futures on one or more futures exchanges; (5) the extent to which either there has been a delay in opening or trading is not occurring in stocks underlying the index; and (6) circumstances such as those which would result in the declaration of a fast market under Options 2, Section 5(d).

(c) *Instituting Halts and Suspensions.* Trading on the Exchange 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. An Exchange official designated by the Board also may halt trading in an index option, including in options on a Foreign Currency Index, 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, or in the case of a Foreign Currency Index, in the underlying foreign currency market;

(2) whether the current calculation of the index derived from the current market prices of the stocks is not available, or in the case of the a Foreign Currency Index, the current prices of the underlying foreign currency is not available;

(3) the extent to which the rotation has been completed or other factors regarding the status of the rotation; 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 the Exchange may resume if an Exchange official designated by the Board 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 or currencies underlying an index. Upon reopening, a rotation shall be held in each class of index options unless an Exchange official designated by the Board concludes that a different method of reopening is appropriate under the circumstances, including but not limited to, no rotation, an abbreviated rotation or any other variation in the manner of the rotation.

(e) Circuit Breakers. Options 3, Section 9 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 the Exchange, 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. The Exchange shall determine fixed-point intervals of exercise prices for call and put options.

(3) Expiration Months and Weeks. Index options contracts may expire at three (3)-month intervals or in consecutive weeks or months. The Exchange may list: (i) up to six (6) standard monthly expirations at any one time in a class, but will not list index options that expire more than twelve (12) months out; (ii) up to 12 standard monthly expirations at any one time for any class that the Exchange (as the Reporting Authority) uses to calculate a volatility index; and (iii) up to 12 standard (monthly) expirations in NDX options.

(4) "European-Style Exercise." The following European-style index options, some of which may be A.M.-settled as provided in paragraph (a)(5), are approved for trading on the Exchange:

(i) S&P SmallCap 600 Index

(ii) Morgan Stanley Technology Index

(iii) S&P MidCap 400 Index

(iv) Reduced Value S&P 1000 Index

(v) Micro S&P 1000 Index

- (vi) Full-size Nasdaq 100 Index
- (vii) Mini Nasdaq 100 Index
- (viii) Russell 3000 Index
- (ix) Mini Russell 3000 Index
- (x) Russell 3000 Value Index
- (xi) Mini Russell 3000 Value Index
- (xii) Russell 3000 Growth Index
- (xiii) Mini Russell 3000 Growth Index
- (xiv) Russell 2500 Index
- (xv) Mini Russell 2500 Index
- (xvi) Russell 2500 Value Index
- (xvii) Mini Russell 2500 Value Index
- (xviii) Russell 2500 Growth Index
- (xix) Mini Russell 2500 Growth Index
- (xx) Russell 2000 Index
- (xxi) Mini Russell 2000 Index
- (xxii) Russell 2000 Value Index
- (xxiii) Mini Russell 2000 Value Index
- (xxiv) Russell 2000 Growth Index
- (xxv) Mini Russell 2000 Growth Index
- (xxvi) Russell 1000 Index
- (xxvii) Mini Russell 1000 Index
- (xxviii) Russell 1000 Value Index

- (xxix) Mini Russell 1000 Value Index
- (xxx) Russell 1000 Growth Index
- (xxxi) Mini Russell 1000 Growth Index
- (xxxii) Russell Top 200 Index
- (xxxiii) Mini Russell Top 200 Index
- (xxxiv) Russell Top 200 Value Index
- (xxxv) Mini Russell Top 200 Value Index
- (xxxvi) Russell Top 200 Growth Index
- (xxxvii) Mini Russell Top 200 Growth Index
- (xxxviii) Russell MidCap Index
- (xxxix) Mini Russell MidCap Index
- (xl) Russell MidCap Value Index
- (xli) Mini Russell MidCap Value Index
- (xlii) Russell MidCap Growth Index
- (xliii) Mini Russell MidCap Growth Index
- (xliv) Russell Small Cap Completeness Index
- (xlv) Mini Russell Small Cap Completeness Index
- (xlvi) Russell Small Cap Completeness Value Index
- (xlvii) Mini Russell Small Cap Completeness Value Index
- (xlviii) Russell Small Cap Completeness Growth Index
- (xlix) Mini Russell Small Cap Completeness Growth Index
- (l) Mini NYSE U.S. 100 Index
- (li) Micro NYSE U.S. 100 Index



- (lii) Mini NYSE International 100 Index
- (liii) Micro NYSE International 100 Index
- (liv) Mini NYSE World Leaders Index
- (lv) Micro NYSE World Leaders Index
- (lvi) Mini NYSE TMT Index
- (lvii) Micro NYSE TMT Index
- (lviii) ISE-CCM Homeland Security Index
- (lix) ISE Oil & Gas Services Index
- (lx) ISE Semiconductors Index
- (lxi) ISE Gold Index
- (lxii) ISE Homebuilders Index
- (lxiii) ISE 250 Index
- (lxiv) Mini ISE 250 Index
- (lxv) ISE 100 Index
- (lxvi) Mini ISE 100 Index
- (lxvii) ISE 50 Index
- (lxviii) Mini ISE 50 Index
- (lxix) ISE U.S. Regional Banks Index
- (lxx) ISE SINdex
- (lxxi) ISE Bio-Pharmaceuticals Index
- (lxxii) ISE Water Index
- (lxxiii) ISE-CCM Alternative Energy Index
- (lxxiv) ISE-CCM Nanotechnology Index

- (lxxv) FTSE 100 Index
- (lxxvi) Mini FTSE 100 Index
- (lxxvii) Micro FTSE 100 Index
- (lxxviii) FTSE 250 Index
- (lxxix) Mini FTSE 250 Index
- (lxxx) Micro FTSE 250 Index
- (lxxxii) ISE-Revere Natural Gas Index
- (lxxxiii) KBW Bank Index
- (lxxxiii) ISE Integrated Oil and Gas Index
- (lxxxiv) ISE-Revere Wal-Mart Supplier Index
- (lxxxv) KBW Mortgage Finance Index
- (lxxxvi) ISE Electronic Trading Index
- (lxxxvii) NASDAQ Q-50 Index
- (lxxxviii) Morgan Stanley Retail Index
- (lxxxix) Mini DAX Index
- (xc) Dow Jones FXCM Dollar Index.
- (xci) Nations VolDex Index
- (xcii) Nasdaq 100 Reduced Value Index

(5) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day preceding the last day of trading in the underlying securities prior to 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 last day of trading in the underlying securities prior to expiration, 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 Options 4A, Section 11(g), 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 that are approved for trading on the Exchange:

- (i) S&P SmallCap 600 Index
- (ii) Morgan Stanley Technology Index
- (iii) S&P MidCap 400 Index
- (iv) Reduced Value S&P 1000 Index
- (v) Micro S&P 1000 Index
- (vi) Full-size Nasdaq 100 Index
- (vii) Mini Nasdaq 100 Index
- (viii) Russell 3000 Index
- (ix) Mini Russell 3000 Index
- (x) Russell 3000 Value Index
- (xi) Mini Russell 3000 Value Index
- (xii) Russell 3000 Growth Index
- (xiii) Mini Russell 3000 Growth Index
- (xiv) Russell 2500 Index
- (xv) Mini Russell 2500 Index

- (xvi) Russell 2500 Value Index
- (xvii) Mini Russell 2500 Value Index
- (xviii) Russell 2500 Growth Index
- (xix) Mini Russell 2500 Growth Index
- (xx) Russell 2000 Index
- (xxi) Mini Russell 2000 Index
- (xxii) Russell 2000 Value Index
- (xxiii) Mini Russell 2000 Value Index
- (xxiv) Russell 2000 Growth Index
- (xxv) Mini Russell 2000 Growth Index
- (xxvi) Russell 1000 Index
- (xxvii) Mini Russell 1000 Index
- (xxviii) Russell 1000 Value Index
- (xxix) Mini Russell 1000 Value Index
- (xxx) Russell 1000 Growth Index
- (xxxi) Mini Russell 1000 Growth Index
- (xxxii) Russell Top 200 Index
- (xxxiii) Mini Russell Top 200 Index
- (xxxiv) Russell Top 200 Value Index
- (xxxv) Mini Russell Top 200 Value Index
- (xxxvi) Russell Top 200 Growth Index
- (xxxvii) Mini Russell Top 200 Growth Index
- (xxxviii) Russell MidCap Index

- (xxxix) Mini Russell MidCap Index
- (xl) Russell MidCap Value Index
- (xli) Mini Russell MidCap Value Index
- (xlii) Russell MidCap Growth Index
- (xliii) Mini Russell MidCap Growth Index
- (xliv) Russell Small Cap Completeness Index
- (xlv) Mini Russell Small Cap Completeness Index
- (xlvi) Russell Small Cap Completeness Value Index
- (xlvii) Mini Russell Small Cap Completeness Value Index
- (xlviii) Russell Small Cap Completeness Growth Index
- (xlix) Mini Russell Small Cap Completeness Growth Index
- (l) Mini NYSE U.S. 100 Index
- (li) Micro NYSE U.S. 100 Index
- (lii) Mini NYSE International 100 Index
- (liii) Micro NYSE International 100 Index
- (liv) Mini NYSE World Leaders Index
- (lv) Micro NYSE World Leaders Index
- (lvi) Mini NYSE TMT Index
- (lvii) Micro NYSE TMT Index
- (lviii) ISE-CCM Homeland Security Index
- (lix) ISE Oil & Gas Services Index
- (lx) ISE Semiconductors Index
- (lxi) ISE Gold Index

- (lxii) ISE Homebuilders Index
- (lxiii) ISE 250 Index
- (lxiv) Mini ISE 250 Index
- (lxv) ISE 100 Index
- (lxvi) Mini ISE 100 Index
- (lxvii) ISE 50 Index
- (lxviii) Mini ISE 50 Index
- (lxix) ISE U.S. Regional Banks Index
- (lxx) ISE SINdex
- (lxxi) ISE Bio-Pharmaceuticals Index
- (lxxii) ISE Water Index
- (lxxiii) ISE-CCM Alternative Energy Index
- (lxxiv) ISE-CCM Nanotechnology Index
- (lxxv) FTSE 100 Index
- (lxxvi) Mini FTSE 100 Index
- (lxxvii) Micro FTSE 100 Index
- (lxxviii) FTSE 250 Index
- (lxxix) Mini FTSE 250 Index
- (lxxx) Micro FTSE 250 Index
- (lxxxii) ISE-Revere Natural Gas Index
- (lxxxiii) KBW Bank Index
- (lxxxiii) ISE Integrated Oil and Gas Index
- (lxxxiv) ISE-Revere Wal-Mart Supplier Index

(lxxxv) KBW Mortgage Finance Index

(lxxxvi) ISE Electronic Trading Index

(lxxxvii) NASDAQ Q-50 Index

(lxxxviii) Morgan Stanley Retail Index

(lxxxix) Mini DAX Index

(xc) Nations VolDex Index

(6) In addition to A.M.-settled Nasdaq-100 Index options approved for trading on the Exchange pursuant to Options 4A, Section 12(a)(5), the Exchange may also list options on the Nasdaq 100 Reduced Value Index ("NQX") whose exercise settlement value is derived from closing prices on the expiration day ("P.M.-settled"). NQX options will be listed for trading for a pilot period ending on the earlier of (1) 12 months following the date of the first listing of the options, or (2) June 30, 2019.

(b) Long-Term Index Options Series.

(1) Notwithstanding the provisions of paragraph (a)(3), above, the Exchange may list long-term index options series that expire from twelve (12) 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 twelve (12) 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 on the following stock indices are approved for trading on the Exchange:

(A) S&P SmallCap 600 Index

(B) Morgan Stanley Technology Index

(C) S&P MidCap 400 Index

(D) Nasdaq 100 Index

(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 5, as amended by the following:

(1) The interval between strike prices will be no less than \$5.00; provided, that in the case of the following classes of index options, the interval between strike prices will be no less than \$2.50:

(i) S&P SmallCap 600, if the strike price is less than \$200.00

(ii) Morgan Stanley Technology Index, if the strike price is less than \$200.00

(iii) S&P MidCap 400 Index, if the strike price is less than \$200.00

(iv) Reduced Value S&P 1000 Index, if the strike price is less than \$200.00

(v) Micro S&P 1000 Index, if the strike price is less than \$200.00

(vi) Full-size Nasdaq 100 Index, if the strike price is less than \$200.00

(vii) Mini Nasdaq 100 Index, if the strike price is less than \$200.00

(viii) Russell 3000 Index, if the strike price is less than \$200.00

(ix) Mini Russell 3000 Index, if the strike price is less than \$200.00

(x) Russell 3000 Value Index, if the strike price is less than \$200.00

(xi) Mini Russell 3000 Value Index, if the strike price is less than \$200.00

(xii) Russell 3000 Growth Index, if the strike price is less than \$200.00



- \$200.00
- (xiii) Mini Russell 3000 Growth Index, if the strike price is less than
- (xiv) Russell 2500 Index, if the strike price is less than \$200.00
- (xv) Mini Russell 2500 Index, if the strike price is less than \$200.00
- (xvi) Russell 2500 Value Index, if the strike price is less than \$200.00
- \$200.00
- (xvii) Mini Russell 2500 Value Index, if the strike price is less than
- (xviii) Russell 2500 Growth Index, if the strike price is less than \$200.00
- \$200.00
- (xix) Mini Russell 2500 Growth Index, if the strike price is less than
- (xx) Russell 2000 Index, if the strike price is less than \$200.00
- (xxi) Mini Russell 2000 Index, if the strike price is less than \$200.00
- (xxii) Russell 2000 Value Index, if the strike price is less than \$200.00
- \$200.00
- (xxiii) Mini Russell 2000 Value Index, if the strike price is less than
- (xxiv) Russell 2000 Growth Index, if the strike price is less than \$200.00
- \$200.00
- (xxv) Mini Russell 2000 Growth Index, if the strike price is less than
- (xxvi) Russell 1000 Index, if the strike price is less than \$200.00
- (xxvii) Mini Russell 1000 Index, if the strike price is less than \$200.00
- (xxviii) Russell 1000 Value Index, if the strike price is less than \$200.00
- \$200.00
- (xxix) Mini Russell 1000 Value Index, if the strike price is less than
- (xxx) Russell 1000 Growth Index, if the strike price is less than \$200.00
- \$200.00
- (xxxi) Mini Russell 1000 Growth Index, if the strike price is less than
- (xxxii) Russell Top 200 Index, if the strike price is less than \$200.00

(xxxiii) Mini Russell Top 200 Index, if the strike price is less than \$200.00

\$200.00  
(xxxiv) Russell Top 200 Value Index, if the strike price is less than

\$200.00  
(xxxv) Mini Russell Top 200 Value Index, if the strike price is less than

\$200.00  
(xxxvi) Russell Top 200 Growth Index, if the strike price is less than

(xxxvii) Mini Russell Top 200 Growth Index, if the strike price is less than  
\$200.00

(xxxviii) Russell MidCap Index, if the strike price is less than \$200.00

(xxxix) Mini Russell MidCap Index, if the strike price is less than \$200.00

(xl) Russell MidCap Value Index, if the strike price is less than \$200.00

\$200.00  
(xli) Mini Russell MidCap Value Index, if the strike price is less than

(xlii) Russell MidCap Growth Index, if the strike price is less than \$200.00

\$200.00  
(xliii) Mini Russell MidCap Growth Index, if the strike price is less than

(xliv) Russell Small Cap Completeness Index, if the strike price is less  
than \$200.00

(xlv) Mini Russell Small Cap Completeness Index, if the strike price is  
less than \$200.00

(xlvi) Russell Small Cap Completeness Value Index, if the strike price is  
less than \$200.00

(xlvii) Mini Russell Small Cap Completeness Value Index, if the strike  
price is less than \$200.00

(xlviii) Russell Small Cap Completeness Growth Index, if the strike price  
is less than \$200.00

(xlix) Mini Russell Small Cap Completeness Growth Index, if the strike  
price is less than \$200.00

- (l) Mini NYSE U.S. 100 Index, if the strike price is less than \$200.00
- (li) Micro NYSE U.S. 100 Index, if the strike price is less than \$200.00
- (lii) Mini NYSE International 100 Index, if the strike price is less than \$200.00
- (liii) Micro NYSE International 100 Index, if the strike price is less than \$200.00
- (liv) Mini NYSE World Leaders Index, if the strike price is less than \$200.00
- (lv) Micro NYSE World Leaders Index, if the strike price is less than \$200.00
- (lvi) Mini NYSE TMT Index, if the strike price is less than \$200.00
- (lvii) Micro NYSE TMT Index, if the strike price is less than \$200.00
- (lviii) ISE-CCM Homeland Security Index, if the strike price is less than \$200.00
- (lix) ISE Oil & Gas Services Index, if the strike price is less than \$200.00
- (lx) ISE Semiconductors Index, if the strike price is less than \$200.00
- (lxi) ISE Gold Index, if the strike price is less than \$200.00
- (lxii) ISE Homebuilders Index, if the strike price is less than \$200.00
- (lxiii) ISE 250 Index, if the strike price is less than \$200.00
- (lxiv) Mini ISE 250 Index, if the strike price is less than \$200.00
- (lxv) ISE 100 Index, if the strike price is less than \$200.00
- (lxvi) Mini ISE 100 Index, if the strike price is less than \$200.00
- (lxvii) ISE 50 Index, if the strike price is less than \$200.00
- (lxviii) Mini ISE 50 Index, if the strike price is less than \$200.00
- (lxix) ISE U.S. Regional Banks Index, if the strike price is less than \$200.00

- (lxx) ISE SIndex, if the strike price is less than \$200.00
- \$200.00
- (lxxi) ISE Bio-Pharmaceuticals Index, if the strike price is less than
- \$200.00
- (lxxii) ISE Water Index, if the strike price is less than \$200.00
- (lxxiii) ISE-CCM Alternative Energy Index, if the strike price is less than
- \$200.00
- (lxxiv) ISE-CCM Nanotechnology Index, if the strike price is less than
- \$200.00
- (lxxv) FTSE 100 Index, if the strike price is less than \$200.00
- (lxxvi) Mini FTSE 100 Index, if the strike price is less than \$200.00
- (lxxvii) Micro FTSE 100 Index, if the strike price is less than \$200.00
- (lxxviii) FTSE 250 Index, if the strike price is less than \$200.00
- (lxxix) Mini FTSE 250 Index, if the strike price is less than \$200.00
- (lxxx) Micro FTSE 250 Index, if the strike price is less than \$200.00
- (lxxxii) ISE-Revere Natural Gas Index, if the strike price is less than
- \$200.00
- (lxxxiii) KBW bank Index, if the strike price is less than \$200.00
- (lxxxiii) ISE Integrated Oil and Gas Index, if the strike price is less than
- \$200.00
- (lxxxiv) ISE-Revere Wal-Mart Supplier Index, if the strike price is less than \$200.00
- (lxxxv) KBW Mortgage Finance Index, if the strike price is less than
- \$200.00
- (lxxxvi) ISE Electronic Trading Index, if the strike price is less than
- \$200.00
- (lxxxvii) NASDAQ Q-50 Index, if the strike price is less than \$200.00
- (lxxxviii) Morgan Stanley Retail Index, if the strike price is less than
- \$200.00

(lxxxix) Mini DAX Index, if the strike price is less than \$200.00

(xc) Dow Jones FXCM Dollar Index, if the strike price is less than \$200.00

(xci) Nations VolDex Index, if the strike price is less than \$200.00

(xcii) Nasdaq 100 Reduced Value Index, if the strike price is less than \$200.00

(2) New series of index options contracts may be added up to, but not on or after, the fourth business day prior to expiration for an option contract expiring on a business day, or, in the case of an option contract expiring on a day that is not a business day, 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), the Exchange 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 the Exchange. The exercise price of each series of index options 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 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.

(5) Notwithstanding Options 4A, Section 12(c)(1), the interval between strike prices of series of Mini-Nasdaq-100 Index ("MNX" or "Mini-NDX") or Nasdaq 100 Reduced Value Index ("NQX") options will be \$1 or greater, subject to following conditions:

(i) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for Mini-NDX or NOX options, and will list at least two strike prices above and two strike prices below the current value of MNX or NOX at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for Mini-NDX or NOX options that are within 5 points from the closing value of MNX or NOX on the preceding day.

(ii) Additional Series. Additional series of the same class of Mini-NDX or NOX options 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 underlying MNX or NOX moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of MNX or NOX. The Exchange may also open additional strike prices that are more than 30% above or below the current MNX or NOX 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. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in Mini-NDX or NOX options.

(iii) The Exchange shall not list LEAPS on Mini-NDX or NOX options at intervals less than \$5.

(iv) (A) Delisting Policy. With respect to Mini-NDX or NOX options added pursuant to the above paragraphs, the Exchange will, on a monthly basis, review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of MNX or NOX, and delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(B) Notwithstanding the above referenced delisting policy, Customer requests to add strikes and/or maintain strikes in Mini-NDX or NOX option series eligible for delisting shall be granted.

(C) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a

uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed Mini-NDX or NQX options.

(6) Notwithstanding Options 4A, Section 12(c)(1), the interval between strike prices of series of options on the KBW Bank Index ("BKX") will be \$1 or greater, subject to following conditions:

(i) Initial Series. The Exchange may list series at \$1 or greater strike price intervals for BKX options, if the strike price is less than \$200, and will list at least two strike prices above and two strike prices below the current value of BKX at about the time a series is opened for trading on the Exchange. The Exchange shall list strike prices for BKX options that are within 5 points from the closing value of BKX on the preceding day.

(ii) Additional Series. Additional series of the same class of BKX options 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 underlying BKX moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within thirty percent (30%) above or below the closing value of BKX. The Exchange may also open additional strike prices that are more than 30% above or below the current BKX 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. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each series in BKX options. In all cases, however, the \$1 strike price interval may be listed on BKX options only where the strike price is less than \$200.

(iii) The Exchange shall not list LEAPS on BKX options at intervals less than \$2.50.

(iv)(A) Delisting Policy. With respect to BKX options added pursuant to the above paragraphs, the Exchange will regularly review series that are outside a range of five (5) strikes above and five (5) strikes below the current value of BKX, and may delist series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month.

(B) Notwithstanding the above referenced delisting policy, Customer requests to add strikes and/or maintain strikes in BKX options eligible for delisting shall be granted.

(C) In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other options exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to ensure uniform series delisting of multiply listed BKX options.

(7) Notwithstanding Options 4A, Section 12(c)(1), (c)(3) and (c)(4), the interval between strike prices for options on the Nations VolDex Index ("VolDex") will be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is greater than \$200.

(d) *Index Level on the Last Day of Trading.* The reported level of the underlying index that is calculated by the reporting authority 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 day of trading in the underlying securities prior to the expiration date 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 Rules of the Exchange 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.

(1) The closing settlement value for options on a Foreign Currency Index shall be determined by using the WM Intra-Day Spot rate on the last trading day during expiration week.

### **Supplementary Material to Options 4A, Section 12**

.01 *Short Term Option Series Program:* Notwithstanding the restriction in Options 4A, Section 12(a)(3), after an 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 at the close of business on each of the next five Fridays that are business days and are not Fridays in which monthly options series or Quarterly Options Series expire ("Short Term Option Expiration Dates"). The Exchange may have no more than a total of five Short Term Option Expiration Dates. 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 a Friday, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:



(a) Classes. 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 30 option class restriction, the Exchange may also 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 30 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.

(b) Expiration. 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 expires or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Options Series on the same index class.

(c) Initial Series. The Exchange may open up to 20 initial series for each option class that participates in the Short Term Option Series Program. 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 above and below the calculated index value of the underlying index at about the time that Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven series are initially opened, there will be at least three strike prices above and three strike prices below the 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.

(d) Additional Series. The Exchange may open up to 10 additional series for each option class that participates in the Short Term Option Series Program 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 on 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. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security, the Exchange will delist any series with no open interest in both the call and the put series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open

interest in the put and/or the call series for a given expiration month, so as to list series that are at least 10% but not more than 30% above or below the current price of the underlying security. In the event that the underlying security has moved such that there are no series that are at least 10% above or below the current price of the underlying security and all existing series have open interest, the Exchange may list additional series, in excess of the 30 allowed under this Supplementary Material .01, that are between 10% and 30% above or below the price of the underlying security. The opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened. Notwithstanding any other provisions in this Rule, Short Term Option Series may be added up to, and including on, the Short Term Option Expiration Date for that options series.

(e) Strike Interval. 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. During the month prior to expiration of an index option class that is selected for the Short Term Option Series Program pursuant to this Rule ("Short Term Option"), the strike price intervals for the related index non-Short Term Option ("Related non-Short Term Option") shall be the same as the strike price intervals for the index Short Term Option.

.02 Quarterly Options Series Program: Notwithstanding the restriction in Options 4A, Section 12(a)(3), 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 ("ETFs"). 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 pilot program under their respective rules.

(a) Expiration. 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.

(b) The Exchange will not list a Short Term Option Series on an options class whose expiration coincides with that of a Quarterly Options Series on that same options class.

(c) Settlement. Quarterly Options Series shall be P.M. settled.

(d) Initial Series. The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but no more than five, strike prices above and at least two, but no more than five, strike prices below the value of the underlying index at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for Quarterly Options Series that are reasonably related

to the current index value of the underlying index to which such series relates at 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.

(e) Additional Series. The Exchange may open for trading additional Quarterly Options Series of the same class when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. 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 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.

(f) Strike Interval. 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.

.03 Notwithstanding the requirements set forth in this Rule, the Exchange may list additional series of index options classes if such series are listed on at least one other national securities exchange in accordance with the applicable rules of such exchange for the listing of index options. For each options series listed pursuant to this Supplementary Material .03, the Exchange will submit a proposed rule change with the Securities and Exchange Commission that is effective upon filing within the meaning of Section 19(b)(3)(A) under the Securities Exchange Act of 1934.

.04 Notwithstanding the requirements set forth in this Rule and any Supplementary Material thereto, the Exchange may list additional expiration months on options classes opened for trading on the Exchange if such expiration months are opened for trading on at least one other registered national securities exchange.

.05 Notwithstanding the requirements set forth in this Rule and any Supplementary Material thereto, the Exchange may open for trading Short Term Option Series on the Short Term Option Opening Date that expire on the Short Term Option Expiration Date at strike price intervals of (i) \$0.50 or greater where the strike price is less than \$75, and \$1 or greater where the strike price is between \$75 and \$150 for all index option classes

that participate in the Short Term Options Series Program; or (ii) \$0.50 for index option classes that trade in one dollar increments and are in the Short Term Option Series Program.

.06 In the case of the Dow Jones FXCM Dollar Index, the total number of components may not decrease from the number of components in the index at the time of its initial listing.

.07 Nonstandard Expirations Pilot Program

(a) Weekly Expirations. The Exchange may open for trading Weekly Expirations on any broad-based index eligible for standard options trading to expire on any Monday, Wednesday, or Friday (other than the third Friday-of-the-month or days that coincide with an EOM expiration). Weekly Expirations shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that Weekly Expirations shall be P.M.-settled and new series in Weekly Expirations may be added up to and including on the expiration date for an expiring Weekly Expiration.

The maximum number of expirations that may be listed for each Weekly Expiration (i.e., a Monday expiration, Wednesday expiration, or Friday expiration, as applicable) in a given class is the maximum number of expirations permitted for standard index options in Options 4A, Section 12(a)(3). Weekly Expirations need not be for consecutive Monday, Wednesday, or Friday expirations as applicable; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. Weekly Expirations that are initially listed in a given class may expire up to four weeks from the actual listing date. If the last trading day of a month is a Monday, Wednesday, or Friday and the Exchange lists EOMs and Weekly Expirations as applicable in a given class, the Exchange will list an EOM instead of a Weekly Expiration in the given class. Other expirations in the same class are not counted as part of the maximum number of Weekly Expirations for a broad-based index class. If the Exchange is not open for business on a respective Monday, the normally Monday expiring Weekly Expirations will expire on the following business day. If the Exchange is not open for business on a respective Wednesday or Friday, the normally Wednesday or Friday expiring Weekly Expirations will expire on the previous business day.

(b) End of Month ("EOM") Expirations. The Exchange may open for trading EOMs on any broad-based index eligible for standard options trading to expire on last trading day of the month. EOMs shall be subject to all provisions of this Rule and treated the same as options on the same underlying index that expire on the third Friday of the expiration month; provided, however, that EOMs shall be

P.M.-settled and new series in EOMs may be added up to and including on the expiration date for an expiring EOM.

The maximum number of expirations that may be listed for EOMs in a given class is the same as the maximum number of expirations permitted for standard options on the same broad-based index. EOM expirations need not be for consecutive end of month expirations; however, the expiration date of a non-consecutive expiration may not be beyond what would be considered the last expiration date if the maximum number of expirations were listed consecutively. EOMs that are first listed in a given class may expire up to four weeks from the actual listing date. Other expirations in the same class are not counted as part of the maximum numbers of EOM expirations for a broad-based index class.

(c) Duration of Nonstandard Expirations Pilot Program. The Nonstandard Expirations Pilot Program shall be through November 4, 2019.

(d) Weekly Expirations and EOM Trading Hours. Transactions in Weekly Expirations and EOMs may be effected on the Exchange between the hours of 9:30 A.M. (Eastern Time) and 4:15 P.M. (Eastern Time), except that that on the last trading day, transactions in expiring p.m.-settled broad-based index options may be effected on the Exchange between the hours of 9:30 a.m. (Eastern time) and 4:00 p.m. (Eastern time).

### **Section 13. Debit Put Spread Cash Account Transactions**

Debit put spread positions in European-style, broad-based index options traded on the Exchange (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 Exchange approval to maintain debit put spreads in a cash account carried by an Exchange Member. A customer so approved is hereinafter referred to as a "spread exemption customer."

(b) The spread exemption customer has provided all information required on Exchange-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 the Exchange 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 Exchange-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 a Member, another broker-dealer, a bank, or securities depository.

(h) The spread exemption customer shall agree promptly to provide the Exchange 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 Member carrying an account for the customer shall:

(i) comply with all Exchange 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 the Exchange 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 Member carrying a cash account for a spread exemption customer with a debit put spread position dealt in on the Exchange 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 Member has violated this Options 4A, Section 13.

(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 the Supplementary Material 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 therefor, 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 therefor, 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 therefor, 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 therefor, 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 Member may prepare, time stamp or submit an exercise instruction for an American-style index options series if the Member 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 Member 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. Market Maker Trading License**

(a) A trading license issued by the Exchange is required for all IXPMMs and IXCMMs to effect transactions as a Market Maker in Eligible Index Options traded on the Exchange. IXPMMs and IXCMMs are collectively referred to as IXMMs. For the purposes of this Rule, (1) the term "IXPMM" means a Primary Market Maker in Eligible Index Options traded on the Exchange pursuant to this Rule, and (2) the term "IXCMM" means a Competitive Market Maker in Eligible Index Options traded on the Exchange pursuant to this Rule.

(b)

(1) A Member who is not currently a PMM or a CMM will require an IXMM trading license for each Eligible Index Options product.

(2) A Member may acquire and hold an IXMM trading license only if and for so long as such Member is qualified and approved to be a Member of the Exchange.

(3) An IXMM trading license is not transferable and may not be, in whole or in part, transferred, assigned, sublicensed or leased; provided, however, that the holder of the IXMM trading license may, with the prior written consent of the Exchange, transfer it to a qualified and approved Member (i) who is an affiliate or (ii) who continues substantially the same business of such trading right holder without regard to the form of the transaction used to achieve such continuation, e.g., merger, sale of substantially all assets, reincorporation, reorganization or the like.

(c) Eligible Index Options are (i) index options that have a 6-month average daily volume of less than 10,000 contracts in the US market, and (ii) index options that have a trading history of less than 6 months, in which case the eligibility threshold would be prorated proportionately over the time that an index was listed in the US market.

(1) Prior to the listing of an Eligible Index Option, the Exchange will conduct a one-time eligibility test to determine whether an index product is an Eligible Index Option.

(2) The following index products are not Eligible Index Options: Russell 2000 Index ("RUT"), the NASDAQ-100 Index ("NDX"), and the Mini-NASDAQ-100 Index ("MNX").



(3) Index options listed on the Exchange prior to December 31, 2010 are known as Legacy Index Options. The PMM in a Legacy Index Option is also the IXPMM in that product. Legacy Index Options are not be subject to the auction process found in this Rule. An IXCMM, however, will be required to purchase an IXCMM trading license to trade in Legacy Index Options. In the event a Legacy Index Option is de-listed, any future listing of that Legacy Index Option will be subject to the auction process found in this Rule.

(d) A Member may purchase an unlimited amount of IXMM trading licenses across all Eligible Index Options.

(e) IXPMM.

(1) There will be one (1) IXPMM per Eligible Index Option. All IXPMM trading licenses shall be permanently granted as long as the IXPMM meets its stated market quality commitments, except that the Board or designated committee may suspend or terminate any trading license of a Market Maker whenever, in the Board's or designated committee's judgment, the interests of a fair and order market are best served by such action.

(2) IXPMM trading licenses will be sold by means of a sealed bid auction conducted by the Exchange. The price at which an IXPMM trading license is sold in an auction shall be referred to as the "Auction Price." The Auction Price paid by an IXPMM shall remain unchanged for as long as an IXPMM retains a trading license in the Eligible Index Option.

(3) The Exchange will conduct one (1) sealed bid auction per Eligible Index Option for an IXPMM trading license. Together with its bid, a Member seeking an IXPMM trading license must provide, at a minimum, market quality commitments regarding (i) the average quotation size it will disseminate in an Eligible Index Option, and (ii) the maximum quotation spread it will disseminate in such product at least ninety percent (90%) of the time. At the end of the auction, the Exchange will determine the winning bidder for an IXPMM trading license based on bid amount and market quality commitment, and may reject a bid if the Exchange deems a market quality commitment to be unrealistic or significantly inferior to market quality commitments submitted by other bidding Members.

(4) The Exchange will measure market quality commitments on a quarterly basis to ensure IXPMMs are in compliance with their stated commitments. Failure to meet stated commitments may, at the discretion of the Exchange and subject to the procedural protections provided under the Rules of the Exchange, result in Nasdaq ISE terminating an allocation and conducting an auction to reallocate the failing IXPMM's Eligible Index Option to another Member. The IXPMM may only change its market quality commitment to the extent that the new commitments are an improvement to its existing commitment.

(5) Current Market makers shall be given priority to purchase a IXPMM trading license in an Eligible Index Option so long as the terms of its bid to purchase an IXPMM trading license in an Eligible Index Option, as well as its market quality commitments, are equal to those of Members that are not currently a market maker on the Exchange.

(6) An IXPMM may terminate its obligations as an IXPMM in an index options if it is unable to meet its obligations, provided the IXPMM gives at least 60 days prior written notice to the Exchange of such termination. In the event the Exchange is unable to re-allocate the IXPMM's index option product within the notice period and the index option product is singly listed, then the IXPMM shall continue to fulfill its obligations in that product until all open interest has been closed.

(7) An IXPMM who obtains a trading license in an Eligible Index Option shall be subject to all the responsibilities and privileges that PMMs are subject to, including, but not limited to, the obligations found in Options 2 of the Exchange's Rules.

(f) IXCMM.

(1) There shall be an unlimited number of IXCMM trading licenses available for purchase by Members who are not currently PMMs or CMMs. PMMs and CMMs who want to be an IXCMM are not required to pay any additional fee to obtain an IXCMM trading license.

(2) All IXCMM trading licenses shall be for a term of one year. An IXCMM who is not currently a PMM or a CMM shall be subject to a fee established by the Exchange. The Exchange may sell IXCMM trading licenses at any time during a calendar year. IXCMM trading licenses sold during a calendar year shall be prorated to reflect the remaining number of trading days in the year.

(3) IXCMM trading licenses shall expire at the end of the calendar year in which they are issued. Notwithstanding the foregoing, an IXCMM may terminate its trading license prior to its scheduled expiration by providing at least 10 days prior written notice to the Exchange of such termination.

(4) An IXCMM who obtains a trading license in an Eligible Index Option shall be subject to all the responsibilities and privileges that CMMs are subject to, including, but not limited to, the obligations found in Options 2 of the Exchange's Rules.

**Options 5 [Options Trade Administration]Order Protection and Locked and Crossed Markets**

**Section 1. Definitions**

The following terms shall have the meaning specified in this Rule solely for the purpose of this Options 5:

(a) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.

(b) "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.

(c) "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.

(d) "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-to-one (8.00), where the ratio represents the total number of units of the underlying stock or convertible security in the option leg to the total number of units of the underlying stock or convertible security in the stock leg.

(e) "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.

(f) "Customer" means an individual or organization that is not a Broker/Dealer.

(g) "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 is not a party to the Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

(h) "Intermarket Sweep Order ("ISO")" means a limit order for an options series that, simultaneously with the routing of the ISO, 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. A Member may

submit an Intermarket Sweep Order to the Exchange only if it has simultaneously routed one or more additional Intermarket Sweep Orders to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or Protected Offer, in the case of a limit order to buy, for an options series with a price that is superior to the limit price of the Intermarket Sweep Order. An ISO may be either an Immediate- Or-Cancel Order or an order that expires on the day it is entered.

(i) "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.

(j) "NBBO" means the national best bid and offer in an options series as calculated by an Eligible Exchange.

(k) "Non-Firm" means, with respect to Quotations, that Members of a Eligible Exchange are relieved of their obligation to be firm for their Quotations pursuant to Rule 602 under the Exchange Act.

(l) "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.

(m) "Participant" means an Eligible Exchange that is a party to the Plan.

(n) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.

(o) "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.

(p) "Quotation" means a Bid or Offer.

(q) "Trade-Through" means a transaction in an option 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 paragraph (b) below, Members shall not effect Trade-Throughs.

(b) Exceptions to Trade-Through Liability. The provisions of paragraph (a) 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 the Protected Quotations of an Eligible Exchange is made pursuant to this subparagraph, 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, or 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;

(5) 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;

(6) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;

(7) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;

(8) 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;

(9) 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

(10) 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.

### **Supplementary Material to Options 5, Section 2**

.01 All public customer ISOs entered by an Electronic Access Member on behalf of an Eligible Exchange shall be represented on the Exchange as Priority Customer Orders, as defined in Options 1, Section 1(a)(37). There shall be no obligation on Electronic Access Members to determine whether the public customer for whom the Eligible Exchange is routing an ISO meets the definition of a Priority Customer.

.02 When the automatic execution of an incoming order would result in an impermissible Trade Through, such order shall be exposed at the current NBBO to all Exchange Members for a time period established by the Exchange not to exceed one (1) second. During the exposure period, Exchange Members may enter responses up to the size of the order being exposed in the regular trading increment applicable to the option. If a trading halt is initiated during the exposure period, the exposure period will be terminated without execution.

(a) If at the end of the exposure period, the order is executable at the then-current NBBO and the Nasdaq ISE is not at the then-current NBBO, responses that equal or better the NBBO will be executed in price priority, and at the same price, allocated pro-rata based on size (i.e., the percentage of the total number of contracts available at the same price that is represented by the size of a Member's response).

(b) If during the exposure period, the order becomes executable on the Nasdaq ISE at the prevailing NBBO, the exposure period will be terminated, and the order will be executed against orders and quotes on the book and responses received during the exposure period. Such interest will be executed in price priority. At the same price, Priority Customer Orders will be executed first in time priority and then all other interest (orders, quotes and responses) will be allocated pro-rata based on size.

(c) If during the exposure period the Exchange receives an unrelated order on the opposite side of the market from the exposed order that could trade against the exposed order at the prevailing NBBO price, the exposure period will be terminated and the orders will be executed pursuant to (b) above.

(d) If after an order is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better, and it is marketable, the lesser of the full displayed size of the Protected Bid(s) or Protected Offer(s) that are priced better than the Nasdaq ISE's quote or the balance of the order will be sent to NES (as defined in Options 5, Section 4) and any additional balance of the order will be executed on the Nasdaq ISE if it is marketable. Any additional balance of the order that is not marketable against the then-current NBBO will be placed on the Nasdaq ISE book.

(e) If after a an order that is marked "do-not-route" is exposed, the order cannot be executed in full on the Exchange at the then-current NBBO or better (i) the balance of the order will be placed on the Nasdaq ISE book if it is not marketable against the then-current NBBO, or (ii) the balance of the order will be canceled.

(f) A pattern or practice of submitting unrelated orders that cause an exposure period to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Options 9, Section 1 and other Exchange Rules.

.04 Non-Customer Order(s), as defined in Options 1, Section 1(a)(24), may opt out of being processed in accordance with Supplementary Material .02 of this Options 5, Section 2. Such order(s) will be processed as follows:

(a) When the automatic execution of an incoming Non-Customer Order would result in an impermissible Trade Through, and it is marketable, the lesser of the full displayed size of the Protected Bid(s) or Protected Offer(s) that are priced better than the Nasdaq ISE's quote or the balance of the order will be sent to NES (as defined in Options 5, Section 4) and any additional balance of the order will be executed on the Nasdaq ISE if it is marketable. Any additional balance of the order that is not marketable against the then-current NBBO will be placed on the Nasdaq ISE book.

(b) If an order is marked "do-not-route" and the order cannot be executed in full on the Exchange at the then current NBBO or better (i) the balance of the order will be placed on the Nasdaq ISE book if it is not marketable against the then current NBBO, or (ii) the balance of the order will be cancelled.

.05 Sweep Order(s), as defined in Options 3, Section 7(s), will not be processed in accordance with Supplementary Material .02 of this Options 5, Section 2. Such order(s) will be processed as follows:

(a) When the automatic execution of an incoming Sweep Order would result in an impermissible Trade Through, and it is marketable, the lesser of the full displayed size of the Protected Bid(s) or Protected Offer(s) that are priced better than the Nasdaq ISE's quote or the balance of the order will be sent to NES and any additional balance of the order will be executed on the Nasdaq ISE if it is marketable. Any portion of the order not executed shall be canceled.

(b) If a Sweep Order is not marketable when it is submitted to the Exchange, it shall be canceled.

.06 In addressing Public Customer Orders that are not automatically executed because there is a displayed bid or offer on another exchange trading the same options contract that is better than the best bid or offer on the Exchange pursuant to the Supplementary Material of this Options 5, Section 2, the Exchange will act in compliance with these Rules and with the provisions of the Exchange Act and the rules thereunder, including, but not limited to, the requirements in Section (6)(b)(4) and (5) of the Exchange Act that the rules of national securities exchange provide for the equitable allocation of reasonable dues, fees, and other charges among its Members and issuers and other persons using its facilities, and not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

.07 All orders entered on the Exchange and routed to another exchange via an ISO pursuant to the Supplementary Material of this Options 5, Section 2 that result in an execution shall be binding on the Member that entered such orders.

### **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;

(3) The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer;

(4) With respect to a locking quotation, the order entered on the Exchange that will lock a Protected Bid or Protected Offer, is:



(A) not a Customer order, and the Exchange can determine via identification available pursuant to the OPRA Plan that such Protected Bid or Protected Offer does not represent, in whole or in part, a Customer order; or

(B) a Customer order, and the Exchange can determine via identification available pursuant to the OPRA Plan that such Protected Bid or Protected Offer does not represent, in whole or in part, a Customer order, and, on a case-by-case basis, the Customer specifically authorizes the Member to lock such Protected Bid or Protected Offer.

### **Supplementary Material to Options 5, Section 3**

.01 When the price of an incoming limit order that is not executable upon entry would lock or cross a Protected Quotation, such order shall be handled in accordance with the provisions of Supplementary Material .02, .04 or .05 to Options 5, Section 2, as applicable.

### **Section 4. Order Routing to Other Exchanges**

The Exchange may automatically route ISOs to other exchanges under certain circumstances, including pursuant to Supplementary Material .02 to Options 5, Section 2 ("Routing Services"). In connection with such services, the following shall apply:

(a) The Exchange 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 the Exchange (the "Routing Facility"). The sole use of the Routing Facility by the System will be to route orders in options listed and open for trading on the System to away markets either directly or through one or more third-party unaffiliated routing broker-dealers pursuant to Exchange Rules on behalf of the Exchange. The Routing Facility is subject to regulation as a facility of the Exchange, including the requirement to file proposed rule changes under Section 19 of the Securities Exchange Act of 1934, as amended.

(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 Do-Not-Route-Orders as described in Options 3, Section 7(m).

(c) The Exchange shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and the Routing Facility, and any other entity, including any affiliate of the Routing Facility; 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).

(1) 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 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.

(2) 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.

(d) Market Access. In addition to the Exchange Rules regarding routing to away trading centers, NES as defined above, 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 of Rule 15c3-5, the order will be rejected prior to routing and/or NES will seek to cancel any orders that have been routed.

(e) The Exchange will determine the logic that provides when, how, and where orders are routed away to other exchanges. Except as provided in subparagraph (d) above, 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.

(f) Entering Members 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.

#### **Supplementary Material to Options 5, Section 4**

.01 Options 5, Section 4 does not prohibit NES or third-party unaffiliated routing broker-dealers used by NES from designating a preferred market-maker at the other exchange to which the order is being routed pursuant to Options 5, Section 4.

.02 In the event that NES cannot provide Routing Services, the Exchange will cancel orders that, if processed by the Exchange, would violate Options 5, Section 1 (prohibition on trade-throughs) or Options 5, Section 3 (prohibition on locked and crossed markets).

.03 Rule 1004 of Regulation SCI under the Exchange Act requires the establishment of standards for the designation of those Members the Exchange reasonably determines are, taken as a whole, the minimum necessary for the maintenance of a fair and orderly market should the Exchange's business continuity and disaster recovery plans be activated. Rule 1004 also requires the Exchange to designate Members pursuant to those

standards and require participation by such Designated Members 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. Therefore, in accordance with Rule 1004 of Regulation SCI under the Exchange Act, NES has been designated by the Exchange as necessary for the maintenance of a fair and orderly market should the Exchange's business continuity and disaster recovery plans be activated. As the result of such designation, NES is required to participate in functional and performance testing of such plans at least once every 12 months.

### **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 Options 5, Section 5(b)(3), 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' 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 (1) assign all resulting error positions to Members in accordance with subparagraph (A) below, or (2) 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 Options 5, Section 5(a).

(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 Options 5, Section 5(a), 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 [Order Protection and Locked and Crossed Markets]Options Trade Administration**

### **Section 1. Clearing Member Give Up**

(a) General. For each transaction in which a Member participates, the Member may indicate, at the time of the trade or through post-trade allocation, any Options Clearing Corporation (“OCC”) number of a Clearing Member through which a transaction will be cleared (“Give Up”), provided the Clearing Member 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 Member may Give Up a Restricted OCC Number provided the Member has written authorization as described in paragraph (b)(ii) below (“Authorized Member”).

(b) Opt In. Clearing Members may request the Exchange restrict one or more of their OCC clearing numbers (“Opt In”) as described in subparagraph (i) below. If a Clearing Member Opt In, the Exchange will require written authorization from the Clearing Member permitting a Member to Give Up a Clearing Member’s Restricted OCC Number. An Opt In would remain in effect until the Clearing Member terminates the Opt In as described in subparagraph (iii) below. If a Clearing Member does not Opt In, that Clearing Member’s OCC number would be subject to Give Up by any Member.

(i) Clearing Member Process to Opt In. A Clearing Member may Opt In by sending a completed “Clearing Member Restriction Form” listing all Restricted OCC Numbers and Authorized Members. A Clearing Member may elect to restrict one or more OCC clearing numbers that are registered in its name at OCC. The Clearing Member 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) Member Give Up Process for Restricted OCC Numbers. A Member desiring to Give Up a Restricted OCC Number must become an Authorized Member. The Clearing Member will be required to authorize a Member as described in subparagraph (i) or (iii), unless the Restricted OCC Number is already subject to a Letter of Guarantee that the Member is a party to, as set forth in paragraph (d) below.

(iii) Amendments to Authorized Members or Restricted OCC Numbers. A Clearing Member may amend its Authorized Members 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 Member to authorize, or remove authorization for, a Member 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 Members if they are no longer authorized to Give Up a Clearing Member’s Restricted OCC Number. If a Clearing Member removes a Restricted OCC Number, any Member 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 Member to Give Up a Restricted OCC Number. If an unauthorized Give Up with a Restricted OCC Number is submitted to the System, the System will process that transaction using the Member’s default OCC clearing number.

(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 Member that is party to the arrangement.

(e) An intentional misuse of this Rule is impermissible, and may be treated as a violation of Options 9, Section 1 and 2.

## **Section 2. Submission of Orders and Clearance of Transactions**

(a) Order Identification. When entering orders on the Exchange, each Member shall submit trade information in such form as may be prescribed by the Exchange in order to allow the Exchange to properly prioritize and match orders and quotations pursuant to Options 3, Section 10 and report resulting transactions to the Clearing Corporation.

(b) All transactions made on the Exchange 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 Member shall be responsible for the clearance of the Exchange Transactions of such Clearing Member and of each Member who gives up such Clearing Member'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 Member to such Member, which authorization must be submitted to the Exchange.

(c) On each business day at or prior to such time as may be prescribed by the Clearing Corporation, the Exchange shall furnish the Clearing Corporation a report of each Clearing Member's matched trades.

## **Section 3. Trade Reporting and Comparison**

The details of each trade executed on the Exchange are automatically reported at the time of execution. Members need not separately report their transactions for trade comparison purposes.

## **Section 4. Letters of Guarantee**

(a) Required of Each Market Maker. No Market Maker shall make any transactions on the Exchange unless a Letter of Guarantee has been issued for such Member by a Clearing Member and filed with the Exchange, 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 Member accepts financial responsibilities for all Exchange Transactions made by the guaranteed Member.

(c) Revocation of Letter of Guarantee. A Letter of Guarantee filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange. A revocation shall in no way relieve a Clearing Member of responsibility for transactions guaranteed prior to the effective date of such revocation.

## **Options 6A Closing Transactions**

### **Section 1. Contracts of Suspended Members**

(a) When a Member, other than a Clearing Member, is suspended pursuant to General 5, Section 3, all open short positions of the suspended Member 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 Members carrying such positions for the account of the suspended Member; provided that the Exchange 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 Members of the Exchange.

(b) No temporary waiver hereunder by the Exchange shall relieve the suspended Member of its obligations or of damages, nor shall it waive the close out requirements of any other Rules.

(c) When a Clearing Member is suspended pursuant to General 5, Section 3, the positions of such Clearing Member 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 an Exchange Transaction because of the failure of the Clearing Member acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Member acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Member or to enter into a closing writing transaction in respect of the same options contract that was the subject of the rejected Exchange Transaction for the account of the defaulting Clearing Member.

(b) Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. on the business day following the day the Exchange 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 14 (Exercise Limits) and to such restrictions as may be imposed pursuant to Options 9, Section 18 (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 Member in whose account such options contract is carried with the Clearing

Corporation. Members 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 an option contract expiring on a day that is not a business day, on the last business day before their expiration ("expiring options"). Unless waived by the Clearing Corporation, expiring options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under Clearing Corporation Options 2, Section 6. 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. Members 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:

(A) to not exercise an option that would be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure, or

(B) to exercise an option that would not be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure.

(i) A Contrary Exercise Advice may be submitted to the Exchange by a Member by using the Exchange's Contrary Exercise Advice Form, the Clearing Corporation's ENCORE system, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a Member 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" with the Exchange or resubmitted at any time up to the submission cut-off times specified below.



(ii) Deadline for CEA Submission for Customer Accounts. Members have until 7:30 Eastern Time to submit a Contrary Exercise Advice to the Exchange.

(iii) Deadline for CEA Submission for Non-Customer Accounts. Members have until 7:30 Eastern Time to submit a Contrary Exercise Advice to the Exchange if such Member employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Members are required to manually submit a Contrary Exercise Advice by 5:30 p.m. for non-customer accounts if such Members 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, Members 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 Members 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 Member that has accepted the responsibility to indicate final exercise decisions on behalf of another Member or non-Member broker-dealer shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such Member may establish a processing cut-off time prior to the Exchange's exercise cut-off 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 Member 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, Members may make final exercise decisions after the exercise cut-off 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 Member 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 Member of a decision regarding exercise, or a Member'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 Member 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 expiration, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to the last business day before 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 Options 6B, Section 1(c). However, Members have until 7:30 Eastern Time to deliver a Contrary Exercise Advice or Advice Cancel to the Exchange for customer accounts and non-customer accounts where such Member employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, Members 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 Options 6B, Section 1(d).

(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 (h)(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 quotes and/or deliver 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 (h)(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 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 Member to follow the procedures in this Options 6B, Section 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.

(l) Clearing Members 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. Members must also follow the procedures set forth below with respect to American-style cash-settled index options:

(1) For all contracts exercised by the Member or by any customer of the Member, an "exercise advice" must be delivered by the Member 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," should the Member or a customer of the Member determine not to exercise all or part of the advised contracts, the Member 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) An Exchange official designated by the Board 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 Member may prepare, time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the Member knew or had reason to know that the contracts had not yet been purchased.

(5) The failure of any Member 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 (i) on the business day prior to expiration in series expiring on a day other than a business day or (ii) 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:

(i) 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.

(ii) Exercises of expiring American-style, cash-settled index options shall not be prohibited 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 prior to their expiration.

(iii) 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 (such as by closing rotation), 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 (iii) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to Options 9, Section 18.

(iv) An Exchange official designated by the Board 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 Options 6B, Section 1, 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 Member 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 Member 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 Member shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in such Member'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 Member 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 Member shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no Member 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 Member 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 Member 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 Member 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.

### **Options 6C Margins**

#### **Section 1. General Rule**

No Member may effect a transaction or carry an account for a customer, whether a Member or non-Member of the Exchange, without proper and adequate margin in accordance with this section and Regulation T.

#### **Section 2. Time Margin Must Be Obtained**

The amount of margin required by this Options 6C shall be obtained as promptly as possible and in any event within a reasonable time.

#### **Section 3. Margin Requirements**

(a) A Member must elect to be bound by the initial and maintenance margin requirements of either the Chicago Board of Options Exchange or the New York Stock Exchange as the same may be in effect from time to time.

(b) Such election shall be made in writing by a notice filed with the Exchange.

(c) Upon the filing of such election, a Member shall be bound to comply with the margin rules of the Chicago Board of Options Exchange or the New York Stock Exchange, as applicable, as though said rules were part of these Rules.

(d) The margin requirement for any foreign currency put or call option listed and traded on the Exchange and issued by a registered clearing corporation shall be calculated as follows:

(1) The Exchange will review the five day price movements comparing the base currency against the underlying currency over the most recent three-year period for each foreign currency pair underlying options traded on the Exchange and will set margin levels which would have covered the price changes over the review period at least 97.5% of the time ("confidence level").

(2) Subsequent reviews of five day price changes over the most recent three year period will be performed quarterly on the 15th of January, April, July and October of each year.

(3) If the results of subsequent reviews show that the confidence level for any currency pair has fallen below 97%, the Exchange will increase the margin requirement for that currency up to a 98% confidence level. If the results show a confidence level between 97% and 97.5%, the currency pair will be monitored

monthly until the confidence level exceeds 97.5% for two consecutive months. If the results of a monthly review show that the confidence level has fallen below 97%, the margin requirement will be increased to a 98% confidence level. If the results of any review show that the confidence level has exceeded 98.5%, the margin level would be reduced to a level which would provide a 98% confidence level.

(4) The Exchange will also review each currency pair for large price movements outside the margin level ("extreme outlier test"). If the results of any review show a price movement, either positive or negative, of greater than two times the current margin level, the margin requirement for that currency pair will be increased to a confidence level of 99%.

(5) The Exchange may also conduct reviews of currency margins levels at any time that market conditions warrant.

(e) The margin requirement for any put or call option on a Foreign Currency Index, as defined in Nasdaq ISE Options 4A, Section 2(h), listed and traded on the Exchange and issued by a registered clearing corporation shall be identical to the highest margin required for a component foreign currency as determined in accordance with Options 6C, Section 3(d).

#### **Section 4. Meeting Margin Calls by Liquidation Prohibited**

(a) No Member shall permit a customer to make a practice of effecting transactions requiring initial or additional margin or full cash payment and then furnishing such margin or making such full cash payment by liquidation of the same or other commitments.

(b) The provisions of this Rule shall not apply to any account maintained for another broker or dealer in which are carried only the commitments of customers of such other broker or dealer, exclusive of the partners, officers and directors of such other broker or dealer, provided such other broker or dealer is a Member of the Exchange or has agreed in good faith with the Member carrying the account that it will maintain a record equivalent to that referred to in Options ^C, Section 6.

#### **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 Member from requiring margin in an amount greater than that specified.

(b) The Exchange 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. Margin Requirements Exception**

(a) No margin is required for a call option written on an equity security when the account holder possesses a "long" position in a vested employee stock option which can be immediately exercised without restriction (not including the payment of money) to purchase an equal or greater quantity of the security underlying the short call provided that:

(1) The vested employee stock option does not expire before the short call;

(2) The amount (if any) by which the exercise price of the vested employee stock option exceeds the exercise price of the short call option is held in or deposited in the account; and

(3) The account holder, broker-dealer and issuer of the vested employee stock option complete such account documentation and comply with such terms and conditions proscribed by the Exchange in such form, format and procedure as may be established by the Exchange from time to time, including without limitation execution of an agreement by account holder, broker-dealer and issuer that requires:

(A) Account holder to pledge the vested employee stock options to broker-dealer (including an agreement that in the event account holder exercises any of the pledged vested employee stock options during the term of a transaction, the account holder will be required to pledge to broker-dealer the shares issued upon exercise to replace the vested employee stock options that were pledged before exercise);

(B) Account holder to provide broker-dealer with an irrevocable power-of-attorney authorizing broker-dealer to exercise the vested employee stock options on the account holder's behalf;

(C) Issuer to promptly deliver the stock upon payment or receipt of the exercise notice from broker-dealer; and

(D) Issuer to waive any transfer restrictions that would preclude a pledge of the vested employee stock options to broker-dealer.

## **Options 6D Net Capital Requirements**

### **Section 1. Minimum Requirements**

Each Member subject to Rule 15c3-1 under the Exchange Act shall comply with the capital requirements prescribed therein and with the additional requirements of this Options 6D. Market makers must also comply with the minimum financial requirements contained in Options 2, Section 2.

### **Section 2. "Early Warning" Notification Requirements**



Every Member subject to the reporting or notification requirements of Rule 17a-11 under the Exchange Act or the "early warning" reporting, business restriction or business reduction requirements of another national securities exchange, registered securities association or registered securities clearing organization shall promptly notify the Exchange in writing and shall thereafter file with the Exchange such reports and financial statements as may be required by the Exchange.

### **Section 3. Power of President to Impose Restrictions**

Whenever it shall appear to the President of the Exchange that a Member obligated to give notice to the Exchange under Options 6D, Section 2 is unable within a reasonable period to reduce the ratio of its aggregate indebtedness to net capital, or to increase its net capital, to a point where it is no longer subject to such notification obligations, or that such Member is engaging in any activity which casts doubt upon its continued compliance with the net capital requirements, the President may impose such conditions and restrictions upon the operations, business and expansion of such Member and may require the submission of, and adherence to, such plan or program for the correction of such situation as he determines to be necessary or appropriate for the protection of investors, other Members and the Exchange.

### **Section 4. Joint Back Office Arrangements**

An arrangement may be established between two or more registered broker-dealers pursuant to Regulation T Section 220.7 to form a joint back office ("JBO") arrangement for carrying and clearing or carry accounts of participating broker-dealers. Members must provide written notification to their Designated Examining Authority prior to establishing a JBO arrangement.

(a) A carrying and clearing, or carry member must:

(1) maintain a minimum tentative net capital of \$25 million as computed pursuant to Rule 15c3-1 of the Exchange Act, except that a Member whose primary business consists of the clearance of options Market Maker accounts, may carry JBO accounts provided that it maintains a minimum net capital of \$7 million as computed pursuant to Rule 15c3-1 of the Exchange Act. In addition, the Member must include in its ratio of gross options Market Maker deductions to net capital required by the provisions of Rule 15c3-1 of the Exchange Act, gross deductions for JBO participant accounts. Clearance of option Market Maker accounts shall be deemed a broker-dealer's primary business if a minimum of 60% of the aggregate deductions in the above ratio are options Market Maker deductions. In the event that a carrying and clearing, or carrying member's tentative net capital, or net capital, respectively, has fallen below the above requirements, the Member shall (i) promptly notify the Exchange in writing of such deficiency and (ii) take appropriate action to resolve such deficiency within three consecutive business days, or not permit any new transactions to be entered into pursuant to the JBO agreement;

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

(3) deduct from net capital haircut requirements pursuant to Rule 15c3-1 of the Exchange Act in excess of the equity maintained in the accounts of the participating broker-dealers.

(b) A participating broker-dealer must:

(1) be a registered broker-dealer subject to the SEC's net capital rule;

(2) maintain an ownership interest in the carrying/clearing member pursuant to Regulation T of the Federal Reserve Board Section 220.7; and

(3) maintain a minimum liquidating equity of \$1 million in the JBO arrangement exclusive of the ownership interest established in subparagraph (b)(2) above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit an amount sufficient to eliminate this deficiency within five (5) business days or be subject to the margin account requirements prescribed for customers in Regulation T, and the margin requirements pursuant to Exchange Options 6C, Section 3.

### **Options 6E. Records, Reports and Audits**

#### **Section 1. Maintenance, Retention and Furnishing of Books, Records and Other Information**

(a) Each Member shall make, keep current and preserve such books and records as the Exchange may prescribe and as may be prescribed by the Exchange Act and the rules and regulations thereunder.

(b) No Member shall refuse to make available to the Exchange 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 the Exchange.

#### **Supplementary Material to Options 6E, Section 1**

.01 In addition to the existing obligations under Exchange Rules regarding the production of books and records, a Primary Market Maker in non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable non-U.S.-currency options, futures or options on futures on such currency, or any other derivatives on such currency, as may be requested by the Exchange.

.02 In addition to the existing obligations under Exchange Rules regarding the production of books and records, a Primary Market Maker in commodity futures contracts, options

on commodity futures contracts or any other derivatives based on such commodity, shall make available to the Exchange such books, records or other information pertaining to transactions in the applicable physical commodity, physical commodity options, commodity futures contracts, options on commodity futures contracts, or any other derivatives on such commodity, as may be requested by the Exchange.

### **Section 2. Reports of Uncovered Short Positions**

(a) Upon request of the Exchange, each Member shall submit a report of the total uncovered short positions in each options contract of a class dealt in on the Exchange showing (i) positions carried by such Member for its own account and (ii) positions carried by such Member for the accounts of customers; provided that the Members shall not report positions carried for the accounts of other Members where such other Members 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**

Each Member shall submit to the Exchange answers to financial questionnaires, reports of income and expenses and additional financial information in the type, form, manner and time prescribed by the Exchange.

### **Section 4. Audits**

(a) Each Member approved to do business with the public in accordance with Options 10 of the Rules and each registered Market Maker shall file a report of its financial condition as of the date, within each calendar year, prepared in accordance with the requirements of Rule 17a-5 and Form X-17A-5 under the Exchange Act and containing the information called for by that form.

(1) The report of each Member approved to do business with the public shall be certified by an independent public accountant, and on or before January 10 of each year, each such Member shall notify the Exchange of the name of the independent public accountant appointed for that year and the date as of which the report will be made.

(2) Such report of financial condition, together with answers to an Exchange financial questionnaire based upon the report, shall be filed with the Exchange no later than sixty (60) days after the date as of which the financial condition of the Member is reported, or such other period as the Exchange may individually require.

(b) A Member may file, in lieu of the report required in paragraph (a) of this Rule, a copy of any financial statement which it is or has been required to file with any other national securities exchange or national securities association of which he is a Member, or with any agency of any State as a condition of doing business in securities therein, and which

is acceptable to the Exchange as containing substantially the same information as Form X-17A-5.

(c) In addition to the annual report required of certain Members pursuant to paragraph (a) of this Rule, the Exchange may require any Member to cause an audit of its financial condition to be made by an independent public accountant in accordance with the audit requirements of Form X-17A-5 as of the date of an answer to a financial questionnaire, and to file a statement to the effect that such audit has been made and whether it is in accord with the answers to the questionnaire.

(1) Such statement shall be signed by two general partners in the case of a Member that is a partnership and by two executive officers in the case of a Member that is a corporation or LLC and it shall be attested to by the independent public accountant who certified the audit.

(2) The original report of the audit signed by the independent public accountant shall be retained as part of the books and records of the Member.

#### **Section 5. Automated Submission of Trade Data**

A Member shall submit requested trade data elements, in such automated format as may be prescribed by the Exchange from time to time, in regard to a transaction(s) that is the subject of the particular request for information.

(a) If the transaction was a proprietary transaction effected or caused to be effected by the Member for any account in which such Member, or any approved person, partner, officer, director, or employee thereof, is directly or indirectly interested, the Member shall submit or cause to be submitted, any or all of the following information as requested by the Exchange:

(1) Clearing house number or alpha symbol as used by the Member submitting the data;

(2) Clearing house number(s) or alpha symbol(s) as may be used from time to time, of the Member(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:

(i) the number of shares traded or held by accounts for which options data is submitted;

(ii) 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.

(b) If the transaction was effected or caused to be effected by the Member for any customer account, such Member shall submit or cause to be submitted any or all the following information as requested by the Exchange:

(1) Data elements (1) through (8) of paragraph (a) above;

(2) 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 Member broker-dealer customer, whether the broker-dealer was acting as a principal or agent on the transaction or transactions that are the subject of the Exchange's request.

(c) In addition to the above trade data elements, a Member shall submit such other information in such automated format as may be prescribed by the Exchange, as may from time to time be required.

(d) The Exchange 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 (a) and (b) above be submitted to the Exchange in an automated format.

### **Section 6. Risk Analysis of Market Maker Accounts**

(a) Each Clearing Member that clears or guarantees the transactions of Market Makers pursuant to Options 6, Section 4, shall establish and maintain written procedures for assessing and monitoring the potential risks to the Member's capital over a specified range of possible market movements of positions maintained in such Market Maker accounts and such related accounts as the Exchange shall from time to time direct.

(1) Current procedures shall be filed and maintained with the Exchange.

(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 Member 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 an Exchange-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 the Exchange:

(1) The estimated loss to the Clearing Member 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 Member shall calculate volatility using a method approved by the Exchange, 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:

(i) projected loss per options class by account;

(ii) projected total loss per options class for all accounts; and

(iii) projected deficits per account and in aggregate.

(c) Upon direction by the Exchange, each affected Member shall provide to the Exchange such information as it may reasonably require with respect to the Member's risk analysis for any or all of its Market Maker accounts.

### **Section 7. Regulatory Cooperation**

(a) The Exchange 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 SROs and foreign self-regulatory organizations, as well as associations and contract markets and the regulators of such markets.

(b) The Exchange may enter into one or more agreements with another SRO to provide regulatory services to the Exchange to assist the Exchange in discharging its obligations under Section 6 and Section 19(g) of the Exchange Act. Any action taken by another SRO, or its employees or authorized agents, acting on behalf of the Exchange pursuant to a regulatory services agreement shall be deemed to be an action taken by the Exchange; provided, however, that nothing in this provision shall affect the oversight of such other SRO by the SEC. Notwithstanding the fact that the Exchange may enter into one or more regulatory services agreements, the Exchange shall retain ultimate legal responsibility

for, and control of, its self-regulatory responsibilities, and any such regulatory services agreement shall so provide.

(c) No Member, partner, officer, director or other person associated with a Member or other person or entity subject to the jurisdiction of the Exchange 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 requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange pursuant to paragraph (a) of this Rule, including but not limited to Members and affiliates of the Intermarket Surveillance Group. The requirements of this paragraph (b) shall apply regardless whether the Exchange has itself initiated a formal investigation or disciplinary proceeding.

(d) Whenever information is requested by the Exchange pursuant to this Rule, the Member or person associated with a Member from whom the information is requested shall have the same rights and procedural protections in responding to such request as such Member or person would have in the case of any other request for information initiated by the Exchange pursuant to General 5, Section 2.

### **Section 8. Fingerprint-Based Background Checks of Exchange Employees and Independent Contractors and Other Service Providers**

(a) In order to enhance the physical security of the facilities, records, systems, data, and information of the Exchange, it shall be the policy of the Exchange to conduct a fingerprint-based criminal records check of (i) all Exchange employees, including temporary employees who have or are anticipated to have access to Exchange facilities for at least ten (10) days, and (ii) all independent contractors and other service providers who have access to Exchange facilities, records, systems, data or other information which places the security of the Exchange at risk. However, the Exchange may determine not to obtain fingerprints from, or to seek criminal history record information with respect to, any of the foregoing individuals, due to their restricted or supervised access to the Exchange's facilities, records, systems, data and other information.

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

(c) The Exchange 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 take adverse employment action with respect to an employee or to deny an independent contractor or other service provider access to the Exchange's facilities, records, systems, data or other information.

(d) Any employee who refuses to submit to fingerprinting shall be terminated following notice and being given three opportunities to submit. Any person who is given an offer of employment with the Exchange that is conditioned upon submitting to fingerprinting but refuses to do so will have the offer withdrawn. Any independent contractor or other service provider who refuses to submit to fingerprinting shall be denied access, or shall be given restricted or supervised access, to Exchange facilities, records, systems, data or other information.

\* \* \* \* \*

## **Options 7 Pricing Schedule**

### **Section 1. General Provisions**

\* \* \* \* \*

A "**Complex Order**" is any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, as provided in Nasdaq ISE Options 3, Section 14[Rule 722], as well as Stock-Option Orders [and SSF-Option Orders].

\* \* \* \* \*

A "**Flash Order**" is an order that is exposed at the National Best Bid or Offer by the Exchange to all members for execution, as provided under Supplementary Material .02 to Options 5, Section 2[Nasdaq ISE Rule 1901]. Unless otherwise noted in Section I pricing, Flash Orders will be assessed the applicable "Taker" Fee for the initiation of a Flash Order and will be paid/assessed the applicable "Maker" Rebate/Fee for responses.

\* \* \* \* \*

A "**Priority Customer**" is a person or entity that is not a broker/dealer in securities, and does not place more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s), as defined in Nasdaq ISE Options 1, Section 1(a)(36)[Rule 100(a)(37A)]. Unless otherwise noted, when used in this Schedule of Fees the term "Priority Customer" includes "Retail" as defined below.

\* \* \* \* \*

### **Section 2. Collection of Exchange Fees and Other Claims**

(a) Each Member, and all applicants for registration as such shall be required to provide a clearing account number for an account at the National Securities Clearing Corporation ("NSCC") for purposes of permitting the Exchange to debit any undisputed or final fees, fines, charges and/or other monetary sanctions or other monies due and owing to the Exchange or other charges related to ISE General 2, Section 2, Options 2A, Section 7 and[Rules 205, 206, 207, 208, 209, and 210]; provided, however, that the fees set forth in Section 10 (Market Data) of the Exchange's Pricing Schedule shall be excluded from this Rule. If a Member disputes an invoice, the Exchange will not include the disputed amount in the debit if the member has disputed the amount in writing to the Exchange's



designated staff by the 15th of the month, or the following business day if the 15th is not a business day, and the amount in dispute is at least \$10,000 or greater.

\* \* \* \* \*

#### **Section 4. Complex Order Fees and Rebates<sup>(5) (12) (15)</sup>**

\* \* \* \* \*

8. A \$0.05 per contract surcharge will be assessed to non-Priority Customer Complex Orders that take liquidity from the Complex Order Book, excluding Complex Orders executed in the Facilitation Mechanism, Solicited Order Mechanism, Price Improvement Mechanism and "exposure" auctions pursuant to Options 3, Section 14(c)(3)[Rule 722(b)(3)(iii)].

\* \* \* \* \*

15. During an "exposure" auction pursuant to Options 3, Section 14(c)(3)[Rule 722(b)(3)(iii)], the originating side of the auction order will be assessed the applicable maker fee or rebate, and the contra side will be assessed the applicable taker fee or rebate.

\* \* \* \* \*

#### **Section 6. Other Options Fees and Rebates**

\* \* \* \* \*

##### **E. Marketing Fee**

\* \* \* \* \*

» The marketing fee will be rebated proportionately to the members that paid the fee such that on a monthly basis the marketing fee fund balance administered by a Primary Market Maker for a Group of options established under [Rule 802]Options 2, Section 3(b) does not exceed \$100,000 and the marketing fee fund balance administered by a preferred Competitive Market Maker for such a Group does not exceed \$100,000. A preferred Competitive Market Maker that elects not to administer a fund will not be charged the marketing fee. The Exchange assesses an administrative fee of .45% on the total amount of the funds collected each month.

\* \* \* \* \*

##### **K. Back-up Trading Arrangements**

» If Nasdaq ISE exclusively listed options are traded at Nasdaq ISE's facility on a Back-up Exchange pursuant to Nasdaq ISE Options 4, Section 10[Rule 508], the Back-up Exchange has agreed to apply the per contract and per contract side fees in this fee schedule to such transactions. If any other Nasdaq ISE listed options are traded on the Back-up Exchange (such as Nasdaq ISE singly listed options that are listed by the Back-up Exchange) pursuant to Nasdaq ISE Options 4, Section 10 [Rule 508], the fee schedule of the Back-up Exchange shall apply to such trades.

» If the exclusively listed options of a Disabled Exchange are traded on the Disabled Exchange's facility at Nasdaq ISE pursuant to Options 4, Section 10 [Rule 508], Nasdaq ISE will apply the per contract and per contract side fees in the fee schedule of the Disabled Exchange to such transactions. If any other options classes of the Disabled Exchange are traded on Nasdaq ISE (such as singly listed options of the Disabled Exchange) pursuant to Options 4, Section 10 [Rule 508], the fees set forth in the Nasdaq ISE fee schedule shall apply to such trades.

\* \* \* \* \*

## **Section 9. Legal & Regulatory**

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### **E. FINRA Web CRD Fees**

\* \* \* \* \*

Continuing Education Requirements pursuant to Nasdaq ISE [Rule 604]General 4, Section 1.

\* \* \* \* \*

## **Section 12. Sales Value Fee**

The Sales Value Fee is assessed by the Exchange to each Member for sales on the Exchange with respect to which the Exchange is obligated to pay a fee to the Commission under Section 31 of the Exchange Act. To the extent that there may be any excess monies collected under this Rule, the Exchange may retain those monies to help fund its general operating expenses. The sales transactions to which the fee applies are sales of options (other than options on a security index) and the sales of securities resulting from the exercise of physical-delivery options. The fee is collected indirectly from Members through their clearing firms by the Clearing Corporation on behalf of Nasdaq ISE with respect to options sales and options exercises. The Sales Value Fee is equal to (a) the Section 31 fee rate multiplied by (b) the Member's aggregate dollar amount of covered sales resulting from options transactions occurring on the Exchange during any computational period.

\* \* \* \* \*

## **Options 9 [Reserved]Business Conduct**

### **Section 1. Just and Equitable Principles of Trade**

No Member shall engage in acts or practices inconsistent with just and equitable principles of trade. Persons associated with Members shall have the same duties and obligations as Members under the Rules of this Options 9.

### **Supplementary Material to Options 9, Section 1**

.01 It will be a violation of this Rule for a Member to have a relationship with a third party regarding the disclosure of agency orders. Specifically, a Member may not disclose to a third party information regarding agency orders represented by the Member prior to entering such orders into the System to allow such third party to attempt to execute against the Member's agency orders. A Member's disclosing information regarding agency orders prior to the execution of such orders on the Exchange would provide an inappropriate informational advantage to the third party in violation of this Rule. For purposes of this paragraph .01, a third party includes any other person or entity, including affiliates of the Member. Nothing in this paragraph is intended to prohibit a Member from soliciting interest to execute against an order it represents as agent (a "solicited order"), the execution of which is governed by Options 3, Section 22(e) and paragraph .02 of Supplementary Material to Options 3, Section 22.

.02. It may be considered conduct inconsistent with just and equitable principles of trade for any person associated with a Member who has knowledge of all material terms and conditions of:

(i) an order and a solicited order,

(ii) an order being facilitated, or

(iii) orders being crossed;

the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option 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 (i) the terms of the order and any changes in the terms of the order of which the person associated with the Member has knowledge are disclosed to the trading crowd, or (ii) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. The terms of an order are "disclosed" to the trading crowd on the Exchange when the order is entered into the System, the Facilitation or Solicited Order Mechanisms.

## **Section 2. Adherence to Law**

No Member shall engage in conduct in violation of the Exchange Act, the By-Laws or 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 Member shall so supervise persons associated with the Member as to assure compliance therewith.

## **Section 3. Sharing of Offices and Wire Connections**

No Member, without the prior written consent of the Exchange, shall establish or maintain wire connections or office sharing arrangements with other Members or with non-Member broker-dealers.

**Section 4. Disruptive Quoting and Trading Activity Prohibited**

(a) No Member 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:

(1) a party narrows the spread for a security by placing an order inside the NBBO;  
and

(2) 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)(1).

(3) 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 are conducted on one or more other exchanges.

**Section 5. False Statements**

No Member, person associated with a Member or applicant to become a Member shall make any false statements or misrepresentations in any application, report or other communication to the Exchange, and no Member or person associated with a Member

shall make any false statement or misrepresentation to the Clearing Corporation with respect to the reporting or clearance of any Exchange Transaction or adjust any position at the Clearing Corporation in any class of options traded on the Exchange except for the purpose of correcting a bona fide error in recording or transferring the position to another account.

### **Section 6. Manipulation**

(a) No Member shall effect or induce the purchase, sale or exercise of any security for the purpose of creating or inducing a false, misleading, or artificial appearance of activity in such security or in the underlying security, or for the purpose of unduly or improperly influencing the market price of such security or of the underlying security or for the purpose of making a price which does not reflect the true state of the market in such security or in the underlying security.

(b) No Member or any other person or organization subject to the jurisdiction of the Exchange shall directly or indirectly participate in or have any interest in the profit of a manipulative operation or knowingly manage or finance a manipulative operation. For the purposes of this paragraph but without limitation:

(1) any pool, syndicate or joint account, whether in corporate form or otherwise, organized or used intentionally for the purposes of unfairly influencing the market price of any security by means of options or otherwise and for the purpose of making a profit thereby, shall be deemed to be a manipulative operation;

(2) the soliciting of subscriptions to any such pool, syndicate or joint account shall be deemed to be managing a manipulative operation; and

(3) the carrying on margin of either a "long" or a "short" position in securities for, or the advancing of credit through loans of money or of securities to, any such pool syndicate or joint account shall be deemed to be financing a manipulative operation.

### **Section 7. Gratuities**

No Member shall give any compensation or gratuity in any one year in excess of \$50.00 to any employee of the Exchange or in excess of \$100.00 to any employee of any other Member or of any non-Member broker, dealer, bank or institution, without the prior consent of the employer and of the Exchange.

### **Section 8. Rumors**

No Member 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 Member, other than a lessor that is neither registered, nor required to be registered, as a broker-dealer under Section 15 of the Exchange Act, shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Member's business, to prevent the misuse of material nonpublic information by such Member or persons associated with such Member in violation of the Exchange Act and Exchange Rules.

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

(i) trading in any securities issued by a corporation, partnership, or Funds, as defined in Options 4, Section 3(h), or a trust or similar entities, or in any related securities or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or any other derivatives based on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, while in possession of material nonpublic information concerning that corporation or those Funds or that trust or similar entities;

(ii) trading in an underlying security or related options or other derivative securities, or in any related non-U.S. currency, non-U.S. currency options, futures or options on futures on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, or any other derivatives based on such currency while in possession of material nonpublic information concerning imminent transactions in the above; and

(iii) disclosing to another person any material nonpublic information involving a corporation, partnership, or Funds or a trust or similar entities whose shares are publicly traded or an imminent transaction in an underlying security or related securities or in the underlying non-U.S. currency or any related non-U.S. currency options, futures or options on futures on such currency, or in any related commodity, related commodity futures or options on commodity futures or any other related commodity derivatives, or any other derivatives based on such currency for the purpose of facilitating the possible misuse of such material nonpublic information.

(2) Each Member shall establish, maintain and enforce the following policies and procedures as appropriate for the nature of each Member'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 Member 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 Member 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 Member for the purpose of detecting the possible misuse of material nonpublic information; and

(iv) any business dealings the Member may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Member receiving, in the ordinary course of business, material nonpublic information concerning any such corporation, must be identified and documented.

(b) Members that are required, pursuant to Exchange Options 6E, Section 4 (Audits), to file Form X-17A-5 under the Exchange Act with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Members stating that the procedures mandated by this Rule have been established, enforced and maintained.

(c) Any Member or associated person who becomes aware of a possible misuse of material nonpublic information must promptly notify the Exchange.

#### **Section 10. Disciplinary Action by Other Organizations**

Every Member shall promptly notify the Exchange in writing of any disciplinary action, including the basis therefor, taken by any national securities exchange or registered securities association, clearing corporation, commodity futures market or government regulatory body against the Member or its associated persons, and shall similarly notify the Exchange of any disciplinary action taken by the Member itself against any of its associated persons 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 Members**

Whenever the Exchange shall find that a Member has failed to perform on his or 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 be permitted to continue in business with safety to customers or creditors or the Exchange, the Exchange may summarily suspend the Member in accordance with General 5, Section 3 or may impose such conditions and restrictions upon the Member as considered reasonably necessary for the protection of the Exchange and the customers of such Member.

#### **Section 12. Significant Business Transactions**

(a) Except as provided in paragraph (c) below, a Member that clears Market Maker trades is required to notify the Exchange in writing fifteen (15) days prior to any of the following proposed significant business transactions ("SBT"):

- (1) the combination, merger or consolidation between the Member 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 of Market Maker, broker-dealer, or customer securities or futures accounts that are significant in size or number to the business of the Member;
- (3) the assumption or guarantee by the Member 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 Member's clearing business or any material part thereof.

(b) Notification of any of the following SBTs shall be made in writing to the Exchange, not later than five (5) business days from the date on which the SBT becomes effective:

- (1) the sale by the Clearing Member 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 Member or the issuance of any capital stock of the Member; or
- (4) the acquisition by the Clearing Member 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 Member is required to notify the Exchange 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 the Exchange, if the Member'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 Exchange Market Maker contract volume for the most recent three (3) months;



(2) an average of fifteen percent (15%) of the number of Exchange Market Makers as of each month and for the most recent three (3) months; or

(3) twenty-five percent (25%) of Exchange Market Maker gross deductions (haircuts) defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Member in relation to the aggregate of such haircuts carried by all other Clearing Members 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 the Exchange determines that such SBT has the potential to threaten the financial or operational integrity of Market Maker transactions. In making this determination, the Exchange 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 Member(s), the potential for financial failure and the consequences of any such failure on the Exchange 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:

(i) proportion of Exchange Market Maker contract volume cleared;

(ii) proportion of Exchange Market Makers cleared; and

(iii) 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 Member(s) in relation to the aggregate of such deductions carried by other Members that clear Market Maker transactions.

(3) The regulatory history of the affected Members, 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 Member must provide promptly, in writing, all information reasonably requested by the Exchange. Any information disclosed by Members pursuant to the requirements of this Rule shall be kept confidential by the Exchange until such information is otherwise publicly disclosed and shall be used only for purposes of reviewing the proposal.

(2) If the Exchange determines, prior to the expiration of the thirty (30) day period, that a proposed SBT may be approved without conditions, the Exchange shall promptly so advise the Member.

(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 Member shall be promptly notified of any such decisions by the Exchange.

### **Section 13. Position Limits**

(a) Except with the prior permission of the President or his designee, to be confirmed in writing, no Member 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 Member has reason to believe that as a result of such transaction the Member or its customer would, acting alone or in concert with others, directly or indirectly:

(1) control (as defined in paragraph (f) below) an aggregate position in an options contract traded on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000 or 250,000 options contracts (whether long or short) of the put type and the call type on the same side of the market respecting the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other number of options contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series of options; or

(2) exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on the Exchange, when the Member is not a member of the other exchange on which the transaction was effected.

(b) Should a Member have reason to believe that a position in any account in which it has an interest or for the account of any customer is in excess of the applicable limit, such Member shall promptly take the action necessary to bring the position into compliance.

(c) Reasonable notice shall be given of each new position limit fixed by the Exchange.

(d) Limits shall be determined in the following manner:

(1) A 25,000 contract limit applies to those options having an underlying security that does not meet the requirements for a higher options contract limit.

(2) To be eligible for the 50,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least twenty (20) million shares, or the most recent six (6) month trading volume of the underlying security must have totalled at least fifteen (15) million shares and the

underlying security must have at least forty (40) million shares currently outstanding.

(3) To be eligible for the 75,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least forty (40) million shares or the most recent six (6) month trading volume of the underlying security must have totalled at least thirty (30) million shares and the underlying security must have at least 120 million shares currently outstanding.

(4) To be eligible for the 200,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least eighty (80) million shares or the most recent six (6) month trading volume of the underlying security must have totalled at least sixty (60) million shares and the underlying security must have at least 240 million shares currently outstanding.

(5) To be eligible for the 250,000 contract limit, either the most recent six (6) month trading volume of the underlying security must have totalled at least 100 million shares or the most recent six-month trading volume of the underlying security must have totalled at least seventy-five (75) million shares and the underlying security must have at least 300 million shares currently outstanding.

(e) Every six (6) months, the Exchange will review the status of underlying securities to determine which limit should apply. A higher limit will be effective on the date set by the Exchange, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher limit is met at the time of the intervening six (6) month review. If, however, subsequent to a six (6) month review, an increase in volume and/or outstanding shares would make a stock eligible for a higher position limit prior to the next review, the Exchange in its discretion may immediately increase such position limit.

(f) Control exists under this Rule when it is determined that an individual or entity makes investment decisions for an account or accounts, or materially influences directly or indirectly the actions of any person who makes investment decisions.

(1) Control will be presumed in the following circumstances, and will be presumed to continue until determined otherwise pursuant to paragraph (f)(2) below:

(i) among all parties to a joint account who have authority to act on behalf of the account;

(ii) among all general partners to a partnership account;

(iii) when an individual or entity holds an ownership interest of ten percent (10%) or more in an entity (ownership interest of less than ten percent

(10%) will not preclude aggregation), or shares in ten percent (10%) or more of profits and losses of an account;

(iv) when accounts have common directors or management;

(v) where a person has the authority to execute transactions in an account.

(2) Control, presumed by one or more of the above findings or circumstances, can be rebutted by proving that the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other documentary evidence as may be appropriate in the circumstances. The Exchange will also consider the following factors in determining if aggregation of accounts is required:

(i) similar patterns of trading activity among separate entities;

(ii) the sharing of kindred business purposes and interests;

(iii) whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/or restrictions;

(3) Initial determinations under this paragraph (f) shall be made by the Regulatory Division. The initial determination may be reviewed by the President or his designee, based upon a report by the Regulatory Division. A Member or customer directly affected by such a determination may ask the President or his designee to reconsider, but may not request any other review or appeal except in the context of a disciplinary proceeding. The decision to grant non-aggregation under this paragraph (f) shall not be retroactive.

### **Supplementary Material to Options 9, Section 13**

.01 The position limits applicable to option contracts on the securities listed in the chart below are as follows:

<u>Security Underlying Option</u>	<u>Position Limit</u>
<u>The DIAMONDS Trust (DIA)</u>	<u>300,000 contracts</u>
<u>The Standard and Poor's Depository Receipts® Trust (SPY)</u>	<u>1,800,000 contracts</u>
<u>The iShares® Russell 2000® ETF (IWM)</u>	<u>1,000,000 contracts</u>
<u>The PowerShares QQQQ Trust (QQQQ)</u>	<u>1,800,000 contracts</u>

<u>The iShares MSCI Emerging Markets ETF (EEM)</u>	<u>1,000,000 contracts</u>
<u>iShares China Large-Cap ETF (FXI)</u>	<u>500,000 contracts</u>
<u>iShares MSCI EAFE ETF (EFA)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Brazil Capped ETF (EWZ)</u>	<u>500,000 contracts</u>
<u>iShares 20+ Year Treasury Bond Fund ETF (TLT)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Japan ETF (EWJ)</u>	<u>500,000 contracts</u>

.02 Whenever the Exchange determines that a higher margin requirement is warranted in light of the risks associated with an under-hedged options position, the Exchange may impose additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Options 6C, Section 5(b). The Clearing Member carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

.03 Positions in option contracts overlying 10 shares of stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security ("Mini Options"), shall be aggregated with positions in regular size stock, Exchange-Traded Fund Share, Trust Issued Receipt, Exchange Traded Note, and other Index Linked Security option contracts, for purposes of this Rule, provided that ten (10) Mini Option contracts shall count as one (1) regular size option contract.

#### **Section 14 Exemptions from Position Limits**

(a) *Equity Hedge Exemption.* The following qualified hedging transactions and positions described in paragraphs (1) through (5) and (7) below shall be exempt from established position limits as prescribed under Options 9, Section 13(d) and Supplementary Material .03 to Options 9, Section 13. Hedge transactions and positions established pursuant to paragraphs six (6) and eight (8) below are subject to a position limit equal to five (5) times the standard limit established under Options 9, Section 13(d) and Supplementary Material .03 to Options 9, Section 13. The equity hedge exemption is in addition to the standard limit and other exemptions available under Exchange Rules.

(1) Where each option contract is "hedged" or "covered" by 100 shares (10 shares in the case of a Mini Option) of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract; (i) long call and short stock; (ii) short call and long stock; (iii) long put and long stock; (iv) short put and short stock.

(2) A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is

hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("reverse conversion").

(3) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and long put is equal, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) (or other adjusted number of shares) of the underlying security or securities convertible into such stock ("conversion").

(4) A short call position accompanied by a long put position, where the short call expires with the long put, and the strike price of the short call equals or exceeds the long put, and where each short call and long put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time the position is established ("collar").

(5) A long call position accompanied by a short put position where the long call expires with the short put and the strike price of the long call equals or exceeds the short put and where each long call and short put position is hedged with 100 shares (10 shares in the case of a Mini Option) of the underlying security (or other adjusted number of shares). Neither side of the long call, short put position can be in-the-money at the time the position is established ("reverse collar").

(6) A long call position accompanied by a short put position with the same strike price and a short call position accompanied by a long put position with a different strike price ("box spread").

(7) An equity option position is delta neutral, subject to the following:

(A) The term "delta neutral" refers to an equity options position that is hedged, in accordance with a permitted pricing model as defined in paragraph (C) below, by a position in the underlying security or one or more instruments relating to the underlying security, for the purpose of offsetting the risk that the value of the options position will change with incremental changes in the price of the security underlying the option position.

In the case of an equity option position for which the underlying security is an ETF that is based on the same index as an index option, the equity option position and any position in the underlying ETF may be combined with such an index option position and/or correlated instruments, as defined in Options 4A,

Section 9(d)(1), in accordance with Options 4A, Section 9(d) - Delta-Based Index Hedge Exemption, for calculation of the delta-based equity hedge exemption.

(B) An equity options position of a Member or non-Member affiliate of a Member that is delta neutral shall be exempt from established position limits. An equity options position that is not delta neutral shall be subject to position limits in accordance with Options 9, Section 13 (subject to the availability of other position limit exemptions). Only the option contract equivalent of the net delta of such position shall be subject to the appropriate position limit. The "options contract equivalent of the net delta" is the net delta divided by the number of shares that equate to one option contract on a delta basis. The term "net delta" means, at any time, the number of shares and/or other units of trade (either long or short) required to offset the risk that the value of an equity option position will change with incremental changes in the price of the security underlying the option position, as determined in accordance with a permitted pricing model.

(C) A "permitted pricing model" means:

(1) A pricing model maintained and operated by the Options Clearing Corporation ("OCC Model");

(2) A pricing model maintained and used by a Member subject to consolidated supervision by the Commission pursuant to Appendix E of Commission Rule 15c3-1, or by an affiliate that is part of such Member's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with the requirements of Appendices E or G, as applicable, to Commission Rule 15c3-1 and Commission Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital or capital allowances for market risk thereunder, provided that the Member or affiliate of a Member relying on this exemption in connection with the use of such model is an entity that is part of such Member's consolidated supervised holding company group;

(3) A pricing model maintained and used by a financial holding company or a company treated as a financial holding company under the Bank Holding Company Act of 1956, or by an affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:

(i) the requirements of the Board of Governors of the Federal Reserve System, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital

requirements of the Board of Governors of the Federal Reserve System, provided that the Member or affiliate of a Member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group; or

(ii) the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk-based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where "principal regulator" means a Member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the Member or affiliate of a Member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;

(4) A pricing model maintained and used by an OTC derivatives dealer registered with the SEC pursuant to SEC Rule 15c3-1(a)(5) in accordance with its internal risk management control system and consistent with the requirements of Appendix F to SEC Rule 15c3-1 and SEC Rule 15c3-4 under the Act, as amended from time to time, in connection with the calculation of risk-based deductions from capital for market risk thereunder, provided that only such OTC derivatives dealer and no other affiliated entity (including a Member) may rely on this subparagraph (d); or

(5) A pricing model used by a national bank under the National Bank Act maintained and used in accordance with its internal risk management control system and consistent with the requirements of the Office of the Comptroller of the Currency, as amended from time to time, in connection with the calculation of risk-based adjustments to capital for market risk under capital requirements of the Office of the Comptroller of the Currency, provided that only such national bank and no other affiliated entity (including a Member) may rely on this Subparagraph (C)(5).

(D) Effect on Aggregation of Account Positions.

(1) Members and non-Member affiliates who rely on this exemption must ensure that the permitted pricing model is applied to all positions in or relating to the security underlying the relevant option position that are owned or controlled by such Member or non-Member affiliate.

(2) Notwithstanding subparagraph (D)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated



without regard to positions in or relating to the security underlying the option position held by an affiliated entity or by another trading unit within the same entity, provided that:

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in Nasdaq ISE Options 9, Section 13(f), exists between such affiliates or trading units; and

(ii) the entity has provided the Exchange written notice in advance that it intends to be considered separate and distinct from any affiliate or, as applicable, which trading units within the entity are to be considered separate and distinct from each other for purposes of this exemption.

(3) Notwithstanding subparagraph (D)(1) or (D)(2), a Member or non-Member affiliate who relies on this exemption shall designate, by prior written notice to the Exchange, each trading unit or entity whose option positions are required under Exchange Rules to be aggregated with the option positions of such Member or non-Member affiliate that is relying on this exemption for purposes of compliance with Exchange position limits or exercise limits. In any such case:

(i) the permitted pricing model shall be applied, for purposes of calculating such Member's or affiliate's net delta, only to the positions in or relating to the security underlying any relevant option position owned and controlled by those entities and trading units who are relying on this exemption; and

(ii) the net delta of the positions owned or controlled by the entities and trading units who are relying on this exemption shall be aggregated with the nonexempt option positions of all other entities and trading units whose options positions are required under Exchange Rules to be aggregated with the option positions of such Member or affiliate.

(E) Obligations of Members and Affiliates.

(1) A Member that relies on this exemption for a proprietary equity options position:

(i) must provide a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) by such reliance authorizes any other person carrying for such Member an account including, or with whom such Member has entered into, a position in or relating to a security underlying the relevant option position to provide to the Exchange or the Clearing Corporation such information regarding such account or position as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption.

(2) The equity option positions of a non-Member relying on this exemption must be carried by a Member with which it is affiliated.

(3) A Member carrying an account that includes an equity option position for a non-Member affiliate that intends to rely on this exemption must obtain from such non-Member:

(i) a written certification to the Exchange that it is using a permitted pricing model pursuant to subparagraph (C) above; and

(ii) a written statement confirming that such non-Member affiliate:

a. is relying on this exemption;

b. will use only a permitted pricing model for purposes of calculating the net delta of its option positions for purposes of this exemption;

c. will promptly notify the Member if it ceases to rely on this exemption;

d. authorizes the Member to provide to the Exchange or the Clearing Corporation such information regarding positions of the non-Member affiliate as the Exchange or Clearing Corporation may request as part of the Exchange's confirmation or verification of the accuracy of any net delta calculation under this exemption; and

e. if the non-Member affiliate is using the OCC Model, has duly executed and delivered to the Exchange such documents as the Exchange may require to be executed and delivered to the Exchange as a condition to reliance on this exemption.

(F) Reporting. Each Member (other than an Exchange market-maker using the OCC Model) that holds or carries an account that relies on this exemption shall report, in accordance with Options 9

,Section 16 all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such Member on its own behalf or on behalf of a designated aggregation unit pursuant to Options 9, Section 14 (a)(7)(D) shall also report, in accordance with Option 9, Section 16, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Options 9, Section 14, the net delta and the options contract equivalent of the net delta of such position.

(G) Records. Each Member relying on this exemption shall: (i) retain, and undertake reasonable efforts to ensure that any non-Member affiliate of the Member relying on this exemption retains, a list of the options, securities and other instruments underlying each option position net delta calculation reported to the Exchange hereunder, and (ii) produce such information to the Exchange upon request.

(8) A listed option position hedged on a one-for-one basis with an over-the-counter ("OTC") option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.

(9) For those strategies described under (2), (3), (4), and (5) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

(10) An OTC option contract is defined as an option contract that is not listed on a National Securities Exchange or cleared at The Options Clearing Corporation.

(b) Market Maker Exemption. The provisions set forth below apply only to Market Makers seeking an exemption to the standard position limits in all options traded on the Exchange for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not to confer a right upon the Market Maker applying for an exemption.

(1) In light of the procedural safeguards, the purpose of this exemption process, and the prohibition against the granting of retroactive exemptions, decisions granting or denying exemptions are not subject to review.

(2) An exemption may be granted for the purpose of maintaining a fair and orderly market in the options on a given underlying security.

(3) Generally, an exemption will be granted only to a Market Maker who has requested an exemption, who is appointed to the options class in which the exemption is requested pursuant to Options 2, Section 3, whose positions are near

the current position limit and who is significant in terms of daily volume. The positions must generally be within ten percent (10%) of the limits contained in Options 9, Section 13 for equity options and twenty percent (20%) of those limits for broad-based index options.

(4) If an exemption is granted, it will be effective at the time the decision is communicated, and retroactive exemptions will not be granted.

(5) The size and length of an exemption will be determined on a case by case basis; however, an exemption usually will be granted until the nearest expiration. The exemption may specify the extent to which the resulting position may be carried in options in one or more expiration cycles.

(6) Procedures for Market Makers nearing the limits due to general market conditions:

(i) A request for an exemption from the established position and exercise limits must be in writing and must state the specific reasons why an exemption should be granted.

(ii) The request should be submitted to the Exchange no later than 1:00 p.m. for same-day review.

(iii) Review of the request will be conducted informally, *i.e.*, the Exchange may receive information in such manner as is most effective, in its discretion, to ascertain whether an exemption is necessary to maintain depth and liquidity in the market.

(iv) The Exchange will communicate the exemption decision to the requesting Market Maker and his or its Clearing Member as soon as possible, generally on the day following review.

(7) Requests for instant exemptions may be made for extraordinary situations, such as when there is an order imbalance or a Market Maker is near the limits intraday. Following immediate review of the situation, the Exchange will decide whether an exemption is warranted.

(c) Firm Facilitation Exemption. To the extent that the following procedures and criteria are satisfied, a Member may receive and maintain for its proprietary account an exemption ("facilitation exemption") from the applicable standard position limit in non-multiply-listed options traded on the Exchange for the purpose of facilitating, pursuant to the provisions of Options 3, Section 11(d), (i) orders for its own Public Customer (one that will have the resulting position carried with the firm) or (ii) orders received from or on behalf of a Public Customer for execution only against the Member firm's proprietary account.

(1) The Member must receive approval from the Exchange prior to executing facilitating trades.

(2) The facilitation exemption shall be granted to the Member owning or controlling the account in which the exempt options positions are held. For purposes of this paragraph (c), control shall be determined in accordance with the provision of Options 9, Section 13(f).

(3) Exchange approval may be given on the basis of verbal representations, in which event the Member shall, within a period of time to be designated by the Exchange, furnish the appropriate forms and documentation substantiating the basis for the exemption. The approval for the facilitation exemption will specify the maximum number of contracts that may be exempt under this paragraph (c). In no event may the aggregate exempted position under this paragraph (c) exceed twice the applicable standard limit.

(4) The facilitation exemption is in addition to the standard limit and other exemptions available under Exchange Rules. A Member so approved is hereinafter referred to as a "facilitation firm."

(5) The facilitation firm must provide all information required by the Exchange on approved forms and keep such information current. The facilitation firm shall promptly provide to the Exchange any information or documents requested concerning the exempted options positions and the positions hedging them.

(6) The facilitation firm shall comply with the following provisions regarding the execution of its Public Customer Order and its own facilitating order:

(i) neither order may be contingent on a "fill-or-kill" instructions; and

(ii) the orders must be executed pursuant to Options 3, Section 11(d).

(7) To remain qualified, a facilitation firm must, within five (5) business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish the Exchange with documentation reflecting the resulting hedging positions.

(8) The facilitation firm shall:

(i) liquidate and establish its Public Customer's and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate its Public Customer's or its own stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;

(ii) promptly notify the Exchange of any material change in the exempted options position or the hedge; and

(iii) not increase the exempted options position once it is closed unless approval is received again pursuant to a reapplication under this paragraph (c).

(9) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption hereunder.

(d) Exemptions Granted by Other Options Exchanges - A Member 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 the Exchange provided that such Member:

(1) provides the Exchange 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 Exchange regulatory staff to verify the validity of that exemption with the issuing options exchange, and

(2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the Member's trading on the Exchange.

### **Section 15. Exercise Limits**

(a) Except with the prior permission of the President or his designee, to be confirmed in writing, no Member 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 Member or customer, acting alone or in concert with others, directly or indirectly, has or will have:

(1) exercised within any five (5) consecutive business days aggregate long positions in any class of options traded on the Exchange in excess of 25,000 or 50,000 or 75,000 or 200,000 or 250,000 options contracts or such other number of options contract as may be fixed from time to time by the Exchange as the exercise limit for that class of options; or

(2) exceeded the applicable exercise limit fixed from time to time by another exchange for an options class not traded on the Exchange, when the Member is not a Member of the other exchange which lists the options class.

(b) Reasonable notice shall be given of each new exercise limit fixed by the Exchange by posting notice thereof by the Exchange.

(c) Limits shall be determined in the manner described in Options 9, Section 13. For a Member that has been granted an exemption to position limits pursuant to Options 9, Section 14(a), the number of contracts which can be exercised over a five (5) business day period shall equal the Member's exempted position.

### **Supplementary Material to Option 9, Section 15**

.01 The exercise limits applicable to option contracts on the securities listed in the chart below is as follows:

<b><u>Security Underlying Option</u></b>	<b><u>Position Limit</u></b>
<u>The DIAMONDS Trust (DIA)</u>	<u>300,000 contracts</u>
<u>The Standard and Poor's Depository Receipts® Trust (SPY)</u>	<u>1,800,000 contracts</u>
<u>The iShares® Russell 2000® ETF (IWM)</u>	<u>1,000,000 contracts</u>
<u>The PowerShares QQQQ Trust (QQQQ)</u>	<u>1,800,000 contracts</u>
<u>The iShares MSCI Emerging Markets ETF (EEM)</u>	<u>1,000,000 contracts</u>
<u>iShares China Large-Cap ETF (FXI)</u>	<u>500,000 contracts</u>
<u>iShares MSCI EAFE ETF (EFA)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Brazil Capped ETF (EWZ)</u>	<u>500,000 contracts</u>
<u>iShares 20+ Year Treasury Bond Fund ETF (TLT)</u>	<u>500,000 contracts</u>
<u>iShares MSCI Japan ETF (EWJ)</u>	<u>500,000 contracts</u>

### **Section 16. Reports Related to Position Limits**

(a) Each Member shall file with the Exchange the name, address and social security or tax identification number of any customer, as well as any Member, any general or special partner of the Member, any officer or director of the Member or any participant, as such, in any joint, group or syndicate account with the Member or with any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions of 200 or more options contracts of any single class of options traded on the Exchange. The report shall indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered.

(b) Electronic Access Members that maintain an end of day position in excess of 10,000 non-FLEX equity options contracts on the same side of the market on behalf of its own

account or for the account of a customer, shall report whether such position is hedged and provide documentation as to how such position is hedged. This report is required at the time the subject account exceeds the 10,000 contract threshold and thereafter, for customer accounts, when the position increases by 2,500 contracts and for proprietary accounts when the position increases by 5,000 contracts.

(c) In addition to the reports required by paragraph (a) and (b) of this Rule, each Member shall report promptly to the Exchange any instance in which the Member has reason to believe that a person included in paragraph (a), acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Options 9, Section 13.

### **Supplementary Material to Options 9, Section 16**

.01 For purposes of calculating the aggregate long or short position under paragraph (a) above, Members shall combine (i) long positions in put options with short positions in call options, and (ii) short positions in put options with long positions in call options.

### **Section 17. Liquidation Positions**

(a) Whenever the Exchange 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 the Exchange in excess of the applicable position limit established pursuant to Options 9, Section 13, it may order all Members 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 Member 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 the Exchange 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 (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 the Exchange or that an excessively high percentage of outstanding short positions in options contracts of a given class traded on the Exchange are uncovered, the Board or a committee or Exchange official designated by the Board may determine to prohibit Members from any further opening writing transactions on any exchange in options contracts of that class unless the resulting short position will be covered, and it 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) The Board or a committee or Exchange official designated by the Board may exempt transactions of 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) The Exchange may impose such restrictions on transactions or exercises in one or more series of options of any class traded on the Exchange as the Exchange 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 Member 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, which shall include such expiration date for an option contract that expires on a business day, other than index options, 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:

(i) 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;

(ii) Exercises of expiring American-style, cash-settled index options shall not be prohibited 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 prior to their expiration;

(iii) 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 (such as by closing rotation), 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)(iii) are

subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

(iv) An Exchange officer designated by the Board 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 the Exchange 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 the Exchange 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:

(i) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;

(ii) the underwriters agree to notify the Exchange upon the termination of their stabilization activities; and

(iii) 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 contained in paragraph (b)(1) are met, the Exchange shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after Members shall have been notified and shall terminate such restrictions upon request of the underwriters or when the Exchange otherwise discovers that stabilizing transactions by the underwriters has been terminated.

(3) For purposes of this paragraph (b), 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:

(i) 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

(ii) 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 Member that the Exchange 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. The Exchange will designate Members as required to participate in a system test based on: the category of membership (Primary Market Maker, Competitive Market Maker and Electronic Access Member); the computer system(s) the Member uses; and the manner in which the Member connects to the Exchange. The Exchange will give Members reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Members' obligations in participating in the test.

(b) Every Member required by the Exchange 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. Members shall maintain adequate documentation of tests required by this Rule and results of such testing for examination by the Exchange.

(c) A Member 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 disciplinary action pursuant to the Exchange's Rules.

### **Section 21. Anti-Money Laundering Compliance Program**

Each Member shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the Member's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.) and the implementing regulations promulgated thereunder by the Department of the Treasury. Each Member's anti-money laundering program must be approved, in writing, by the Member's senior management. The anti-money laundering programs required by this Rule shall, at a minimum,

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

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

(c) Provide for independent testing for compliance to be conducted by the Member's personnel or by a qualified outside party;

(d) Designate and identify to the Exchange (by name, title, mailing address, e-mail address, telephone number, and facsimile number) an individual or individuals responsible for implementing and monitoring the day-to-day operations and internal controls of the program, and provide prompt notification to the Exchange regarding any change in such designation(s); and

(e) Provide ongoing training for appropriate personnel.

In the event that any of the provisions of this Rule conflict with any of the provisions of another, applicable self-regulatory organization's rule requiring the development and implementation of an anti-money laundering compliance program, the provisions of the rule of the Member's Designated Examining Authority shall apply.

### **Section 22. Proxy Voting**

(a) No Member shall give a proxy to vote stock that is registered in its name, unless: (i) such Member is the beneficial owner of such stock; (ii) pursuant to the written instructions of the beneficial owner; or (iii) pursuant to the rules of any national securities exchange or association of which it is a Member provided that the records of the Member clearly indicate the procedure it is following.

(b) Notwithstanding the foregoing, a Member that is not the beneficial owner of a security registered under Section 12 of the Exchange 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 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 SEC, 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 23. Reserved.**

## **Options 10 Doing Business with the Public**

### **Section 1. Exchange Approval**

An Electronic Access Member may be approved by the Exchange to transact business with the public only if such Member is also 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 examining authority for the Member. Approval to transact business with the public shall be based on a Member's meeting the general requirements set forth in this Options 10 and the net capital requirements set forth in Options 6D (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

### **Section 2. Registration of Options Principals**

(a) No Member 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 supervision of options sales practices or a person to whom the designated general partner or executive officer (pursuant to Options 10, Section 7) or another Registered Options Principal delegates the authority to supervise options sales practices shall be designated as Options Principals.

(b) Individuals who are delegated responsibility pursuant to Options 10, Section 7 for the acceptance of discretionary accounts, for approving exceptions to a Member's criteria or standards for uncovered options accounts, and for approval of communications, shall be designated as Options Principals and are required to qualify as an Options Principal by passing the Registered Options Principal Qualification Examination (Series 4).

### **Section 3. Registration of Representatives**

(a) No Member 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 Member which are customarily performed by sales representatives or branch office managers shall be designated as Representatives of the Member.

(d) 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 may discipline, suspend or terminate the registration of any registered person for violation of the By-Laws or Rules of the Exchange or the Rules of the Clearing Corporation.

### **Section 5. Branch Offices**

(a) Every Member approved to do options business with the public under this Options 10 shall file with the Exchange 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 a Member shall transact options business with the public unless the manager of such branch office has been qualified as an Options 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 Member can demonstrate that the options activities of such branch offices are appropriately supervised by an Options Principal.

(c) Definition of Branch Office. — A "branch office" is any location where one or more associated persons of a Member regularly conduct the business of effecting any

transactions in, or inducing or attempting to induce the purchase or sale of any security, or is held out as such, excluding:

(1) any location that is established solely for customer service and/or back office type functions where no sales activities are conducted and that is not held out to the public as a branch office;

(2) any location that is the associated person's primary residence; provided that: (i) only one associated person, or multiple associated persons, who reside at that location and are Members of the same immediate family, conduct business at the location; (ii) the location is not held out to the public as an office and the associated person does not meet with customers at the location; (iii) neither customer funds nor securities are handled at that location; (iv) the associated person is assigned to a designated branch office, and such branch office is reflected on all business cards, stationery, advertisements and other communications to the public by such associated person; (v) the associated person's correspondence and communications with the public are subject to all supervisory provisions of the Exchange's Rules; (vi) electronic communications (e.g., e-mail) are made through the Member's electronic system; (vii) all orders are entered through the designated branch office or an electronic system established by the Member that is reviewable at the branch office; (viii) written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by the Member; and (ix) a list of the locations is maintained by the Member;

(3) any location, other than a primary residence, that is used for securities business for less than 30 business days in any one calendar year, provided the Member complies with the provisions of (ii) through (viii) of paragraph (2) above;

(4) an office of convenience, where the associated person occasionally and exclusively by appointment meets with customers, which is not held out to the public as a branch office (where such location is on bank premises, however, only signage required by the Interagency Statement (Statement on Retail Sales of Nondeposit Investment Products required under Banking Regulations) may be displayed);

(5) any location that is used primarily to engage in non-securities activities and from which the associated person effects no more than 25 securities transactions in any one calendar year; provided that any advertisements or sales literature identifying such location also sets forth the address and telephone number of the location from which the associated person conducting business at the non-branch locations are directly supervised;

(6) the Floor of a registered national securities exchange where a Member conducts a direct access business with public customers; or

- (7) a temporary location established in response to the implementation of a business continuity plan.
- (d) Notwithstanding the exclusions in subparagraphs (c) (1) - (7) above, any location that is responsible for supervising the activities of persons associated with a Member at one or more non-branch locations of such Member is considered to be a branch office.
- (e) For purposes of this Rule, the term "business day" shall not include any partial business day provided that the associated person spends at least four hours on such business day at his or her designated branch office during the hours that such office is normally open for business.
- (f) For purposes of this Rule, the term "associated person of a Member" is defined as a Member or employee associated with a Member.
- (g) For purposes of (c)(2)(viii) above, written supervisory procedures shall include criteria for on-site for cause reviews of an associated person's primary residence. Such reviews must utilize risk-based sampling or other techniques designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.
- (h) For purposes of (c)(2)(viii) and (3) above, written supervisory procedures for such residences and other remote locations must be designed to assure compliance with applicable securities laws and regulations and with Exchange Rules.
- (i) Factors which should be considered when developing risk-based sampling techniques to determine the appropriateness of on-site for cause reviews of selected residences and other remote locations shall include, but not be limited to, the following: (i) the firm's size; (ii) the firm's organizational structure; (iii) the scope of business activities; (iv) the number and location of offices; (v) the number of associated persons assigned to a location; (vi) the nature and complexity of products and services offered; (vii) the volume of business done; (viii) whether the location has a Series 9/10-qualified person on-site; (ix) the disciplinary history of the registered persons or associated persons, including a review of such person's customer complaints and Forms U4 and U5; and (x) the nature and extent of a registered person's or associated person's outside business activities, whether or not related to the securities business.

## **Section 6. Opening of Accounts**

- (a) *Approval Required.* No Member shall accept an order from a customer to purchase or write an options contract unless the 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 customer's account for options transactions, a Member shall exercise due diligence to learn the essential facts as to the customer and his investment objectives and financial situation, and shall make a record of such information, which shall be retained in accordance with Options 10, Section 7. Based upon such information, the branch office manager or other Options Principal shall

approve in writing the 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 with respect to options customers that are natural persons, a Member shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

(i) investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);

(ii) employment status (name of employer, self-employed or retired);

(iii) estimated annual income from all sources;

(iv) estimated net worth (exclusive of family residence);

(v) estimated liquid net worth (cash, securities, other);

(vi) marital status;

(vii) number of dependents;

(viii) age; and

(ix) 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 (1) above, the customer's account records shall contain the following information, if applicable:

(i) source or sources of background and financial information (including estimates) concerning the customer;

(ii) discretionary trading authorization, including agreement on file, name, relationship to customer and experience of person holding trading authority;

(iii) date(s) options disclosure document(s) furnished to customer;

(iv) nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions);



(v) name of Representative;

(vi) name of Options Principal approving account;

(vii) date of approval; and

(viii) dates of verification of currency of account information.

(3) Refusal of a customer to provide any of the information called for in this paragraph shall be so noted on the 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 Customer Background and Financial Information. The background and financial information upon which the account of every new customer that is a natural person has been approved for options trading, including all of the information required in paragraph (b)(2) of this Rule, unless the information is included in the customer's account agreement, shall be sent to the customer for verification or correction within fifteen (15) days after the customer's account has been approved for options transactions. A copy of the background and financial information on file with the Member shall also be sent to the customer for verification within fifteen (15) days after the Member becomes aware of any material change in the customer's financial situation. Absent advice from the customer to the contrary, the information will be deemed to be verified.

(d) Agreements to Be Obtained. Within fifteen (15) days after a customer's account has been approved for options transactions, a Member shall obtain from the 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 customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Options 9, Sections 13 and 14.

(e) Options Disclosure Documents to Be Furnished. At or prior to the time a customer's account is approved for options transactions, a Member shall furnish the customer with one (1) or more current options disclosure documents in accordance with the requirements of Options 10, Section 13.

(f) Every Member 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:

(1) specific criteria and standards to be used in evaluating the suitability of uncovered short options transactions for a particular customer;

(2) 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 writing uncovered short options contracts), including written approval of such accounts by an Registered Options Principal;

(3) designation of a specific Registered Options Principal qualified individual(s) as the person(s) 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;

(4) establishment of specific minimum net equity requirements for initial approval and maintenance of accounts containing uncovered options; and

(5) requirements that customers approved for writing uncovered short options transactions be provided with a specific 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(c).

### **Section 7. Supervision of Accounts**

(a) *Duty to Supervise— Non-Member Accounts.* The general partners or directors of each Member that conducts a non-Member customer business shall provide for appropriate supervisory control and shall designate a general partner or executive officer, who shall be identified to the Exchange, to assume overall authority and responsibility for internal supervision and control of the organization and compliance with securities laws and regulations. This person, who may be the same individual designated pursuant to substantially similar New York Stock Exchange or National Association of Securities Dealers rules, shall:

1. Delegate to qualified employees responsibilities and authority for supervision and control of each office, department or business activity, and shall provide for appropriate written procedures of supervision and control.

2. Establish a separate system of follow-up and review to determine that the delegated authority and responsibility is being properly exercised.

3. Develop and implement written policies and procedures reasonably designed to independently supervise the activities of accounts serviced by branch office managers, sales managers, regional/district sales managers or any person performing a similar supervisory function. Such supervisory reviews must be performed by a qualified Registered Options Principal who:

i. Is either senior to, or otherwise independent of, the producing manager under review. For purposes of this Rule, an "otherwise independent" person: may not report either directly or indirectly to the producing manager under review; must be situated in an office other than the office of the producing manager; must not otherwise have supervisory responsibility over the activity being reviewed; and must alternate such review responsibility with another qualified

person every two years or less. Further, if a person designated to review a producing manager receives an override or other income derived from that producing manager's customer activity that represents more than 10% of the designated person's gross income derived from the Member over the course of a rolling twelve-month period, the Member must establish alternative senior or otherwise independent supervision of that producing manager to be conducted by a qualified Registered Options Principal other than the designated person receiving the income.

ii. If a Member is so limited in size and resources that there is no qualified Registered Options Principal senior to, or otherwise independent of, the producing manager to conduct the reviews pursuant to paragraph (a)(3)(i) of this Rule (for instance, the Member has only one office, or an insufficient number of qualified personnel who can conduct reviews on a two-year rotation), the reviews may be conducted by a Registered Options Principal in compliance with paragraph (a)(3)(i) of this Rule to the extent practicable.

iii. A Member relying on paragraph (a)(3)(ii) of this Rule must document the factors used to determine that complete compliance with all of the provisions of paragraph (a)(3)(i) of this Rule is not possible, and that the required supervisory systems and procedures in place with respect to any producing manager comply with the provisions of paragraph (a)(3)(i) of this Rule to the extent practicable.

(b) Maintenance of Customer Records.

(1) Background and financial information of customers who have been approved for options transactions shall be maintained at both the branch office servicing the customer's account and the principal supervisory office having jurisdiction over that branch office. Copies of account statements of options customers shall be maintained at both the branch office supervising the accounts and the principal supervisory office having jurisdiction over that branch for the most recent six-month period. With respect to the record retention responsibility of principal supervisory offices, customer information and account statements may be maintained at a location off premises so long as the records are readily accessible and promptly retrievable. Other records necessary to the proper supervision of accounts shall be maintained at a place easily accessible both to the branch office servicing the customer's account and to the principal supervisory office having jurisdiction over that branch office.

(2) 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.

(3) 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 by the designated general partner or executive officer (pursuant to Options 10, Section 7). 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.

(4) For purposes of this paragraph (b)(3), a person(s) designated by the designated general partner or officer (pursuant to Options 10, Section 7) must be a Registered Options Principal.

(c) Internal Controls.

(1) Members must develop and maintain adequate controls over each of its business activities. Such controls must provide for the establishment of procedures for verification and testing of those business activities. An ongoing analysis, based upon appropriate criteria, may be employed to assess and prioritize those business activities requiring independent verification and testing. A review of each Member's efforts with respect to internal controls, including a summary of tests conducted and significant exceptions identified, must be included in the annual report required by paragraph (g) of this Rule.

(2) A Member that complies with requirements of the New York Stock Exchange or the National Association of Securities Dealers that are substantially similar to the requirements in paragraph (c)(1) of this Rule will be deemed to have met such requirements.

(d) Annual Branch Office Inspections.

1. Each branch office that supervises one or more non-branch locations must be inspected no less often than once each calendar year unless:

(i) it has been demonstrated to the satisfaction of the Exchange that because of proximity, special reporting or supervisory practice, other arrangements may satisfy this Rule's requirements for a particular branch office; or

(ii) based upon the written policies and procedures of such Member providing for a systematic risk-based surveillance system, the Member

submits a proposal to the Exchange and receives, in writing, an exemption from this requirement pursuant to paragraph (e) of this Rule.

2. Every branch office, without exception, must be inspected at least once every three calendar-years. All required inspections must be conducted by a person who is independent of the direct supervision and control of the branch office in question ( i.e., not the branch office manager, or any person who directly or indirectly reports to such manager, or any person to whom such manager directly reports). Written reports reflecting the results of such inspections are to be maintained with the Member for the longer of three years or until the next branch office inspection.

3. A Member that complies with requirements of the New York Stock Exchange or the National Association of Securities Dealers that are substantially similar to the requirements in paragraph (d)(1) and (d)(2) of this Rule as well as to related requirements in paragraphs (e) and (f) of this Rule will be deemed to have met such requirements.

(e) Risk -Based Surveillance and Branch Office Identification.

1. Any Member seeking an exemption, pursuant to Options 10, Section 7(d)(1)(ii), from the annual branch office inspection requirement must submit to the Exchange written policies and procedures for systematic risk-based surveillance of its branch offices. Such policies and procedures should reflect, among other factors, the Member's business model and product mix. Such policies and procedures must also, at a minimum, provide for:

(i) The inspection of branches where developments during the year require a reconsideration of such branch's exemption;

(ii) A requirement that no less than half of the branch offices inspected each year on a cycle basis be done on an unannounced basis; and

(iii) A system to enable employees to report compliance issues on a confidential basis outside of the branch office chain of command.

2. For purposes of paragraph (e)(1) of this Rule, the risk-based factors to be considered should include, but not necessarily be limited to, the following:

(i) Number of Registered Representatives;

(ii) A significant increase in the number of Registered Representatives;

(iii) Number of customers and volume of transactions;

(iv) A significant increase in branch office revenues;

- (v) Incidence of concentrated securities positions in customer's accounts;
- (vi) Aggregate customer assets held;
- (vii) Nature of the business conducted and the sales practice risk to investors associated with the products sold, and product mix (e.g. options, equities, mutual funds, annuities, etc.);
- (viii) Numbers of accounts serviced on a discretionary basis;
- (ix) Compliance and regulatory history of the branch, including:
  - (A) Registered Representatives subject to special supervision by the Member, self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission in years other than the previous or current year;
  - (B) Complaints, arbitrations, internal discipline, or prior inspection findings; and
  - (C) Persons subject to recent disciplinary actions by self-regulatory authorities, state regulatory authorities or the Securities and Exchange Commission.
- (x) Operational factors, such as the number of errors and account designation changes per Registered Representative;
- (xi) Incidence of accommodation mailing addresses (e.g., post office boxes and "care of" accounts);
- (xii) Whether the branch office permits checks to be picked up by customers or hand delivery of checks to customers;
- (xiii) Experience, function (producing or non-producing) and compensation structure of branch office manager;
- (xiv) Branch offices recently opened or acquired; and
- (xv) Changes in branch location, status or management personnel.

3. Notwithstanding any policies or procedures implemented pursuant to this Rule, branch offices that meet any of the following criteria must be inspected no less often than once each calendar year:

(i) Offices with one or more Registered Representatives subject to special supervision as required by a self-regulatory authority or state regulatory authority during the current or immediately preceding year.

(ii) Offices with 25 or more registered individuals;

(iii) Offices in the top 20% of production or customer assets for the Member organization;

(iv) Any branch office not inspected within the previous two calendar years; and

(v) Any branch office designated as exercising supervision over another branch office.

(f) *Criteria for Inspection Programs.* An annual branch office inspection program must include, but is not limited to, testing and independent verification of internal controls related to the following areas:

1. Safeguarding of customer funds and securities;
2. Maintaining books and records;
3. Supervision of customer accounts serviced by branch office managers;
4. Transmittal of funds between customers and Registered Representatives and between customers and third parties;
5. Validation of customer address changes; and
6. Validation of changes in customer account information.

(g) *Written Report.* By April 1 of each year, each Member that conducts a non-Member customer business shall submit to the Exchange a written report on the Member's supervision and compliance effort during the preceding year and on the adequacy of the Member's ongoing compliance processes and procedures. Each Member that conducts a public customer options business shall also specifically include its options compliance program in the report. The report shall include, but not be limited to, the following:

1. A tabulation of customer complaints (including arbitrations and civil actions) and internal investigations.
2. Identification and analysis of significant compliance problems, plans for future systems or procedures to prevent and detect violations and problems, and an assessment of the preceding year's efforts of this nature.

3. Discussion of the preceding year's compliance efforts, new procedures, educational programs, etc. in each of the following areas: (i) antifraud and trading practices; (ii) investment banking activities; (iii) sales practices; (iv) books and records; (v) finance and operations; (vi) supervision; (vii) internal controls, and (viii) anti-money laundering. If any of these areas do not apply to the Member organization, the report shall so state.
4. For each Member, the designation of a general partner or principal executive officer as Chief Compliance Officer (which designation shall be updated on Schedule A of Form BD).
5. A certification signed by the Member 's Chief Executive Officer (or equivalent), that:
- (i) The Member has in place processes to:
    - (A) establish and maintain policies and procedures reasonably designed to achieve compliance with applicable Exchange Rules and federal securities laws and regulations,
    - (B) modify such policies and procedures as business, regulatory and legislative changes and events dictate, and
    - (C) test the effectiveness of such policies and procedures on a regular basis, the timing and extent of which is reasonably designed to ensure continuing compliance with Exchange Rules and federal securities laws and regulations.
  - (ii) the Chief Executive Officer (or equivalent officer) conducted one or more meetings with the organization's Chief Compliance Officer during the preceding 12 months, and that they discussed and reviewed the matters described in this certification, including the organization's prior compliance efforts, and identified and addressed significant compliance problems and plans for emerging business areas.
  - (iii) the processes described in paragraph (g)(5)(i) of this Rule, are evidenced in a report reviewed by the Chief Executive Officer (or equivalent officer), Chief Compliance Officer and such other officers as the organization may deem necessary to make this certification, and submitted to the organization's board of directors and audit committee (if such committee exists) on or before April 1st of each year.
  - (iv) the Chief Executive Officer (or equivalent officer) has consulted with the Chief Compliance Officer and other officers referenced in paragraph (g)(5)(iii) of this Rule and such other employees, outside consultants, lawyers and



accountants, to the extent they deem appropriate, in order to attest to the statements made in this certification.

(6) A Member that specifically includes its options compliance program in a report that complies with substantially similar requirements of the New York Stock Exchange or the National Association of Securities Dealers will be deemed to have met the requirements of this Options 10, Section 7(g) and (h).

(h) Reports to Control Persons. By April 1 of each year, each Member shall submit a copy of the report that Options 10, Section 7 (g) requires the Member to prepare to its one or more control persons or, if the Member has no control person, to the audit committee of its board of directors or its equivalent committee or group. In the case of a control person that is an organization (a "controlling organization"), the Member shall submit the report to the general counsel of the controlling organization and to the audit committee of the controlling organization's board of directors or its equivalent committee or group. For the purpose of this paragraph, "control person" means a person who controls the Member within the meaning of Rule 1.1(k).

(i) Each Member that conducts a non-Member customer business shall establish, maintain, and enforce written procedures which detail the specific methods used to supervise all non-Member customer accounts, and all orders in such accounts. Such written procedures shall specifically identify the titles and positions of individuals who have been delegated authority and responsibility for an identified segment of the Member's business, including option compliance functions. The procedures shall also include the registration status and location of all such supervisory and compliance personnel. Each Member shall also develop and implement specific written procedures concerning the manner of supervision of customer accounts maintaining uncovered short option positions, and specifically providing for frequent supervisory review of such accounts.

(j) Each Member shall maintain at the principal supervisory office having jurisdiction over the office servicing the customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each 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.

(k) Documentation evidencing the annual written report required by paragraph (g) of this Rule, must be maintained in a place that is easily accessible and shall be provided to the Exchange upon request.

### **Section 8. Suitability of Recommendations**

(a) Every Member, Options Principal or Representative who recommends to a customer the purchase or sale (writing) of any options contract shall have reasonable grounds for

believing that the recommendation is not unsuitable for such customer on the basis of the information furnished by such customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such Member, Options Principal or Representative.

(b) No Member, Options Principal or Representative shall recommend to a 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 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 Member shall exercise any discretionary power with respect to trading in options contracts in a customer's account unless such customer has given prior written authorization and the account has been accepted in writing by a Registered Options Principal.

(1) Each firm shall designate specific Registered Options Principal qualified individuals pursuant to Options 10, Section 7 to review discretionary accounts. A Registered Options Principal qualified person specifically delegated such responsibilities under Options 10, Section 7 (who is an individual other than the Registered Options Principal who accepted the account) shall review the acceptance of each discretionary account to determine that the Registered Options Principal accepting the account had a reasonable basis for believing that the customer was able to understand and bear the risks of the strategies or transactions proposed, and the individual 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 the System.

(3) Discretionary accounts shall receive frequent appropriate supervisory review by a Registered Options Principal qualified person specifically delegated such responsibilities under Options 10, Section 7 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 a Member is vested with any discretionary power, such record to include the name of the customer, options class and series, number of contracts, premium, and date and time when such transaction took place.

(c) *Excessive Transactions Prohibited.* No Member shall effect with or for any customer's account with respect to which such Member 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) *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 below, 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. As used in this paragraph (d) the term "institutional account" shall mean the account of: (i) a bank, savings and loan association, insurance company, or registered investment company; (ii) 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 (iii) any other entity (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

(e) *Options Programs.* Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the customer shall be furnished with a written explanation (meeting the requirements of Options 10, Section 20) of the nature and risks of such programs.

(f) Any Member 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 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 Customers**

(a) Every Member shall promptly furnish to each 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 transactions and other transactions in options 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 Customers**

(a) Every Member shall send to its 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 customers having a general (margin) account, the 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.

(1) For purposes of this paragraph, 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 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 customer, and that such information will be made available to the customer promptly upon request.

(d) Customer statements shall bear a legend requesting that the customer promptly advise the Member of any material change in the customer's investment objectives or financial situation.

(e) 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 Customers**

Every Member shall send to each of its customers statements of the Member's financial condition as required by Rule 17a-5 under the Exchange Act.

### **Section 13. Delivery of Current Options Disclosure Documents and Prospectus**

(a) *Options Disclosure Documents.* Every Member shall deliver a current options disclosure document to each customer at or prior to the time such customer's account is approved for options transactions. Where a customer is a broker or dealer, the Member 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 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 customer. The Exchange will advise Members when an options disclosure document is amended.
- (b) *Prospectus*. Every Member shall furnish a copy of the current prospectus of the Clearing Corporation to each customer who requests one. The Exchange will advise Members when a new prospectus is available. The term "current prospectus of Clearing Corporation" means the prospectus portion of the most recent Form S-20, which prospectus portion then meets the delivery requirements of Rule 153b under the Securities Act.
- (c) The written description of risks required by Options 10, Section 6(f)(5) shall be in a format prescribed by the Exchange or in a format developed by the Member, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.
- (d) Sample risk description for use by Members to satisfy the requirements of paragraph (c) 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 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 Customers' Securities**

(a) No Member shall lend, either to itself or to others, securities carried for the account of any customer, unless such Member shall first have obtained a separate written authorization from such customer permitting the lending of the securities.

(b) Regardless of any agreement between a Member and a customer authorizing the Member to lend or pledge such securities, no Member shall lend or pledge more of such securities than is fair and reasonable in view of the indebtedness of the customer to such Member, except such lending as may be specifically authorized under paragraph (c) of this Rule.

(c) No Member shall lend securities carried for the account of any 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 customer, unless such Member first obtains from such customer a separate written authorization designating the particular securities to be loaned.

(d) No Member shall hold securities carried for the account of any 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 customer, unless such securities are segregated and identified by a method that clearly indicates the interest of such customer in those securities.

#### **Section 15. Transactions of Certain Customers**

(a) No Member shall execute any transaction in securities or carry a position in any security in which:

(1) an officer or employee of the Exchange, or any other 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 Member is directly or indirectly interested, without the consent of such other Member.

(b) Where the required consent has been granted, duplicate reports of the transaction and position shall promptly be sent to the Exchange or Member, as the case may be.

### **Section 16. Guarantees**

No Member shall guarantee a customer against loss in his account or in any transaction effected with or for such customer.

### **Section 17. Profit Sharing**

(a) No Member, Options Principal, Representative, officer, partner or branch office manager of the Member shall share directly or indirectly in the profits or losses in any customer's account, whether carried by such Member, or any other Member, without the prior written consent of the Member carrying the account.

(b) Where such consent is obtained, the Member, Options Principal, Representative, officer, partner or branch office manager 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 Member shall assume for its own account any position established for a customer in a security traded on the Exchange after a loss to the customer has been established or ascertained, unless the position was created by the Member's mistake or unless approval of the Exchange has first been obtained.

### **Section 19. Transfer of Accounts**

(a) When a customer whose securities account is carried by a Member (the "Carrying Member") wants to transfer the entire account to another Member (the "Receiving Member") and gives written notice of that fact to the Receiving Member, both Members must expedite and coordinate activities with respect to the transfer. For purposes of this Rule, the term "securities account" shall be deemed to include any and all of the account's money market fund positions or the redemption value thereof.

(b)

(1) Upon receipt from the customer of a signed broker-to-broker transfer instruction to receive such customer's securities account, the Receiving Member

- will immediately submit such instruction to the Carrying Member. The Carrying Member must, within one (1) business day following receipt of such instruction, (i) validate and return the transfer instruction (with an attachment reflecting all positions and money balances as shown on its books) to the Receiving Member, or (ii) take exception to the transfer instruction for reasons other than securities positions or money balance discrepancies and advise the Receiving Member of the exception taken. The time frame(s) set forth in this paragraph will change, as determined from time-to-time in any publication, relating to the ACATS facility, by the National Securities Clearing Corporation (NSCC).
- (2) The Carrying Member and the Receiving Member must promptly resolve any exceptions taken to the transfer instruction.
- (3) Within five (5) business days following the validation of a transfer instruction, the Carrying Member must complete the transfer of the customer's securities account to the Receiving Member. The Carrying Member and the Receiving Member must establish fail to receive and fail to deliver contracts at then current market values upon their respective books of account against the long/short positions (including options) in the customer's securities account that have not been physically delivered/received and the Receiving/Carrying Member must debit/credit the related money account. The customer's securities account shall thereupon be deemed transferred.
- (c) Any fail contracts resulting from this account transfer procedure must be closed out within ten (10) business days after their establishment.
- (d) Any discrepancies relating to positions or money balances that exist or occur after transfer of a customer's securities account must be resolved promptly.
- (e) When both the Carrying Member and the Receiving Member are participants in a clearing corporation having automated customer securities account transfer capabilities, the account transfer procedure, including the establishing and closing out of fail contracts, must be accomplished in accordance with the provisions of this Rule and pursuant to the Rules of and through the Clearing Corporation.
- (f) The Exchange may exempt from the provisions of this Rule, either unconditionally or on specified terms and conditions, (i) any Member or type of Members, or (ii) any type of account, security or financial instrument.
- (g) Unless an exemption has been granted pursuant to paragraph (f) of this Rule, the Exchange may impose upon a Member a fee of up to \$100 per securities account for each day such Member fails to adhere to the time frames or procedures required by this Rule.
- (h) Transfer instructions and reports required by this Rule shall be in such form as may be prescribed by the Exchange.



**Section 20. Options Communications**

(a) Definitions. For purposes of this Rule and any interpretation thereof, "options communications" consist of:

(1) Correspondence. The term "correspondence" shall include any written (including electronic) communication distributed or made to: 25 or fewer retail customers within any 30 calendar-day period.

(2) Institutional Communication. The term "institutional communication" shall include any written (including electronic) communication concerning options that is distributed or made available only to institutional investors, but does not include a Member's internal communications. The term institutional investor shall mean any qualified investor as defined in Section 3(a)(54) of the Securities Exchange Act of 1934.

(3) Retail Communication. The term "retail communication" means any written (including electronic) communication that is distributed or made available to more than 25 retail investors within any 30 calendar-day period.

(b) Approval by Registered Options Principal.

(1) All retail communications (except completed worksheets) issued by a Member pertaining to options shall be approved in advance by a Registered Options Principal designated by the Member's written supervisory procedures.

(2) Correspondence need not be approved by a Registered Options Principal prior to use. All correspondence is subject to the supervision and review requirements of Options 10, Section 7.

(3) Institutional communications. Each Member shall establish written procedures that are appropriate to its business, size, structure, and customers for review by a Registered Options Principal of institutional communications used by the Member.

(4) Copies of the options communications shall be retained by the Member in accordance with Rule 17a-4 under the Securities Exchange Act of 1934. The names of the persons who prepared the options communications, the names of the persons who approved the options communications, and the source of any recommendations contained therein shall be retained by the Member and kept in the form and for the time periods required for options communications by Rule 17a-4.

(c) Exchange Approval Required. In addition to the approval required by paragraph (b) of this Rule, retail communications of a Member pertaining to standardized options that is not accompanied or preceded by the applicable current options disclosure document ("ODD") shall be submitted to the Exchange at least ten (10) calendar days prior to use

(or such shorter period as the Exchange may allow in particular instances) for approval, and if changed or expressly disapproved by the Exchange, shall be withheld from circulation until any changes specified by the Exchange have been made or, in the event of disapproval, until the communication has been resubmitted for, and has received, Exchange approval. The requirements of this paragraph shall not be applicable to:

(1) options communications submitted to another self-regulatory organization having comparable standards pertaining to such communications, and

(2) communications in which the only reference to options is contained in a listing of the services of the Member;

(3) the ODD; and

(4) the prospectus.

(d) General Rule. No Member or associated person shall use any options communication which:

(1) Contains any untrue statement or omission of a material fact or is otherwise false or misleading.

(2) Contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events which are unwarranted or which are not clearly labeled as forecasts.

(3) Contains cautionary statements or caveats that are not legible, are misleading, or are inconsistent with the content of the materials.

(4) Contains statements suggesting the certain availability of secondary market for options.

(5) Fails to reflect the risks attendant to options transactions and the complexities of certain options investment strategies.

(6) Fails to include a warning to the effect that options are not suitable for all investors or contains suggestions to the contrary.

(7) Fails to include a statement that supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of sales persons), comparisons, recommendations, statistics, or other technical data, will be supplied upon request.

(8) would constitute a prospectus as that term is defined in the Securities Act of 1933, unless it meets the requirements of Section 10 of the Securities Act of 1933.

Paragraphs (6) and (7) shall not apply to institutional communications as defined in this Options 10, Section 20. Any statement in any options communications referring to the potential opportunities or advantages presented by options shall be balanced by a statement of the corresponding risks. The risk statement shall reflect the same degree of specificity as the statement of opportunities, and broad generalities must be avoided.

(e) Standards Applicable to Options Communications

(1) Unless preceded or accompanied by the ODD, options communications shall:

- (i) Be limited to general descriptions of the options being discussed.
- (ii) Contain contact information for obtaining a copy of the ODD.
- (iii) Not contain recommendations or past or projected performance figures including annualized rates of return, or names of specific securities.

(2) Options communications used prior to ODD delivery may:

- (i) Contain a brief description of options, including a statement that identifies registered clearing agencies for options. The text may also contain a brief description of the general attributes and method of operation of the exchanges on which options are traded, including a discussion of how an option is priced.
- (ii) Include any statement required by any state law or administrative authority.
- (iii) Include advertising designs and devices, including borders, scrolls, arrows, pointers, multiple and combined logos and unusual type faces and lettering as well as attention-getting headlines and photographs and other graphics, provided such material is not misleading.

(f) The Options 10, Section 20(e)(1)(B) requirement to include contact information for obtaining a copy of the ODD may be satisfied by providing a name and address or one or more telephone numbers from which the current options disclosure document may be obtained; directing existing clients to contact their registered representative; or including a response card through which a current options disclosure document may be obtained. An internet address may also be used, however, such an address must be accompanied by either a telephone number or mailing address for use by those investors who do not have access to the internet.

(g) Projections

(1) Options communications may contain projected performance figures (including projected annualized rates of return), provided that:

(i) all such communications are accompanied or preceded by the ODD.

(ii) no suggestion of certainty of future performance is made;

(iii) parameters relating to such performance figures are clearly established (e.g., to indicate the exercise price of an options contract, the purchase price of the underlying stock and the options contract's market price, premium, anticipated dividends, etc.);

(iv) all relevant costs, including commissions, fees, and interest charges (if applicable with regard to margin transactions) are disclosed;

(v) such projections are plausible and intended as a source of reference or a comparative device to be used in the development of a recommendation;

(vi) all material assumptions made in such calculations are clearly identified (e.g., "assume option expires", "assume option unexercised," "assume option exercised," etc.);

(vii) the risks involved in the proposed transactions are also discussed;

(viii) in communications relating to annualized rates of return, that such returns are not based upon any less than a sixty (60) day experience, any formulas used in making calculations are clearly displayed; and a statement is included to the effect that the annualized returns cited might be achieved only if the parameters described can be duplicated and that there is no certainty of doing so.

(h) Historical Performances. Options communications may feature records and statistics that portray the performance of past recommendations or of actual transactions, provided that:

(i) All such communications are accompanied or preceded by the ODD.

(ii) any such portrayal is done in a balanced manner, and consists of records or statistics that are confined to a specific "universe" that can be fully isolated and circumscribed and that covers at least the most recent twelve (12) month period;

(iii) such communications include the date of each initial recommendation or transaction, the price of each such recommendation or transaction as of such date, and the date and price of each recommendation or transaction at the end of the period or when liquidation was suggested or effected, whichever was earlier; provided that if the communications are limited to summarized or averaged

records or statistics in lieu of the complete record, there may be included in the number of items recommended or transacted, the number that advanced and the number that declined, together with an offer to provide the complete record upon request;

(iv) all relevant costs, including commissions, fees, and interest charges (as applicable) are disclosed;

(v) whenever such communications contain annualized rated of return, all material assumptions used in the process of annualization are disclosed;

(vi) an indication is provided of the general market conditions during the period(s) covered, and any comparison made between such records and statistics and the overall market (e.g., comparison to an index) is valid;

(vii) such communications state that the results presented should not and cannot be viewed as an indicator of future performance; and

(viii) a Registered Options Principal determines that the records or statistics fairly present the status of the recommendations or transactions reported upon and so initials the report.

(ix) Options Programs. In communications regarding an options program (i.e., an investment plan employing the systematic use of one or more options strategies), the cumulative history or unproven nature of the program and its underlying assumptions shall be disclosed.

## **Section 21. Brokers' Blanket Bonds**

(a) Every Electronic Access Member approved to transact business with the public under this Options 10 and every Clearing Member shall carry Brokers' Blanket Bonds covering officers and employees of the Member in such form and in such amounts as the Exchange may require.

(b) All Members subject to paragraph (a) of this Rule shall maintain Brokers' Blanket Bonds as follows:

(1) Maintain a Brokers' Blanket Bond similar to the standard form established by the Surety Association of America, covering officers and employees which provides against loss and has agreements covering at least the following:

(i) Fidelity;

(ii) On Premises;

(iii) In Transit;

(iv) Misplacement;

(v) Forgery and Alteration (including check forgery);

(vi) Securities Loss (including securities forgery);

(vii) Fraudulent Trading; and

(viii) A Cancellation Rider providing that the insurance carrier will promptly notify the Exchange of cancellation, termination or substantial modification of the Bond.

(2) In determining the initial minimum coverage, the Member is to use the highest required net capital during the twelve (12) month period immediately preceding the issuance of the Brokers' Blanket Bond. Thereafter, a review for adequacy of coverage shall be made at least annually as of the anniversary date of issuance of the subject Bond, and the minimum requirement for the next twelve (12) months shall be established by reference to the highest net capital in the preceding twelve (12) months. Any necessary adjustments shall be made not more than sixty (60) days following the anniversary.

(c) The minimum required coverage for fraudulent trading shall be the greater of \$25,000 or fifty percent (50%) of the coverage required in paragraph (b)(2) up to a maximum of \$500,000.

(d) The minimum required coverage for securities forgery shall be the greater of \$25,000 or twenty-five percent (25%) of the coverage required in paragraph (b)(2) up to a maximum of \$250,000.

(e) A deductible provision of up to \$5,000 or ten percent (10%) of the minimum coverage requirement, whichever is greater, may be included in the Bond.

(1) A Member may choose to maintain coverage in excess of the minimum requirements as set forth above in paragraph (b)(2) of this Rule, and in such case, a deductible provision of up to \$5,000 or ten percent (10%) of the amount of the Blanket Bond coverage, whichever is greater, may be included in the Bond purchased. However, the excess of this greater deductible amount over the maximum permissible deductible amounts as described in this paragraph must be subtracted from the Member's net worth in the calculation of the Member's net capital under SEC Rule 15c3-1.

(2) Each Member shall report the cancellation, termination or substantial modification of the Bond to the Exchange within ten (10) business days of such occurrences.

(f) Members with no employees shall be exempt from this Rule.

(g) Members subject to a bonding rule of another registered national securities exchange, the SEC, or a registered national securities association that imposes requirements that are equal to or greater than the requirements imposed by the Rule shall be deemed to be in compliance with the provisions of this Rule.

### **Section 22. Customer Complaints**

(a) Every Member conducting a non-Member 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 customer or person acting on behalf of a 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 Member or such other principal office as shall be designated by the Member.

(1) Each options-related complaint received by a branch office of a Member 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 Member with respect to the complaint.

### **Section 23. Telemarketing**

(a) *Telemarketing Restrictions.* No Member or associated person shall make an outbound telephone call to:

(1) any person's residence at any time other than between 8 a.m. and 9 p.m. local time at the called person's location, unless:

(i) the Member has an established business relationship with the person pursuant to paragraph (n)(12)(i),

(ii) the Member has received that person's prior express invitation or permission, or

(iii) the person called is a broker or dealer.

(2) any person that previously has stated that he or she does not wish to receive any outbound telephone calls made by or on behalf of the Member firm; or

(3) any person who has registered his or her telephone number on the Federal Trade Commission's national do-not-call registry.

(b) Caller Disclosures. No Member or associated person shall make an outbound telephone call to any person without disclosing truthfully, promptly and in a clear and conspicuous manner to the called person the following information:

(1) the identity of the caller and the Member firm;

(2) the telephone number or address at which the caller may be contacted; and

(3) that the purpose of the call is to solicit the purchase of securities or related services.

The telephone number provided may not be a 900 number or any other number for which charges exceed local or long-distance transmission charges.

(c) Member's Firm-Specific Do-Not-Call List. Each Member shall make and maintain a centralized list of persons who have informed the Member, or any employee thereof, that they do not wish to receive outbound telephone calls. Prior to engaging in telemarketing, a Member must institute procedures to comply with paragraphs (a) and (b). Such procedures must meet the following minimum standards:

(1) Members must have a written policy for maintaining the do-not-call list described under paragraph (c).

(2) Personnel engaged in any aspect of telemarketing must be informed and trained in the existence and use of the do-not-call list.

(3) If a Member receives a request from a person not to receive calls from that Member, the Member must record the request and place the person's name, if provided, and telephone number on the firm's do-not-call list at the time the request is made. Members must honor a person's do-not-call request within a reasonable time from the date such request is made. This period may not exceed 30 days from the date of such request. If such requests are recorded or maintained by a party other than the Member on whose behalf the outbound telephone call is made, the Member on whose behalf the outbound telephone call is made will be liable for any failures to honor the do-not-call request.



(4) A Member or person associated with a Member making an outbound telephone call must provide the called party with the name of the individual caller, the name of the Member, an address or telephone number at which the Member may be contacted, and that the purpose of the call is to solicit the purchase of securities or related service. The telephone number provided may not be a 900 number or any other number for which charges exceed local or long distance transmission charges.

(5) In the absence of a specific request by the person to the contrary, a person's do-not-call request shall apply to the Member making the call, and will not apply to affiliated entities unless the consumer reasonably would expect them to be included given the identification of the caller and the product being advertised.

(6) A Member making outbound telephone calls must maintain a record of a person's request not to receive further calls.

(d) Do-Not-Call Safe Harbors.

(1) A Member or person associated with a Member making outbound telephone calls will not be liable for violating paragraph (a)(3) if:

(i) the Member has an established business relationship with the called person. A person's request to be placed on the Member's firm-specific do-not-call list terminates the established business relationship exception to the national do-not-call registry provision for that Member even if the person continues to do business with the Member;

(ii) the Member has obtained the person's prior express written consent. Such consent must be clearly evidenced by a signed, written agreement (which may be obtained electronically under the E-sign Act) between the person and the Member, which states that the person agrees to be contacted by the Member and includes the telephone number to which the calls may be placed;

(iii) the Member or associated person making the call has a personal relationship with the called person;

(2) A Member or associated person making outbound telephone calls will not be liable for violating paragraph (a)(3) if the Member or associated person demonstrates that the violation is the result of an error and that as part of the Member's routine business practice:

(i) The Member has established and implemented written procedures to comply with paragraphs (a) and (b);

(ii) The Member has trained its personnel, and any entity assisting in its compliance, in procedures established pursuant to paragraph (d)(2)(i);

(iii) The Member has maintained and recorded a list of telephone numbers that it may not contact in compliance with paragraph (c); and

(iv) The Member uses a process to prevent outbound telephone calls to any telephone number on the Member's firm-specific do-not-call list or the national do-not-call registry, employing a version of the national do-not-call registry obtained from the Federal Trade Commission no more than 31 days prior to the date any call is made, and maintains records documenting this process.

(e) *Wireless Communications.* The provisions set forth in this Rule are applicable to Members and persons associated with a Member making outbound telephone calls to wireless telephone numbers.

(f) *Outsourcing Telemarketing.* If a Member uses another appropriately registered or licensed entity or person to perform telemarketing services on its behalf, the Member remains responsible for ensuring compliance with all provisions contained in this Rule.

(g) *Billing Information.* For any telemarketing transaction, no Member or associated person shall cause billing information to be submitted for payment directly or indirectly, without the express informed consent of the consumer. Each Member or associated person must obtain the express informed consent of the person to be charged and to be charged using the identified account.

(1) In any telemarketing transaction involving preacquired account information and a free-to-pay conversion feature, the Member or person associated with a Member must:

(i) obtain from the customer, at a minimum, the last four digits of the account number to be charged;

(ii) obtain from the customer an express agreement to be charged and to be charged using the account number pursuant to paragraph (g)(1)(i); and

(iii) make and maintain an audio recording of the entire telemarketing transaction.

(2) In any other telemarketing transaction involving preacquired account information not described in paragraph (g)(1), the Member or person associated with a Member must:

(i) identify the account to be charged with sufficient specificity for the customer to understand what account will be charged; and

(ii) obtain from the customer an express agreement to be charged and to be charged using the account number identified pursuant to paragraph (h)(2)(i).

(h) Caller Identification Information.

(1) Any Member that engages in telemarketing, as defined in paragraph (n)(21) of this Rule, must transmit or cause to be transmitted the telephone number, and, when made available by the Member's telephone carrier, the name of the Member, to any caller identification service in use by a recipient of an outbound telephone call.

(2) The telephone number so provided must permit any person to make a do-not-call request during regular business hours.

(3) Any Member that engages in telemarketing, as defined in paragraph (n)(21) of this Rule, is prohibited from blocking the transmission of caller identification information.

(i) Unencrypted Consumer Account Numbers. No Member or person associated with a Member shall disclose or receive, for consideration, unencrypted consumer account numbers for use in telemarketing. The term "unencrypted" means not only complete, visible account numbers, whether provided in lists or singly, but also encrypted information with a key to its decryption. This paragraph shall not apply to the disclosure or receipt of a customer's billing information to process a payment pursuant to a telemarketing transaction.

(j) Abandoned Calls.

(1) No Member or person associated with a Member shall "abandon" any outbound telemarketing call. An outbound call is "abandoned" if a person answers it and the call is not connected to a person associated with a Member within two seconds of the person's completed greeting.

(2) A Member or person associated with a Member shall not be liable for violating paragraph (j)(1) if:

(i) the Member or person associated with a Member employs technology that ensures abandonment of no more than three percent of all telemarketing calls answered by a person, measured over the duration of a single calling campaign, if less than 30 days, or separately over each successive 30-day period or portion thereof that the campaign continues;

(ii) the Member or person associated with a Member, for each telemarketing call placed, allows the telephone to ring for at least 15 seconds or four rings before disconnecting an unanswered call;

(iii) whenever a Member or person associated with a Member is not available to speak with the person answering the outbound telephone call within two seconds after the person's completed greeting, the Member or person associated with a Member promptly plays a prerecorded message that states the name and telephone number of the Member or person associated with the Member on whose behalf the call was placed; and

(iv) the Member retains records establishing compliance with paragraph (j)(2).

(k) Prerecorded Messages.

(1) No Member or person associated with a Member shall initiate any outbound telephone call that delivers a prerecorded message other than a prerecorded message permitted for compliance with the call abandonment safe harbor in (j)(2)(iii) unless:

(i) the Member has obtained from the recipient of the call an express agreement, in writing, that:

(A) the Member obtained only after a clear and conspicuous disclosure that the purpose of the agreement is to authorize the Member to place prerecorded calls to such person;

(B) the Member obtained without requiring, directly or indirectly, that the agreement be executed as a condition of opening an account or purchasing any good or service;

(C) evidences the willingness of the recipient of the call to receive calls that deliver prerecorded messages by or on behalf of the Member; and

(D) includes such person's telephone number and signature (which may be obtained electronically under the E-Sign Act);

(ii) the Member or person associated with a Member allows the telephone to ring for at least 15 seconds or four rings before disconnecting an unanswered call; and within two seconds after the completed greeting of the person called, plays a prerecorded message that promptly provides the disclosures in paragraph (b), followed immediately by a disclosure of one or both of the following:

(A) in the case of a call that could be answered by a person, that the person called can use an automated interactive voice and/or keypress-activated opt-out mechanism to assert a firm-specific do-not-call request pursuant to the Member's procedures instituted

under paragraph (c)(3) at any time during the message. The mechanism must automatically add the number called to the Member's firm-specific do-not-call list; once invoked, immediately disconnect the call; and be available for use at any time during the message; and

(B) in the case of a call that could be answered by an answering machine or voicemail service, that the person called can use a toll-free telephone number to assert a firm-specific do-not-call request pursuant to the Member's procedures instituted under paragraph (c)(3). The number provided must connect directly to an automated interactive voice or keypress-activated opt-out mechanism that automatically adds the number called to the Member's firm-specific do-not-call list; immediately thereafter disconnects the call; and is accessible at any time throughout the duration of the telemarketing campaign; and

(C) the Member complies with all other requirements of this Rule and other applicable federal and state laws.

(2) Any call that complies with all applicable requirements of paragraph (k) shall not be deemed to violate paragraph (j).

(1) *Credit Card Laundering.* Except as expressly permitted by the applicable credit card system, no Member or person associated with a Member shall:

(1) present to or deposit into, the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the Member;

(2) employ, solicit, or otherwise cause a merchant, or an employee, representative or agent of the merchant, to present to or to deposit into the credit card system for payment, a credit card sales draft generated by a telemarketing transaction that is not the result of a telemarketing credit card transaction between the cardholder and the merchant; or

(3) obtain access to the credit card system through the use of a business relationship or an affiliation with a merchant, when such access is not authorized by the merchant agreement or the applicable credit card system.

(m) *Definitions.* For purposes of this Rule:

(1) The term "account activity" includes, but not be limited to, purchases, sales, interest credits or debits, charges or credits, dividend payments, transfer activity,

securities receipts or deliveries, and/or journal entries relating to securities or funds in the possession or control of the Member.

(2) The term "acquirer" means a business organization, financial institution, or an agent of a business organization or financial institution that has authority from an organization that operates or licenses a credit card system to authorize merchants to accept, transmit, or process payment by credit card through the credit card system for money, goods or services, or anything else of value.

(3) The term "billing information" means any data that enables any person to access a customer's or donor's account, for example a credit or debit card number, a brokerage, checking, or savings account number, or a mortgage loan account number.

(4) The term "broker-dealer of record" refers to the broker- dealer identified on a customer's account application for accounts held directly at a mutual fund or variable insurance product issuer.

(5) The term "caller identification service" means a service that allows a telephone subscriber to have the telephone number, and, where available, name of the calling party transmitted contemporaneously with the telephone call, and displayed on a device in or connected to the subscriber's telephone.

(6) The term "cardholder" means a person to whom a credit card is issued or who is authorized to use a credit card on behalf of or in addition to the person to whom the credit card is issued.

(7) The term "credit" means the right granted by a creditor to a debtor to defer payment of debt or to incur debt and defer its payment.

(8) The term "credit card" means any card, plate, coupon book, or other credit device existing for the purpose of obtaining money, property, labor, or services on credit.

(9) The term "credit card sales draft" means any record or evidence of a credit card transaction.

(10) The term "credit card system" means any method or procedure used to process credit card transactions involving credit cards issued or licensed by the operator of that system.

(11) The term "customer" means any person who is or may be required to pay for goods or services offered through telemarketing.

(12) The term "established business relationship" means a relationship between a Member and a person if:

(i) the person has made a financial transaction or has a security position, a money balance, or account activity with the Member or at a clearing firm that provides clearing services to such Member within the previous 18 months immediately preceding the date of the outbound telephone call;

(ii) the Member is the broker-dealer of record for an account of the person within the previous 18 months immediately preceding the date of the outbound telephone call; or

(iii) the person has contacted the Member to inquire about a product or service offered by the Member within the previous three months immediately preceding the date of the outbound telephone call.

A person's established business relationship with a Member does not extend to the Member's affiliated entities unless the person would reasonably expect them to be included. Similarly, a person's established business relationship with a Member's affiliate does not extend to the Member unless the person would reasonably expect the Member to be included.

(13) The term "free-to-pay conversion" means, in an offer or agreement to sell or provide any goods or services, a provision under which a customer receives a product or service for free for an initial period and will incur an obligation to pay for the product or service if he or she does not take affirmative action to cancel before the end of that period.

(14) The term "merchant" means a person who is authorized under a written contract with an acquirer to honor or accept credit cards, or to transmit or process for payment credit card payments, for the purchase of goods or services or a charitable contribution. A "charitable contribution" means any donation or gift of money or any other thing of value, for example a transfer to a pooled income fund.

(15) The term "merchant agreement" means a written contract between a merchant and an acquirer to honor or accept credit cards, or to transmit or process or payment credit card payments, for the purchase of goods or services or a charitable contribution.

(16) The term "outbound telephone call" means a telephone call initiated by a telemarketer to induce the purchase of goods or services or to solicit a charitable contribution from a donor. A "donor" means any person solicited to make a charitable contribution.

(17) The term "person" means any individual, group, unincorporated association, limited or general partnership, corporation, or other business entity.

(18) The term "personal relationship" means any family member, friend, or acquaintance of the person making an outbound telephone call.

(19) The term "preacquired account information" means any information that enables a seller or telemarketer to cause a charge to be placed against a customer's or donor's account without obtaining the account number directly from the customer or donor during the telemarketing transaction pursuant to which the account will be charged.

(20) The term "telemarketer" means any person who, in connection with telemarketing, initiates or receives telephone calls to or from a customer or donor.

(21) The term "telemarketing" means consisting of or relating to a plan, program, or campaign involving at least one outbound telephone call, for example cold-calling. The term does not include the solicitation of sales through the mailing of written marketing materials, when the person making the solicitation does not solicit customers by telephone but only receives calls initiated by customers in response to the marketing materials and during those calls takes orders only without further solicitation. For purposes of the previous sentence, the term "further solicitation" does not include providing the customer with information about, or attempting to sell, anything promoted in the same marketing materials that prompted the customer's call.

### **Supplementary Material to Options 10, Section 23**

.01 Members and associated persons that engage in telemarketing also are subject to the requirements of relevant state and federal laws and rules, including but not limited to the Telemarketing and Consumer Fraud and Abuse Prevention Act, as amended, the Telephone Consumer Protection Act, and the rules of the Federal Communications Commission relating to telemarketing practices and the rights of telephone consumers.

### **Section 24. Reserved**

### **Section 25. Reserved**

### **Options 11 Minor Rule Plan Violations**

#### **Section 1. Imposition of Fines for Minor Rule Violations**

(a) General. In lieu of commencing a disciplinary proceeding, the Exchange may, subject to the requirements set forth herein, impose a fine, not to exceed \$5,000, on any Member, or person associated with or employed by a Member, with respect to any Rule violation listed in section (b) of this Rule. Any fine imposed pursuant to this Rule that (i) does not exceed \$2,500 and (ii) is not contested, shall be reported on a periodic basis, except as may otherwise be required by Rule 19d-1 under the Exchange Act or by any other regulatory authority. The Exchange is not required to impose a fine pursuant to this Rule with respect to the violation of any Rule included herein, and the Exchange may, whenever it determines that any violation is not minor in nature, proceed under the



formal disciplinary process set forth in General 5, Section 3 of the Exchange's Rules, rather than under this Rule.

(b) *Violations Subject to Fines.* The following is a list of the rule violations subject to, and the applicable sanctions that may be imposed by the Exchange pursuant to General 5, Section 3:

(1) Position Limits (Options 9, Section 13)

<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.

(2) Focus Reports (Options 6E, Section 4). Each Member shall file with the Exchange a report of financial condition on SEC Form X-17A-5 as required by Rule 17a-10 under the Exchange Act. Any Member who fails to file in a timely manner such report of financial condition pursuant to Exchange Act Rule 17a-10 shall be subject to the following fines:

<u>Calendar Days Late</u>	<u>Sanction</u>
<u>1 to 30</u>	<u>\$200</u>
<u>31 to 60</u>	<u>\$400</u>
<u>61 to 90</u>	<u>\$800</u>
<u>Over 90</u>	<u>Formal Disciplinary Action</u>

(3) Requests for Trade Data (Options 6E, Section 5). Any Member who fails to respond within ten (10) business days to a request by the Exchange for submission of trade data shall be subject to the following fines:

<u>Business Days Late</u>	<u>Sanction</u>
<u>1 to 9</u>	<u>\$200</u>
<u>10 to 15</u>	<u>\$500</u>
<u>16 to 30</u>	<u>\$1,000</u>
<u>Over 30</u>	<u>Formal Disciplinary Action</u>

Any Member who violates this Rule more than one (1) time in any calendar year shall be subject to the following fines, which fines shall be imposed in addition to any sanction imposed pursuant to the schedule above:

<u>Number of Violations Within One Calendar Year</u>	<u>Sanction</u>
<u>2<sup>nd</sup> Offense</u>	<u>\$500</u>
<u>3<sup>rd</sup> Offense</u>	<u>\$1,000</u>
<u>4<sup>th</sup> Offense</u>	<u>\$2,500</u>
<u>Subsequent Offenses</u>	<u>Formal Disciplinary Action</u>

(4) Order Entry (Options 3, Section 22). Violations of Options 3, Section 22(d) and (e) regarding limitations on orders entered into the System by Electronic Access Members will be subject to the fines listed below.

<u>Number of Violations Within One Calendar Year</u>	<u>Sanction</u>
<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>16 to 20</u>	<u>\$2000</u>

Over 20Formal Disciplinary Action

(5)(a) Pre-Opening Quotation Parameters (Options 2, Section 4). Violations of Options 2, Section 4(b)(4) regarding pre-opening quote spread parameters for Market Maker quotations, as well as violations of Options 2, Section 6(b)(1)(i) regarding orders entered by Market Makers, shall be subject to the fines listed below.

<u>Number of Violations Within a Twenty-Four Month Rolling Period*</u>	<u>Sanction</u>
<u>First Offense</u>	<u>Letter of Caution</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Third Offense</u>	<u>\$2,500</u>
<u>Fourth Offense</u>	<u>\$5,000</u>
<u>Fifth Offense</u>	<u>Formal Disciplinary Action</u>

\* Violations occurring during a calendar month are aggregated and sanctioned as a single offense.

(b) Post-Opening Quotation Parameters (Options 2, Section 4). Violations of Options 2, Section 4(b)(4) regarding post-opening quote spread parameters for Market Maker quotations, as well as violations of Options 2, Section 6(b)(1)(i) regarding orders entered by Market Makers, shall be subject to the fines listed below. For purposes of this Rule, the spread parameters in Options 2, Section 4(b)(4) will not be violated upon a change in a bid (offer) if a Market Maker takes immediate action to adjust its offer (bid) to comply with the maximum allowable spread. Except in unusual market conditions, immediate shall mean within ten (10) seconds of a change in the Market Makers bid or offer.

<u>Number of Violations Within a Twenty-Four Month Rolling Period*</u>	<u>Sanction</u>
<u>First Offense</u>	<u>Letter of Caution</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Third Offense</u>	<u>\$2,500</u>
<u>Fourth Offense</u>	<u>\$5,000</u>
<u>Fifth Offense</u>	<u>Formal Disciplinary Action</u>

\* Violations occurring during a calendar month are aggregated and sanctioned as a single offense.

(6) Execution of Orders in Appointed Options (Options 2, Section 6). Violations of Options 2, Section 6(b)(2) and (3) requiring Market Makers to execute in appointed options classes a minimum percentage of the total number of contracts executed during a quarter shall be subject to the following sanctions:

<u>Number of Violations Within Rolling Twelve Month Period</u>	<u>Sanction</u>
<u>1<sup>st</sup> Offense</u>	<u>Letter of Caution</u>
<u>2<sup>nd</sup> Offense</u>	<u>\$500</u>
<u>3<sup>rd</sup> Offense</u>	<u>\$1,000</u>
<u>4<sup>th</sup> Offense</u>	<u>\$2,500</u>
<u>Subsequent Offenses</u>	<u>Formal Disciplinary Action</u>

(7) Mandatory Systems Testing (Options 9, Section 20). Failure to conduct or participate in the testing of computer systems, or failure to provide required reports or maintain required documentation, shall be subject to the fines listed below.

<u>Violations Within One Calendar Year</u>	<u>Sanction</u>
<u>First Violation</u>	<u>\$250</u>
<u>Second Violation</u>	<u>\$500</u>
<u>Third Violation</u>	<u>\$1000</u>
<u>Fourth Violation</u>	<u>\$2000</u>
<u>Fifth Violation or more</u>	<u>Formal Disciplinary Action</u>

(8) Exercise of Options Contracts (Options 6B, Section 1). Any Member who fails to submit to the Exchange in a timely manner pursuant to Options 6B, Section 1 or a Options Regulatory Alert issued pursuant to Options 6B, Section 1, "Advice Cancel", or exercise instruction relating to the exercise or non-exercise of a noncash-settled equity option shall be subject to the following fines:

<u>Number of Cumulative Violations Within Any Twenty-Four Month Rolling Period</u>	<u>Individual</u>	<u>Member Organization</u>
<u>1<sup>st</sup> Offense</u>	<u>\$500</u>	<u>\$1,000</u>
<u>2<sup>nd</sup> Offense</u>	<u>\$1,000</u>	<u>\$2,500</u>
<u>Subsequent Offenses</u>	<u>\$2,500</u>	<u>\$5,000</u>

(9) Failure to Accurately Report Position and Account Information (Options 9, Section 16)

A fine shall be imposed upon a Member who violates Options 9, Section 16. Such fines shall be imposed on the basis of the following schedule:

<u>Number of 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>

(10) Intra-day Quotes (Options 2, Section 5(e)). A Market Maker must enter intra-day quotations for the options classes to which it is appointed. Failure to comply shall be subject to the fines listed below.

<u>Number of Violations (PMMs and/or CMMs) Within a Twenty-four Month Rolling Period*</u>	<u>Sanction</u>
<u>First Offense</u>	<u>Letter of Caution</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Third Offense</u>	<u>\$2,500</u>
<u>Fourth Offense</u>	<u>\$5,000</u>

Fifth Offense

Formal Disciplinary Action

\* Violations occurring during a calendar month are aggregated and sanctioned as a single offense.

\* \* \* \* \*