

Rule 2

Options Trading Permits

[CAPITAL REQUIREMENTS, FOCUS REPORT, MARGINS

CAPITAL REQUIREMENTS

Minimum Net Capital]

Securities Business

Rule 2.1(a). Every OTP Holder and OTP Firm shall have as its principal purpose the conduct of a securities business. [To the extent applicable, every member organization shall maintain a minimum net capital in accordance with the provisions of Rule 15c3-1 under the Securities Exchange Act of 1934 ("Exchange Act"), as amended. Each member-organization shall promptly notify the Exchange and, pursuant to the provisions of Rule 17a-11 under the Exchange Act, the Securities and Exchange Commission if such member organization's net capital does not equal or exceed the appropriate minimum required by Rule 15c3-1 or if notice is otherwise required by Rule 17a-11. If, in order to comply with the Constitution and Rules of the Exchange, the terms of Rule 15c3-1 and any amendment or proposed amendment thereto, or any other Rule under the Securities Exchange Act of 1934, as amended, the member organization is required to deposit any sum of money into an escrow account for purposes of meeting minimum net capital requirements, then such sum, together with the proceeds from the sale of the membership under which the member organization does business on the Exchange, shall be subject to the prior claims of the Exchange, and claims arising from member contracts as provided in Article VII, Section 4 of the Exchange's Constitution.

Commentary:

.01 Members Who Do Not Carry Customers' Accounts:

A member organization operating under paragraph (a)(2) of SEC Rule 15c3-1 shall file a written application with the Exchange for approval on a form prescribed by the Exchange.

.02 Trading In Gold and Silver Bullion:

(a) Where gold or silver bullion, which upon payment to the seller is within the member organization's control in good deliverable form and covered by appropriate insurance, is purchased by customers under agreements wherein full payment is required and is made within seven business days after the date of purchase, or full payment is required and made within an extended or longer period of time as approved by the Exchange upon application, such purchases may be considered bona fide cash

transactions which require no deduction from net worth in computing net capital. In all other purchases by customers of such gold or silver bullion, which liquidate to an equity, cash required, if any, to provide margin equal to 25% (10% if hedged by futures contracts in the same commodity) of the market value of the gold or silver bullion in each such customer's account in equity shall be deducted from net worth in computing net capital.

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

(c) Definitions:

(1) "Within The Member Organization's Control"

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

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

(2) "Good Deliverable Form"

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

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

(3) "Appropriate Insurance"

All gold or silver under the control of a member organization, whether stored in a depository, in its own custody, in transit, or in any other location, within the member organization's control, shall be covered by insurance of the member organization.

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

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

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

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

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

Member organizations shall file with the Exchange copies of letters from its insurance underwriters setting forth the extent of its coverage for bullion stored in its depositories.

(d) Further Customer Protections--To further ensure protection of customers of member organizations, the Exchange has established the following guidelines:

(1) Disclosure to Customer

The member organization shall fully disclose to its customer all relevant information pertaining to a transaction, including, but not limited to, names and locations of depositories, insurance coverage, charges incidental to storage, requirements and costs related to taking physical delivery of the bullion (e.g., possible need for assay), and applicable Federal, state or local laws or regulations (e.g., sales tax implications of the purchase). Communications to the public with regard to gold and silver shall state that SIPC coverage is not available. Due to the varying degrees of fineness, and the need for the customer to be informed as to the quality of bullion being purchased and its attendant variation in price, the fineness, weight, price per ounce, and any markup, commissions,

fees, taxes or other costs shall be disclosed to the customer. Salesmen must convey to each customer the special risks and expenses involved in investing in gold and silver bullion. In particular, the customer must be given the opportunity to take delivery of the gold or silver and be informed whether or not the member organization will buy it back at a later date, and if so, on what basis.

(2) Sale or Saleback of Gold and Silver

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

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

(3) Requirements for Special Commodity Accounts

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

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

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

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

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

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

(1) Initial Margin

For the purpose of effecting new transactions, the margin required shall be an amount equivalent to the requirements stated below, or such greater amount as the Exchange may from time to time require, with a minimum equity in the account of at least \$2,000, except that cash need not be deposited in excess of the cost of any new transaction.

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

(2) Maintenance

Margin must be maintained in margin accounts of customers, including members, Allied members, organizations or non-members and shall be as follows:

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

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

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

(g) Records--Member organizations shall make, keep current and preserve books and records on spot commodities as are required for securities.

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

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

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

(i) Business Plan--A member organization shall file with the Exchange a detailed business plan for approval by the Exchange prior to effecting any transactions in gold or

silver bullion. Such a plan shall comply with the standards enunciated herein, and the member organization may utilize the below checklist in drafting its business plan.

(j) Gold and Silver Business Plan Checklist:

I. Structure and Nature

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

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

C. Will the organization position bullion for its own account and/or act as a market maker?

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

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

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

II. Legal Review

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

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

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

D. Has counsel advised that the depository/depositories can and will maintain physical possession or control of the bullion stored for the organization's customers free of any lien or claim on such bullion other than that arising out of, and limited to the extent of, any margin transaction or other unpaid for transaction?

III. Selling Practices

A. Provide an explanation of the marketing practices to be employed by the organization which is to include, but not be limited to, the organization's policy and

practices relating to the acceptance of orders on a solicited or unsolicited basis, proposed tests to assure customer suitability, advertising, etc.

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

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

IV. Supervision

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

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

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

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

V. Good Deliverable Form

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

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

VI. Control Location and Insurance Coverage

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

B. Name the insurance underwriter of the organization's broker's blanket bond.

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

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

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

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

VII. Settlement Procedures

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

B. Outline the organization's procedures to monitor customers' obligations to satisfy settlement within prescribed time frames.

C. What action will the organization take in the event of non-payment by a customer by the settlement date?

D. Outline the organization's margin policy as it will pertain to bullion transactions by customers.

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

VIII. Buy-Back of Customer Bullion

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

IX. Books and Records

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

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

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

X. Reconciliation and Periodic Verification

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

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

.03 Minimum Net Capital for Specialist Firms:

The specialist net capital requirements of Rules 2.1(b) and 2.1(c) shall become effective on July 1, 1994.

.04 Members exempt from the provisions of subsection (b), (c) and (d) of this Rule 2.1 are set forth in Rule 2.8(a).

Approved: July 1, 1994; May 5, 2000 (PCX-99-39).]

Rule 2.1(b) An OTP Holder and OTP Firm shall be deemed to have such a purpose if and so long as:

(1) the OTP Holder or OTP Firm, as the case may be, has qualified and acts in respect of its business on the Exchange in an approved capacity pursuant to the Bylaws, Rules and procedures of the Exchange; and all transactions are in compliance with Section 11(a) of the Securities Exchange Act of 1934 as amended and the Rules and regulations adopted thereunder; or

(2) the OTP Holder is a general partner, executive officer or nominee of an OTP Firm who has conferred trading privileges-upon that OTP Firm.

Rule 2.1(c) No OTP Holder or OTP Firm shall utilize any scheme, device, arrangement, agreement or understanding designed to circumvent or avoid, by reciprocal means or in any other manner, the provisions of this Rule 2.1.

Qualifications and Application of Individual Applicants

Rule 2.2(a) [Reserved.] An OTP may be held by a natural person who is at least 18 years of age or older and who is:

(1) registered as a broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, or

(2) associated with a registered broker or dealer, and who meets the qualifications of an OTP Holder set forth in the Bylaws and Rules of the Exchange.

Rule 2.2(b) An OTP Holder may confer trading privileges under an OTP on a partnership, a corporation, limited liability company, or other essentially similar organization acceptable to the Exchange provided:

(1) such firm has been approved by the Exchange;

- (2) such firm meets all the requirements prescribed by the Exchange's Bylaws and Rules; and
(3) complies with such additional requirements as the Exchange may initially or from time to time prescribe.

Such firms, and persons associated therewith, shall, upon approval, be fully subject to the jurisdiction of the of the Exchange, and Bylaws and Rules, to the same extent as are any other OTP Firm or persons associated therewith.

[Corporate Affiliates and Subsidiaries]

Qualifications of Firm Applicants

Rule 2.3(a) An OTP may be held by an entity which is a registered broker or dealer pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, including sole proprietors, partnerships, limited liability partnerships, corporations, and limited liability companies. A corporation, limited liability company, or limited liability partnership must be organized under the laws of one of the states of the United States or under other laws as the Board of Directors shall approve. [A member firm shall not form a corporate affiliate or subsidiary without the prior written approval of the Exchange. All affiliates or subsidiaries of a member firm shall be subject to compliance with the Constitution and Rules or other conditions as may be established by the Exchange. Members and allied members of member firms shall be responsible for any fraud committed by a corporate affiliate or subsidiary organization or for any act or proceeding thereof contrary to just and equitable principles of trade or detrimental to the interest or welfare of the Exchange.

A member firm proposing to organize an affiliate or subsidiary corporation shall submit full details to the Exchange.

The above Rule shall apply to all member firms of the Exchange unless the member firm is subject to the jurisdiction of another national securities exchange or association designated by the Board as having comparable standards, or it is subject to the jurisdiction of another national securities exchange or association designated by the Securities and Exchange Commission as the primary regulatory body.

Approved: September 26, 1996; May 5, 2000 (PCX-99-39).

Changes in Stockholder Status]

Rule 2.3(b) An OTP Firm, other than a sole proprietorship, who holds an OTP must designate a natural person as OTP Holder. A sole proprietor must hold an OTP in the name of a natural person and not under a fictitious business name. [Whenever a person owning 5% or more of any class of equity securities, directly or indirectly, of a member firm ceases to be a member, allied member or approved person, the firm shall redeem or convert such securities to fixed income securities so that such security interest is less than

5%. Provided, however, that if such redemption or conversion would cause such member firm not to comply with the capital requirement of Rule 2, the member firm will so notify the Exchange and the assets which the person receives upon redemption of such securities, will be loaned by the person to the member firm as a loan subordinated to the claims of all customers and general creditors of the member firm, or the fixed income securities which the person receives upon conversion of such securities will be subordinated to the claims of all customers and general creditors of the member firm. Any such subordination shall be pursuant to an agreement approved by the Exchange.

Approved: September 26, 1996.

Trading in Firm's Securities]

Rule 2.3(c) An OTP Holder may not represent more than one OTP Firm. [A member firm shall not trade in (except on an unsolicited basis) or make recommendations with respect to its own securities or those of its parents or affiliates (other than registered investment companies) and any parents or affiliates of a member firm shall not trade in (except on an unsolicited basis) or make recommendations with respect to its own securities or those of its affiliates, or those of the member firm (other than registered investment companies).

Approved: September 26, 1996.

Change in Capitalization]

Rule 2.3(d) An OTP Firm may hold such additional OTPs in the name of a Nominee or Nominees, subject to such conditions and requirements as the Exchange may prescribe. [No member firm shall make any change in its capitalization without prior written approval of the Exchange.

Approved: September 26, 1996.

Owners of 5% or More Equity Securities

Rule 2.3(e). Every party who owns beneficially 5% or more of any class of equity security, either directly or indirectly, of the firm shall be a member, allied member or approved person.

Approved: September 26, 1996.

Conditions for Issuance of Freely Transferable Securities

Rule 2.3(f). Member firms which issue freely transferable securities must maintain a ratio of not more than 50 percent of properly subordinated debt equity (including

common and preferred stock) after giving the effect to any public financing, and member firms or parents thereof which issue freely transferable securities must:

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

Approved: September 26, 1996.

Rule 2.3(g)--Reserved.

Voting Agreement

Rule 2.3(h). None of the stock of a corporate member firm shall at any time be held under or subject to any voting agreement whereby the voting of such stock is pooled or joined with the stock of any then member, allied member, stockholder associate or approved person unless approved by the Board.

Approved: September 26, 1996.

Participation in Member Firms

Rule 2.3(i). The Exchange hereby specifically approved the beneficial ownership of an interest in any other member firm by a member, allied member, or approved person of any member firm:

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

Approved: September 26, 1996.

Restrictions on Member Activities]

Application Procedures

Rule 2.4 [The Exchange may restrict the conduct of a member organization's activities if at any time the member organization appears to be approaching financial difficulties or appears to be experiencing difficulties in its daily operations.]

(a) Every individual or organization applying to become the holder of an OTP, every individual applying to become a Nominee of an OTP Firm, shall complete an application on a form prescribed by the Exchange and shall file it with the Exchange. The application shall be filed with such application fees and such documents as may be required by the Exchange. Application fees are not refundable. [The Exchange may implement the provisions of Paragraph (b) of this Section if it determines the existence of one or more of the following conditions:

(1) The member organization fails to maintain net capital, above the requirements of Rule 2, equivalent to the greater of (i) one-half of the losses of a member organization in the twelve-month period immediately preceding the date of such computation, or (ii) the loss experienced by the member organization in the six-month period immediately preceding such computation.

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

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

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

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

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

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

(7) The member organization has experienced a substantial change in the nature of the business conducted which, in the view of the Exchange, increases the potential risk of loss to customers and members.

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

(9) The member organization is unable to demonstrate compliance with applicable net capital requirements.

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

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

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

(13) The member organization is unable to clear and settle transactions promptly.

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

(15) The member organization is subject to the reporting provisions of SEC Rule 17a-11.]

Rule 2.4(b) Following receipt of an OTP application, the Exchange shall post the applicant's name for a period of three (3) business days. The Exchange may shorten or waive the posting period for an applicant if it determines that extenuating circumstances warrant such action. Applicants seeking to shorten or waive the posting period are required to submit a written statement that sufficiently describes the basis for their request.

[If the Exchange determines that any of the conditions listed under Paragraph (a) of this Section exist, or otherwise determines that the member organization is guilty of (i) conduct inconsistent with just and equitable principles of trade, (ii) acts detrimental to the

interest or welfare of the Exchange; or (iii) conduct contrary to an established practice of the Exchange, the Exchange may require that the member organization take appropriate action by effecting one or more of the following or similar steps, until such time as the Exchange determines otherwise:

- (1) Promptly pay all free credit balances to customers.
- (2) Promptly effect delivery to customers of all fully-paid securities in the member organization's physical possession or control.
- (3) Introduce all or a portion of its business to another member organization on a fully-disclosed basis.
- (4) Reduce the size or modify the composition of its inventory.
- (5) Postpone the opening of new branch offices or require the closing of one or more existing branch offices.
- (6) Promptly collect outstanding unsecured loans, advances or other similar receivables, where practicable.
- (7) Accept no new customer accounts.
- (8) Undertake an immediate audit by an independent public accountant at the member organization's expense.
- (9) Restrict the payment of salaries or other sums to partners, officers, directors, shareholders or affiliated persons of the member organization.
- (10) Effect liquidating transactions only.
- (11) Accept unsolicited orders only.
- (12) File special financial and operating reports.]

Rule 2.4(c) Every individual applicant and, in the case of applicant entities, all persons associated with the entity, may be investigated by the Exchange. The applicant shall file with the Exchange such additional documents as may be required by the Exchange. [The provisions contained in this Section do not limit the Exchange's authority to use other standards or to impose other restrictions, or take other action deemed appropriate under the circumstances in the public interest and for the protection of members and member organizations.

Commentary :

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

Rule 2.4(d) Upon completion of the application process, the Exchange shall consider and then approve or reject the application, unless there is just cause for delay. Individual applicants and persons associated with applicant entities may be required to appear in person before the Exchange. The Exchange may also require any OTP Holder or OTP Firm or person associated with an OTP Holder or OTP Firm who may possess information relevant to the applicant's suitability for holding an OTP to provide information or testimony.

Rule 2.4(e) The Exchange shall approve an application if it finds that the applicant meets all of the qualifications for holding an OTP. The Exchange shall reject an application if it does not make such a finding or if it finds that, if the application were approved, the OTP Holder or OTP Firm would be subject to suspension or expulsion under the provisions of the Bylaws, Rules or procedures of the Exchange or the rules, regulations and procedures promulgated under the Securities Exchange Act of 1934, as amended.

Rule 2.4(f) Written notice of the action of the Exchange, specifying in the case of rejection of an application the grounds therefor, shall be given promptly to the applicant.

Rule 2.4(g) In the event that an application is rejected by the Exchange, the applicant shall have an opportunity to be heard upon the specific grounds for the disapproval, in accordance with the provisions of Rule 10. An applicant denied an OTP may challenge the denial by filing with the Exchange, a petition for review of the denial by the Exchange's Board Appeals Committee. Such petition shall be filed within thirty (30) calendar days of the date upon which the Corporation's decision was mailed to the applicant and shall be filed in accordance with the provisions of Rule 10.14.

[Clearing Member Financial Requirements]

Denial of or Conditions to OTPs

Rule 2.5(a) The Exchange may deny or may condition trading privileges under an OTP to a registered broker-dealer or may bar a natural person from becoming associated (or may condition an association) with an OTP Firm for the same reasons that the Securities and Exchange Commission may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Securities Exchange Act of 1934, as amended. [A Clearing Member issuing a Letter of Guarantee for one or more Market Makers must at all times be in compliance with the net capital requirements of the Options Clearing Corporation and with the capital requirements of securities laws as they may exist from time to time.]

Rule 2.5(b) The Exchange may deny (or may condition) trading privileges under an OTP, or may prevent a natural person from becoming associated (or may condition an association) with an OTP Firm, when the applicant, directly or indirectly:

(1) is unable to satisfactorily demonstrate its present capacity to adhere to all applicable Exchange or SEC policies, Rules and regulations, including, without limitation, those concerning record-keeping, reporting, finance and trading procedures;

(2) has previously violated, and there is a reasonable likelihood such applicant will again engage in acts or practices violative of, any applicable Exchange or SEC policies, Rules and regulations, including, without limitation, those concerning record-keeping, reporting, finance and trading procedures or those Rules of other self-regulatory organizations of which such applicant is or was a member;

(3) has engaged, and there is a reasonable likelihood such applicant will again engage, in acts or practices inconsistent with just and equitable principles of trade;

(4) has a negative net worth, or has financial difficulties involving an amount that is more than 5% of the applicant's net worth;

(5) is subject to any unsatisfied liens, judgments or unsubordinated creditor claims of a material nature, which, in the absence of a reasonable explanation therefor, remain outstanding for more than sixty (60) calendar days (the term "material" means any amount which equals more than 5% of the total assets of the broker or dealer);

(6) owes an undisputed debt to an OTP Firm or OTP Holder arising out of the securities business, in which case the Exchange may take such action as it deems appropriate, including, without limitation, denying the application or conditioning the issuance of the OTP upon the execution of an agreement regarding repayment of the debt;

(7) allegedly owes a debt to an OTP Holder or OTP Firm arising out of the securities business, in which case the Exchange may take such action as it deems appropriate, including, without limitation, denying the application or conditioning the issuance of the OTP upon the debt being submitted to arbitration pursuant to Rule 12 at the request of the OTP Holder or OTP Firm to whom the debt is allegedly owed;

(8) has been itself, or is the successor to an entity which has been subject to any bankruptcy proceeding, receivership or arrangement for the benefit of creditors within the past three years;

(9) has engaged in an established pattern of failure to pay just debts;

(10) does not successfully complete such written proficiency examinations as required by the Exchange to enable it to examine and verify the applicant's qualifications to function in one or more of the capacities applied for.

Series 7 Requirement for Off-Floor Traders

(A) Traders of an OTP Firm for which the Exchange is the Designated Examining Authority ("DEA") must successfully complete the General Securities Registered Representative Examination Test, Series 7, if the primary business of the OTP Firm involves the trading of securities that is unrelated to the performance of the functions of a registered specialist, a registered market maker or a registered floor broker. The following are exempt from the requirement to successfully complete the Series 7 Examination: OTP Holders who are performing the function of a registered Market Maker or registered Floor Broker (pursuant to 6.33 or 6.44, respectively) and associated persons of OTP Firms or OTP Holders who facilitate the execution of stock transactions for the accounts of options market makers.

For purposes of this Rule:

(i) The term "trader" means a person

(a) who is directly or indirectly compensated by an OTP Firm, or who is any other associated person of an OTP Firm; and

(b) who trades, makes trading decisions with respect to, or otherwise engages in the proprietary or agency trading of securities; and

(ii) The term "primary business" means greater than 50% of the OTP Firm's business.

(B) Each OTP Firm and OTP Holder for which the Exchange is the DEA must complete, on an annual basis, and on a form prescribed by the Exchange, a written attestation as to whether the OTP Firm primary business is conducted in the performance of the function of a registered Market Maker or a registered Floor Broker (pursuant to Rules 6.33 or 6.44, respectively).

(C) The requirement to complete the Series 7 Examination will apply to current traders of OTP Firms that meet the criteria of subsection (A), above, as well as to future traders of OTP Firms that meet the criteria of subsection (A), above, at a later date. Traders of OTP Firms that meet the criteria of subsection (A), above, must successfully complete the Series 7 Examination within six months of notification by the Exchange.

(11) does not meet such other standards of training, experience, and competence as may be established by the Exchange;

(12) would bring the Exchange into disrepute; or

(13) for such other cause as the Exchange reasonably may decide.

Rule 2.5(c) The Exchange may waive or modify a required examination for any applicant if, within two years of the date such applicant applied to the Exchange for an OTP, such applicant has successfully completed a comparable examination administered by a self-regulatory organization or the Securities and Exchange Commission.

Rule 2.5(d) The Exchange shall regard the failure by any applicant to carry out any contract or honor any financial commitment with another OTP Firm or OTP Holder as a violation of just and equitable principles of trade, and an indication of a broker or dealer applicant's inability to meet such standards of financial responsibility as may be set by the Exchange.

Rule 2.5(e) When an applicant is the subject of an investigation conducted by any self-regulatory organization or government agency, the Exchange is under no obligation to act on the application until the matter has been resolved.

Rule 2.5(f) The Exchange's Ethics and Business Conduct Committee may take action against an OTP Firm or OTP Holder under Rule 10 when any of the above reasons for denying or conditioning issuance of an OTP come into existence after an application has been approved and an OTP has been issued.

[FINANCIAL AND OPERATIONAL COMBINED UNIFORM SINGLE ("FOCUS") REPORT

Reports to be Filed by Certain Member Organizations]

Publication of Approved OTP Applications

Rule 2.6 [Unless the Exchange determines otherwise, every member organization, except as otherwise provided in Rule 2.8, shall file with the Exchange the reports prescribed by this Section.]

[Monthly Reports]

With respect to each OTP that is issued, the Exchange shall promptly distribute a notice thereof to all OTP Holders and OTP Firms by publishing the name of each new OTP Holder and OTP Firm in the Exchange's Weekly Bulletin. [Part I of SEC Form X-17A-5 shall be filed monthly by any member organization which carries or clears

accounts for customers. Such report shall be due by the tenth business day following the end of the month being reported upon.

Part II Quarterly Reports

Rule 2.6(b) Two manually signed copies of Part II of SEC Form X-17A-5 shall be filed for each calendar quarter by any member organization which carries or clears accounts for customers. Such report shall be due by the fifteenth calendar day following the end of the calendar quarter being reported upon.

Part IIA Quarterly Reports

Rule 2.6(c). Two manually signed copies of Part IIA of SEC Form X-17A-5 shall be filed for each calendar quarter by any member organization which does not carry or clear accounts for customers. Such report shall be due by the fifteenth calendar day following the end of the calendar quarter being reported upon.

Part II or Part IIA Filings on Other Than Calendar Quarters

Rule 2.6(d). A member organization shall file an additional Part II or Part IIA of SEC Form X-17A-5, as appropriate, within fifteen calendar days after the date selected for the annual audited financial statements of the member organization, pursuant to the provisions of Rule 2.11, where such date does not coincide with the end of a calendar quarter.

Prevention of the Misuse of Material, Nonpublic Information

Rule 2.6(e). Every member or member organization must establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of such member or member organization's business, to prevent the misuse of material, non-public information by such member or member organization or persons associated with such member or member organization. Members or member organizations for whom the Exchange is the Designated Examining Authority ("DEA") that are required, pursuant to Rule 2.6, to file SEC form X-17A-5 with the Exchange on an annual or more frequent basis must file contemporaneously with the submission for the calendar year end ITSFEA compliance acknowledgments stating that the procedures mandated by this Rule have been established, enforced and maintained. Any member or member organization or associated person who becomes aware of a possible misuse of material, non-public information must promptly notify the Exchange's Equities or Options Surveillance Department.

Commentary:

.01 For purposes of Rule 2.6(e), conduct constituting the misuse of material, non-public information includes, but is not limited to, the following:

A. Trading in any securities issued by a corporation, or in any related securities or related options or other derivative securities, while in possession of material, non-public information concerning that issuer;

B. Trading in a security or related options or other derivative securities, while in possession of material non-public information concerning imminent transactions in the security or related securities; or

C. Disclosing to another person or entity any material, non-public information involving a corporation whose shares are publicly traded or an imminent transaction in an underlying security or related securities for the purpose of facilitating the possible misuse of such material, non-public information.

.02 The terms "associated person" and "person associated with a member or member organization" mean anyone who directly is engaged in the member or member organization's trading-related activities, including General partners, officers, directors, managers (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 the member or member organization.

For the purposes of this Rule, the term "employee" includes every person who is compensated directly or indirectly by the member or member organization for the solicitation or handling of business in securities, including individuals trading securities for the account of the member or member organization, whether such securities are dealt in on an exchange or are dealt over-the-counter.

.03 Rule 2.6(e) provides that each member or member organization for which the Exchange is the DEA should establish, maintain, and enforce written policies and procedures similar to the following, as applicable:

A. All associated persons must be advised in writing of the prohibition against the misuse of material, non-public information; and

B. All associated persons of the member or member organization must sign attestations affirming their awareness of, and agreement to abide by the aforementioned prohibitions. These signed attestations must be maintained for at least three years, the first two years in an easily accessible place;

C. Each member or member organization must receive and retain copies of trade confirmations and monthly account statements for each account in which an associated person: has a direct or indirect financial interest or makes investment decisions. The activity in such brokerage accounts should be reviewed at least quarterly by the member or member organization for the express purpose of detecting the possible misuse of material, non-public information; and

D. All associated persons must disclose to the member or member organization whether they, or any person in whose account they have a direct or indirect financial interest, or make investment decisions, are an officer, director or 10% shareholder in a

company whose shares are publicly traded. Any transaction in the stock (or option thereon) of such company shall be reviewed to determine whether the transaction may have involved a misuse of material non-public information.

Maintenance of the foregoing policies and procedures may not, in all cases, satisfy the requirements and intent of Rule 2.6(e); the adequacy of each member or member organization's policies and procedures will depend upon the nature of such member or member organization's business.

.04 An Exchange member who is solely a lessor of a membership and is not registered and not required to register as a broker-dealer under Section 15 of the Exchange Act is not subject to the requirements of Exchange Rule 2.6(e) concerning the establishment, maintenance, and enforcement of written policies and procedures respecting the misuse of material, non-public information.

Approved: November 9, 1993. **Amended:** December 30, 1998.

Periodic Reports

Rule 2.6(f). Every member and member organization shall submit, as required by the Exchange, periodic reports with respect to short positions in securities.

Commentary:

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

Every member and member organization for which the Exchange is not the DEA must report "short" positions to the self-regulatory organization that is the DEA for such member or member organization if such DEA has a requirement for such reports. If the DEA does not have such a reporting requirement, then such member or member organization must comply with the provisions of this Rule 2.6(f).

Member organizations whose short positions have been properly reported to, and are carried by, a non-member clearing organization will be in compliance with this Rule 2.6(f) if adequate arrangements have been made for such clearing organization to report such positions to the Exchange or to another self-regulatory organization.

"Short" positions to be reported are those resulting from "short" sales as defined in SEC Rule 3b-3, but excluding positions resulting from sales specified in clauses (1), (6),

(7), (8), (9) and (10) of paragraph (e) of SEC Rule 10a-1. Also to be excluded are "short" positions carried for other members and member organizations reporting for themselves.

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

The term "designated examining authority" means the self-regulatory organization that has been assigned responsibility for examining a member or member organization for compliance with applicable financial responsibility rules.

.02 Members and member organizations for which the Exchange is the DEA need not report "short" positions to the Exchange as provided in Commentary .01 if such member or member organization has made arrangements, satisfactory to the Exchange, to report such positions to another self-regulatory organization.

Approved: January 27, 1995; March 30, 1995.

Accelerated Reporting]

REQUIREMENTS OF HOLDING AN OTP

Requirements Applicable Generally

Revocable Privilege

Rule 2.7 The issuance of an OTP constitutes only a revocable privilege and confers on its holder no right or interest of any nature to continue as an OTP Holder or OTP Firm, as the case may be. [Unless the Exchange determines otherwise, if any of the conditions described in this Section is applicable, a member organization subject to the provisions of Rule 2.6 shall file with the Exchange on a monthly basis (or more frequently if the Exchange so determines) Part II or Part IIA of SEC Form X-17A-5, as appropriate, together with a schedule of proprietary securities and commodities, and related "haircuts", and any other supplementary schedules deemed appropriate by the Exchange. Such reports shall be due by the fifteenth calendar day following the end of the month during which this Section becomes applicable to a member organization, and such accelerated reports shall continue to be filed each month thereafter (or more frequently if the Exchange so determines) until the member organization is otherwise advised by the Exchange:

SIPC Referral

Rule 2.7(a). The member organization is subject to the referral provisions of Section 5(a) of the Securities Investor Protection Act, in which event the Exchange will notify the member organization to file accelerated reports.

Financial or Operational Condition

Rule 2.7(b). The member organization has exceeded or is exceeding the financial or operational parameters set forth in Rule 2.4, in which event the member organization shall file without further notice the reports required by this Section.

General Conditions

Rule 2.7(c). The Exchange requires the filing of accelerated reports for reasons relating to (i) the financial or operational condition of the member organization (notwithstanding the provisions of paragraph (b) of this Section), (ii) the condition of the securities markets, or (iii) the condition of the securities industry, in which events the Exchange will notify the member organization to file accelerated reports.

Phase-In Period

Rule 2.7(d). For the first three months of calendar year 1976 or for a longer period if so extended by the Exchange,

(i) any member organization which clears or carries accounts of other broker-dealers shall file Parts I and II of SEC Form X-17A-5 on a monthly and quarterly basis, respectively; and

(ii) any member organization which files Part II or Part IIA of SEC Form X-17A-5 shall file a schedule of proprietary securities and commodities, and related "haircuts", and any other supplementary schedules which the Exchange may specifically prescribe. For purposes of this Section, proprietary securities and commodities include: actual or contractual commitments (other than unsettled regular-way securities transactions for member organizations reporting on a settlement date basis), long and short positions in firm accounts, subordinated accounts, secured demand note accounts, or any other account which is deemed proprietary for purposes of computing net capital in accordance with the provisions of Rule 2.1.

Exemptions]

No Liability for Using Facilities

Rule 2.8 The Exchange shall not be liable for any damages sustained by an OTP Holder or OTP Firm growing out of the use or employment by such OTP Holder or OTP Firm of the facilities afforded by the Exchange in the conduct of their business. Each OTP Holder and OTP Firm expressly agrees, in consideration of the issuance of the OTP to release and discharge the Exchange, its officers, directors, agents and employees of and from all claims or damages arising from their acceptance and use of such OTP and their agreement to be bound by the Bylaws and Rules of the Exchange. [A member organization shall be exempt from the filing requirements prescribed by Rules 2.6 and 2.7 under the following conditions:

Members Exempt from Net Capital Rule

Rule 2.8(a). The following members are exempt from subsections (b), (c) and (d) of Rule 2.1: any Floor Broker, Market Maker in listed options, or Lead Market Maker in listed options, registered with the Exchange in any such capacity.

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

Approved: July 1, 1994.

Members Designated To Other Self-Regulatory Organizations

Rule 2.8(b). Any member organization which is a member of another self-regulatory organization which has been designated the examining authority for such member organization by the Securities and Exchange Commission.

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

Report Filed Upon Termination of Membership]

Exchange Not Bound by OTP Holder and OTP Firm Agreements

Rule 2.9 Nothing contained in any partnership agreement, limited partnership agreement, articles of incorporation, resolutions, by-laws or any other organizational documents, or any amendment thereto, of an OTP Firm or OTP Holder, nor any other agreements between any OTP Holder, OTP Firm and a third party, or any amendment thereto, even though submitted to or filed with the Exchange, shall obligate or be binding upon the Exchange. [If a member organization holding any membership interest in a national securities exchange ceases to be a member in good standing of such exchange, such member organization shall, within two business days after such event, file with the Securities and Exchange Commission and with the Exchange, Part II of Form X-17A-5, as of the date of such event, pursuant to the provisions of Paragraph (b) of Rule 17a-5 under the Securities Exchange Act of 1934, as amended.

Customer Statements]

Only OTP Firms and OTP Holders To Trade Under

Rule 2.10 Only OTP Holders and OTP Firms which are partnerships, limited liability partnerships, corporations or limited liability companies shall carry accounts for customers or conduct business under a firm name, except that if by death or otherwise an OTP Firm is reduced to the OTP Holder such OTP Firm may continue business in the firm name for such a period only as may be allowed by the Exchange. [Every member organization shall furnish to its customers, principal stockholders and subordinated lenders, and shall file with the Securities and Exchange Commission, the Exchange, and any other self-regulatory organizations of which it is a member, certain financial statements in accordance with the provisions of Paragraph (c) of Rule 17a-5 under the Securities Exchange Act of 1934, as amended.]

[Annual Filing of Audited Financial Statements]

Sole Proprietors and Individual OTP Holders

Rule 2.11 [Every member organization shall file annually a report which shall be audited by an independent public accountant in accordance with the provisions of paragraphs (d) through (n) of Rule 17a-5 under the Securities Exchange Act of 1934, as amended.]

(a) A sole proprietor may not carry public customer accounts.

(b) A sole proprietor may not hold an OTP in the name of a nominee.

(c) An OTP Holder may not represent more than one OTP Firm except in the execution of orders on an agency basis for the account of the one OTP Firm represented.

(d) OTP Holders shall comply with such additional requirements as the Exchange may from time to time prescribe. Such requirements are subject to SEC review and/or approval, where required.

[Financial Reports]

OTP Holders and OTP Firms

Rule 2.12 (a) Each OTP Firm and OTP Holder shall be fully qualified to do business in California. [Every member organization which is not a member of another national securities exchange or registered national securities association which is the Designated Examining Authority for that member organization shall file with the Exchange answers to Financial Questionnaires, Reports of Income and Expenses and additional financial information in the type, form, manner and time prescribed by the Exchange.]

Rule 2.12(b) Each OTP Firm and OTP Holder shall maintain at the Exchange at all times a record of the name and address of the individual duly authorized by such OTP Firm or OTP Holder to receive and accept legal or other notices on its behalf. [(1) Each member organization shall file with the Exchange a Report of Financial Condition on SEC Form X-17A-5 as required by Securities and Exchange Commission Rules 17a-5 and 17a-10. Any member who fails to file such Report of Financial Condition in a timely manner shall be subject to late filing charges as follows:

Number of Days Late	Amount of Charge
1--30	\$ 200.00
31--60	400.00
61--90	800.00

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

Rule 2.12(b)(2). Each member organization for which the Exchange is the designated collection agent must file with the Exchange such forms and assessments as are required pursuant to the Securities Investor Protection Act of 1970. Any member organization that fails to file such form or assessment in a timely manner will be subject to a late filing charge as follows:

Number of Days Late	Amount of Charge
1--30	\$ 100.00
31--60	200.00
61--90	300.00

Provided however: (A) if a member organization files its SIPC form and assessment after its receipt of SIPC's final late notice, but files within five business days after its receipt of SIPC's final late notice, such member organization will be subject to a fine pursuant to Rule 10.13; and (B) if a member organization fails to file its SIPC form and assessment within five business days after its receipt of SIPC's final late notice, such member organization will be subject to formal disciplinary action pursuant to Rule 10.3.

Commentary:

.01 A member organization that files its SIPC form and assessment more than 90 days late but before its receipt of SIPC's final late notice will be subject to a late charge of \$800.

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

Approved: June 25, 1993; December 28, 1993; December 21, 1995; February 7, 1997; November 4, 1997.

Financial Responsibility and Operational Condition]

Rule 2.12(c) An OTP Firm or OTP Holder shall adopt such restrictions on the conduct of its affairs as may be proscribed by the Exchange, including, without limitation restrictions to the payment of dividends, and loans to officers, directors, stockholders, partners or members. [The Exchange shall have the authority to examine the financial responsibility and/or operational conditions of any member or member organization. In conducting such examinations, the Exchange may require a member or member organization to furnish requested information. If the Exchange deems it necessary, members shall make available their books and records as well as provide sworn or unsworn testimony. All investigations shall be conducted in a manner consistent with the rules and regulations governing the duty of the Exchange.]

Underwriting Commitments]

Notification of Appointments

Rule 2.13 An OTP Firm that intends to admit any person to partnership, or to elect or appoint any person as an officer or director, or to enter into a partnership agreement, or to form a corporation, or limited liability company or other entity, or to alter the terms of an existing partnership agreement or articles of incorporation or limited liability company agreement or other similar operating agreement, shall notify the Exchange in writing of such proposed admission, arrangement, or alteration before said becomes effective and shall submit such papers and information and comply with such requirements in connection therewith as the Exchange may prescribe. [Each member organization, for which the Exchange is the designated examining authority, which enters into a security underwriting commitment, either with respect to an original or a secondary distribution of securities, whether or not admitted to dealing on the Exchange, shall notify the Exchange thereof in such manner as the Exchange shall prescribe.]

Lawsuits]

Allied Persons and Approved Persons

Rule 2.14(a) Allied and Approved Persons, as defined in Rule 1.1, shall be subject to Exchange approval. Any OTP Firm which proposes to admit any Allied or Approved Person shall notify the Exchange in writing before any such admission, shall pay any applicable fees and shall submit such information as may be reasonably required by the Exchange. [Each member organization, for which the Exchange is the designated examining authority, shall give written notice to the Exchange regarding all lawsuits involving such member organization or any participant therein, including a description of the nature and principal allegations of such lawsuits, and a statement of the amount of damages claimed therein. Similar notice shall be given to the Exchange regarding any claims or contingent liabilities that appear likely to result in litigation.]

Rule 2.14(b) In order to maintain its trading privileges, each OTP Firm shall obtain approval from the Exchange for all persons required to be approved, and each such OTP Firm shall maintain continuous compliance with all standards prescribed by the Bylaws and Rules of the Exchange.

Rule 2.14(c) Each OTP Firm shall promptly give to the Exchange written notice on such form as may be required by the Exchange of the death, retirement, or other termination of any OTP Holder, Allied Person, or Approved Person, and of the dissolution of the OTP Firm.

Rule 2.14(d) Each OTP Firm shall designate "principal executive officers" of such OTP Firm who must be OTP Holders or Allied Persons, and who must exercise supervision and control over the various areas of the business of such OTP Firm or OTP Holder in such areas as the Rules of the Exchange may prescribe.

Rule 2.14(e) Each OTP Firm shall include in its name an appropriate identifier of its corporate or business association status, in English (e.g. Incorporated, Corporation, Limited Liability Company, Limited Liability Partnership, or an appropriate abbreviation thereof).

Rule 2.14(f) The Exchange may require each applicant becoming a general partner, officer, voting stockholder, limited liability company, or director of any OTP Firm to pass an examination to demonstrate that they have adequate experience and knowledge of the securities business before undertaking any active duties with the firm. Compliance with this requirement may be waived if the principal is a member of an OTP Firm belonging to another national securities exchange having comparable requirements.

Rule 2.14(g) Each OTP Firm shall be liable for all of the liabilities to the Exchange of the OTP Holder's, as the case may be, which shall include, without limitation, the payment of all Exchange fees and charges as well as meeting all obligations accruing in the course of the OTP Firm's or its respective OTP Holders' Exchange business.

Rule 2.14(h) Each OTP Holder and OTP Firm, Approved Person, Allied Person, Affiliate, and Associated Person shall be liable to the same discipline and penalties for the acts and omissions of his or her OTP Firm, as the case may be, as for their own acts.

Rule 2.14(i) Claims of OTP Firms, OTP Holders, Affiliates, Allied Persons, directors, officers, and Associated Persons, of OTP Firms or OTP Holders shall be subordinate in right of payment to payment or provision for payment of all claims of customers of such OTP Firm or OTP Holder.

Rule 2.14(j) Each OTP Firm shall submit to the Exchange, at such times as the Exchange may require, an affidavit listing, to the best of its knowledge and belief, the

name of each party directly or indirectly beneficially owning 1% or more of its outstanding voting stock and showing the percentage of such ownership.

Rule 2.14(k) No parent or person controlling any parent of a OTP Firm may engage in any transaction or action for the purpose of circumventing Exchange Rules governing the activities of an OTP Firm.

Rule 2.14(l) OTP Firms must comply with such additional requirements as the Board of Directors may from time to time prescribe.

[MARGINS

Daily Margin Record]

Partnerships

Rule 2.15(a) Each OTP Firm that is a partnership (whether general or limited) and which has only one general partner shall provide in its agreement that:

(1) The partnership shall be dissolved upon the death or incapacity of the general partner in which event the limited partner shall wind up the affairs of the partnership. (Such other events causing dissolution and persons to wind up partnership affairs may be designated as the parties shall choose.)

(2) The partnership shall at all times, in addition to the general partner, authorize at least one other person associated with the partnership business by individual signatures to sign checks, perform clearing transactions and handle all other routine business matters for the partnership. This authorization may be contingent upon terms acceptable to the Exchange. The person so appointed as authorized agent shall continue to have such authority upon the death or incapacity of the general partner for the purpose of winding up the affairs of the partnership as agent of the limited partner subject to revocation of authority thereafter by the limited partner. [Each member or member firm registered on the Exchange, carrying margin accounts for customers shall make and maintain a record of every case in which initial or additional margin must be obtained in a customer's account because of transactions effected in such account. This record shall show for each account the date of the transaction, the customer's name, the amount of margin required and the time when and manner in which such margin is furnished or obtained. This record shall be in a form acceptable to the Exchange and contain such additional information as the Exchange may from time to time prescribe. This record shall be preserved for at least twelve months.

Margin By Liquidation]

Rule 2.15(b) Upon the death or withdrawal of any partner, if the partnership business is continued by the surviving partners, the continuing partnership will not be recognized as an OTP Firm if the unsubordinated claim of the deceased or withdrawing partner to a return of such deceased or withdrawing partner's capital contribution would result in a net capital impairment of the continuing partnership. The continuing partnership will ordinarily be recognized as an OTP Firm during the period of subordination of such claim if subordination provisions substantially as follows are included in the partnership agreement:

Upon the death or withdrawal of any partner, if the surviving partners desire to continue the partnership business, the capital contribution of such deceased or withdrawing partner shall remain at the risk of the business and shall be considered capital of such continuing firm for a period of fifteen (15) calendar days to the extent necessary to comply with the net capital requirements of the Exchange. Any claim of the withdrawing partner or of the personal representative of the deceased partner to the repayment of such deceased or withdrawing partner's capital contribution during such period shall be subordinated to the payment in full of such claims of all present and future creditors of the continuing partnership arising out of any matters occurring before the end of such period. [No member or firm registered on the Exchange shall permit a customer to make a practice of effecting transactions requiring initial or additional margin pursuant to rules of the Exchange or regulations of the Board of Governors of the Federal Reserve System and then furnishing such margin by the liquidation of the same or other commitments; except that the provisions of this section shall not apply to any account maintained for another broker or dealer in which are carried only the commitments of the customers of such other broker or dealer exclusive of his partners, provided such other broker or dealer (i) is a member of the Exchange or a firm registered thereon; or (ii) has agreed in good faith with the member or firm carrying the account that he will maintain a record equivalent to that referred to in Rule 2.15(a); or (iii) is not subject to the regulations of the Board of Governors of the Federal Reserve System.

Members Other Exchanges

Rule 2.15 (c) A member or member firm registered on another national securities exchange or association which has comparable standards and which has been designated by the Securities and Exchange Commission as the primary regulator is exempt from the provisions of this rule, unless otherwise stated.

Approved: May 5, 2000 (PCX-99-39).

Customer Defined

Rule 2.15(d). For the purpose of this rule, the term customer shall include any person or entity for whom securities are purchased or sold or to whom securities are sold or from whom securities are purchased whether on a regular way, when issued, delayed

or future delivery basis. It will also include any person or entity for whom securities are held or carried. The term will not include a broker or dealer from whom a security has been purchased or to whom a security has been sold for the account of the member firm or its customers.

Initial Margin

Rule 2.15(e). Initial margin shall be required and obtained in accordance with the provisions of Regulation T of the Board of Governors of the Federal Reserve System.

Margin Requirements]

Responsibilities of Non-Resident OTP Firms

Rule 2.16(a) An OTP Firm 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 Securities and Exchange Commission and the Exchange must:

(1) prepare all such reports, and maintain a general ledger chart of accounts and any description thereof, in English and U.S. dollars,

(2) reimburse the Exchange for any expenses incurred in connection with examinations of the OTP Firm or its OTP Holders to the extent that such expenses exceed the cost of examining an OTP Firm or OTP Holder located within the continental United States in the geographic location most distant from the principal office of the Exchange or, in such other amount as the Exchange may deem to be an equitable allocation of such expenses,

(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, and

(4) utilize, either directly or indirectly, the services of a broker/dealer registered with the Securities and Exchange Commission, a bank or a clearing agency registered with the Securities and Exchange Commission located in the United States in clearing all transactions involving persons affiliated with the OTP Firm or OTP Holder, except where both parties to a transaction agree otherwise.

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

minimum equity and cost of purchase provisions shall not apply to "when distributed" securities in cash accounts and the exercise of rights to subscribe.

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

Maintenance Margin Rule

Rule 2.16(b). The margin which must be maintained in margin accounts of customers, whether members, allied members, member firms or non-members, shall be as follows:

- (1) 25% of the market value of all securities "long" in the account; plus
- (2) \$2.50 per share or 100% of the market value, in cash, whichever amount is greater, of each stock "short" in the account selling at less than \$5.00 per share; plus
- (3) \$5.00 per share or 30% of the market value, in cash, whichever amount is greater, of each stock "short" in the account selling at \$5.00 per share or above; plus
- (4) 5% of the principal amount or 30% of the market value, in cash, whichever amount is greater, of each bond "short" in the account.
- (5) In the case of securities listed pursuant to Rule 3.2(t), 100% of the market value, in cash, of each security held "long" in the account.

Amended: April 19, 1995.

Exceptions to Rule

Rule 2.16(c). The foregoing requirements of this Rule are subject to the following exceptions:

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

(2) Exempted Securities.

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

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

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

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

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

(3) Joint Accounts in Which the Carrying Firm or a Partner or Stockholder Therein Has an Interest.--In the case of a joint account carried by a member firm, in which such firm, or any partner, member, allied member or any stockholder (other than a holder of freely transferable stock only) of such member firm participate with others, the interest of each participant other than the carrying member firm shall be margined by each such participant pursuant to the provisions of this rule as if such interest were in a separate account.

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

(5) Specialists' and Market Makers' Accounts

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

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

(6) Broker/Dealer Accounts

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

(B) *Joint Back Offices Arrangements.* An arrangement may be established between two or more registered broker-dealers pursuant to Regulation T, Section 220.11 to form a joint back office ("JBO") arrangement for carrying and clearing, or carrying accounts of participating broker-dealers. Member organizations must provide written notification to the Exchange prior to establishing a JBO.

(i) A carrying and clearing, or clearing member organization must:

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

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

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

(ii) A participating broker-dealer must:

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

(b) maintain an ownership interest in the carrying/clearing member organization pursuant to Regulation T, Section 220.11; and

(c) maintain a minimum liquidating equity of \$1 million in the Joint Back Office arrangement exclusive of the ownership interest established in (b) above. When the minimum liquidating equity decreases below the \$1 million requirement, the participant must deposit an amount sufficient to eliminate this deficiency within 5 business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T.

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

Amended: February 24, 2000.

Other Provisions

Rule 2.16(d). (1) Determination of Value for Margin Purposes.--Active securities dealt in on a recognized exchange shall, for margin purposes, be valued at current market prices. Other securities shall be valued conservatively in the light of current market prices and the amount which might be realized upon liquidation. Substantial additional margin must be required in all cases where the securities carried are subject to unusually rapid or violent changes in value, or do not have an active market on a recognized exchange, or where the amount carried is such that it cannot be liquidated promptly.

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

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

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

(B) The issuance, guarantee or sale (other than a "long" sale) for a customer of a put or a call shall be considered as a security transaction subject to Rule 2.16(a). The short sale for a customer of a currency warrant, currency index warrant or stock index warrant shall be considered as a security transaction subject to paragraph (a) of this Rule 2.16.

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

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

Definitions

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

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

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

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

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

The terms "current market value" and "current market price" when used in reference to an option contract, currency warrant, currency index warrant or stock index warrant, shall mean the total cost or net proceeds of the option contract, currency warrant, currency index warrant or stock index warrant on the day it was purchased or sold and at any other time shall mean the preceding business day's closing price of that option contract, currency warrant, currency index warrant or stock index warrant indicated by

any regularly published reporting or quotation service multiplied by the applicable multiplier in the case of an option contract or, in the case of a currency warrant, the units of underlying currency per warrant.

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

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

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

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

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

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

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

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

The terms "strike price" or "exercise price" in respect of a currency warrant means the price per unit of underlying currency specified in the prospectus. The terms "strike price" or "exercise price" in respect of a currency index warrant mean the index group value specified in the prospectus. The terms "strike price" or "exercise price" in respect of a stock index warrant mean the index group value specified in the prospectus.

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

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

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

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

I Security or Index	II Initial and/or Maintenance Margin Required	III Minimum Margin Requir?	IV Underlying Component Value
(1) Stock	20%	10%	The equivalent number of shares at current market prices
(2) Industry index stock group	20%	10%	The product of the current index group value and the applicable index multiplier
(3) Broad index stock group	15%	10%	The product of the current index group value and the applicable index multiplier
(4) U.S. Treasury Bills--95 days or less to maturity	.35%	1/20%	The underlying principal amount
(5) U.S. Treasury notes	3%	1/2%	The underlying principal amount
(6) U.S. Treasury bonds	3.5%	1/2%	The underlying principal amount
(7) Foreign Currencies: Australian	4%	3/4%	The product of

	dollar			units per
	British pound	4%	3/4%	foreign currency
	Canadian dollars	1%	3/4%	contract and the
				closing
	German marks	4%	3/4%	spot price
	European			
	Currency Unit	4%	3/4%	
	French franc	4%	3/4%	
	Japanese yen	4%	3/4%	
	Swiss franc	4%	3/4%	
(8)	Stock index	15%	10%	The product of
	warrant put or			the current
	call			index group
				value and the
				applicable index
				multiplier
(9)	Currency warrant			The product of
	put or call			the units of
				underlying
				currency per
				warrant and the
				spot price of
				such currency
	Australian	4%	3/4%	The product of
	dollar			units per
	British pound	4%	3/4%	foreign currency
	Canadian dollars	4%	3/4%	contract and the
				closing
	German marks	4%	3/4%	spot price
	European			
	Currency			
	Unit	4%	3/4%	
	French franc	4%	3/4%	
	Japanese yen	4%	3/4%	
	Swiss franc	4%	3/4%	
	Currency index			
	warrant put or call:			

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

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

<i>Option Issue</i>	Call	Put
Stock or	Any excess of the	Any excess of the
Exchange-Traded Fund	aggregate exercise	current market value
Share options	price of the option	of the equivalent
	over the current	number of shares of
	market value of the	the underlying
	equivalent number of	security over the
	shares of the	aggregate exercise

U.S. Treasury options	underlying security. Any excess of the aggregate exercise price of the option over the current market value of the underlying principal amount.	price of the option. Any excess of the current market value of the underlying principal amount over the aggregate exercise price of the option.
Index stock group options	Any excess of aggregate exercise price of the option over the product of the current index group value and the applicable multiplier.	Any excess of the product of the current index group value and the applicable multiplier over the aggregate exercise price of the option.
Foreign currency options	Any excess of the aggregate exercise price of the option over the product of units per foreign currency contract and the closing spot prices.	The product of units per foreign currency contract and the closing spot prices over the aggregate price of the option.

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

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

(ii) In the case of puts and calls listed or traded on a registered national securities exchange or a registered securities association and issued by a registered clearing corporation which represent options on GNMA obligations in the principal amount of

\$100,000, 130% of the current market value of the option plus \$1,500, except that the margin required need not exceed \$5,000 plus the current market value of the option.

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

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

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

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

(3) When a "short" position in a stock index call warrant is offset by a "short" position of equivalent underlying value in a stock index put warrant or stock index put option issued by the Options Clearing Corporation on the same index, or a "short" position in a stock index put warrant is offset by a "short" position of equivalent

underlying value in a stock index call warrant or a "short" stock index call option issued by the Options Clearing Corporation on the same index, the margin required shall be the margin on the put or the call, whichever is greater, plus the current market value of the other position.

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

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

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

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

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

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

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

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

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

(6) When a "long" position in a currency call warrant is offset by a "short" position of equivalent underlying value in a currency call warrant or a "short" currency call option issued by the Options Clearing Corporation on the same currency and the "long" position expires no earlier than the "short" position, the margin required shall be the amount, if any, by which the strike price of the "long" position exceeds the strike price of the "short" position, times the units of underlying currency per warrant. This same offset provision shall also be available to call positions in currency index warrants.

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

Where a put that is listed or traded on a registered national securities exchange or registered securities association is carried "long" for a customer's account and the account is also "short" a put listed or traded on a registered national securities exchange, expiring on or before the date of expiration of the "long" listed put and, written on the same GNMA obligation in the principal amount of \$100,000, the margin required on the "short" put shall be the lower of (iii) the margin required pursuant to (D)(ii) above or (iv)

the amount, if any by which the exercise price of the "short" put exceeds the exercise price of the "long" put multiplied by the appropriate multiplier factor set forth below.

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

(H) "Long" and "Short" Positions in Securities and Options.

(1) "Long" Stock and "Short" Call.—

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

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

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

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

(3) "Specific Deposit" or "Escrow Deposit".—

To the extent that a short option contract is covered by a "specific deposit" or an "escrow deposit" of shares of the underlying stock represented by such option contract, no margin shall be required on the short option; provided, however, that in the case of a specific deposit, if such shares are carried in a margin account, they are margined in

accordance with the provisions of this Rule. Where the short option contract is covered by an "escrow deposit", executed and delivered to the Options Clearing Corporation, the underlying stock deposited in respect of such option contract shall not be deemed to have any value for margin purposes. A deposit of shares of the underlying stock represented by an option contract shall be deemed a "specific deposit" or "escrow deposit" for the purposes of this Rule if the agreements required by the Rules of the Options Clearing Corporation have been executed and delivered to the Options Clearing Corporation.

(4) "Short" Stock and "Short" Put.—

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

(5) Bank Guarantee Letters.—

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

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

(7) Determining Net "Long" and Net "Short" Positions.--

In determining net "long" and net "short" positions, in the underlying securities, offsetting "long" and "short" positions in exchangeable or convertible securities or in the same security, as discussed in Rule 2.16(c)(1) and Rule 2.16(c)(4), shall be deducted.

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

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

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

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

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

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

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

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

(iv) a long option position that was exercised;

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

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

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

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

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

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

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

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

(M) Cash account transactions. - A member organization may make option transactions in a customer's cash account, providing:

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

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

(3) "When Issued" and "When Distributed" Securities.--

(A) Margin Accounts

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

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

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

(B) Cash Accounts

In connection with any transactions or net position resulting from contracts for a "when issued" security in an account other than that of a member firm, non-member broker or dealer, bank, trust company, insurance company, investment trust, or charitable or non-profit educational institution, deposits shall be required equal to the margin required were such transaction or position in a margin account.

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

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

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

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

(ii) which is exempt by the Exchange as involving a primary distribution.

The term "when issued" as used herein also means "when distributed."

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

(5) **Consolidation of Accounts.**--When two or more accounts are carried for any person or entity, the required margin may be determined on the net position of said accounts, provided the customer has consented that the money and securities in each of such accounts may be used to carry, or pay any deficit in, all such accounts.

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

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

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

(9) BOUNDS

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

(B) The issuance, guarantee or opening sale (writing) for a customer of a BOUND shall be considered as a security transaction subject to paragraph (a) of this Rule 2.16.

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

(D) Subject to the exception set forth in subparagraphs (F) through (J) of this paragraph (d)(9), the minimum margin on any BOUND issued, guaranteed or carried "short" in a customer's account shall be 100% of the BOUND price plus 20% of the market value of the BOUND, provided, however, that the maximum margin required on each such BOUND shall not exceed the strike price for such BOUND.

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

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

(G)(i) When a BOUND is issued, guaranteed or carried "short" against an existing net "long" position in the security underlying the BOUND, or in any security which meets the requirements of Rule 6.1(23) relating to covered options or in any security immediately exchangeable or convertible, other than warrants without restriction including the payment of money, into the security underlying the BOUND, no margin need be required on the BOUND, provided (1) such net "long" position is adequately margined in accordance with this Rule and (2) the right to exchange or convert the net "long" position does not expire on or before the expiration date of the "short" BOUND.

(ii) When a BOUND and a LEAP with the same expiration and strike price are issued, guaranteed or carried "short" against an existing net "long" position in the security underlying the BOUND and LEAP, or in any security that meets the requirements of Exchange Rule 6.1(1)(23) relating to covered options or in any security immediately exchangeable or convertible, other than warrants without restriction including the payment of money, into the security underlying the BOUND and LEAP, no margin need be required on either the BOUND or the LEAP provided (1) such net "long" position is adequately margined in accordance with this Rule and (2) the right to exchange or convert the net "long" position does not expire on or before the expiration date of the "short" BOUND or LEAP.

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

(iv) In determining net "long" and "short" positions for purposes of subparagraphs (G)(i) and (ii) above, offsetting "long" and "short" positions in exchangeable or convertible securities (including warrants) or in the same security, as discussed in paragraphs (c)(1) and (c)(4) of this Rule, shall be deducted. In computing margin on such existing net security position carried against a "short" BOUND, the current market price

to be used shall not be greater than the strike price, and the required margin shall be increased by an unrealized loss on the short security position.

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

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

Commentary:

.01 The margin treatment for spread positions pursuant to subsections (F)(3), (F)(4), and (G)(4)-(G)(7) of Rule 2.16(d)(2) is subject to a one-year pilot program scheduled to begin August 29, 1995.

Approved: August 29, 1995; January 11, 1996; June 2, 1997; May 5, 2000 (PCX-99-39); February 28, 2001 (PCX-01-12).

Notice to Exchange]

Amendments to OTP Firm or OTP Holder Documents

Rule 2.17(a) All formation documents for OTP Firms, such as articles of incorporation, by-laws, partnership agreements, limited liability company agreements, and all amendments thereto, now in effect or adopted in the future, shall be filed with the Exchange and shall be subject to Exchange approval. [A member or member firm commencing to carry margin accounts shall immediately notify the Exchange in writing.]

Rule 2.17(b) Each OTP Firm and OTP Holder must submit to the Exchange any amendment to any document submitted as part of their OTP application, including but not limited to amendments to documents, amendments to the permit holder's Form BD, and changes to the permit holder's home or business address, within fifteen (15) business days of such amendment or change.

[Location of Records]

OTP Charges

Rule 2.18(a) S.E.C. Registration Fee: Section 31 of the Securities Exchange Act of 1934 imposes upon every national securities exchange the payment of a fee of 1/300th of 1 percentum of the aggregate dollar amount of the sales of securities transacted on such exchange, except in respect of transactions in securities which are direct obligations of or guaranteed as to principal or interest by the United States, or such securities issued, or obligations guaranteed by corporations in which the United States has a direct or indirect interest as may be designated for exemption therefrom by the Secretary of the Treasury.

There shall be paid to the Exchange by each OTP Firm and OTP Holder in such manner and at such times as the Exchange shall direct, the sum of one cent for each \$300 or fraction thereof of the dollar volume of the sales upon the Exchange.

Such sum shall be paid by the selling OTP Firm or OTP Holder as appearing on the comparison ticket of each transaction effected on the Exchange, and such selling OTP Firm or OTP Holder shall charge and collect such sum from the person for whom he was acting in making such transaction. [A member or member firm shall maintain at its main office the daily margin record required by Rule 2.15(a). A member or member firm maintaining margin records at two or more offices shall maintain such record at each office for inspection.]

Rule 2.18(b) Other Charges: In addition to transaction fees and the SEC registration fee, the Board of Directors may from time to time fix and impose other charges or fees to be paid to the Exchange or its subsidiaries by OTP Firms or OTP Holders for the use of equipment or facilities or for services or privileges granted.

[Determination of Margin]

Exemption from OTP Firm or OTP Holder Registration Requirements

Rule 2.19 An OTP Firm or OTP Holder shall be exempt from such registration requirements as the Exchange may designate if it is a member of another self-regulatory organization which is the appointed Designated Examining Authority ("DEA") for such member organization by the Securities and Exchange Commission. [Margin requirements shall be determined pursuant to Rule 2.15.

Rule 2.20 – 2.24 Reserved.]

OBTAINING AN OTP

Obtaining an OTP

Rule 2.20 An OTP may be held by an approved applicant, or by an existing OTP Firm or OTP Holder, through the Exchange in accordance with Exchange procedures.

Limited Transferability of an OTP

Rule 2.21(a) Transfer by Purchase, Sale or Lease Prohibited. OTP's may not be purchased, sold or leased. Any purported purchase, sale or lease of an OTP shall be void ab initio without further action by the Exchange.

Rule 2.21(b) Private Transfer Void: An OTP Holder or OTP Firm which attempts to transfer an OTP by private sale or lease, or otherwise, may be adjudged guilty of conduct detrimental to the interest and welfare of the Exchange, and any purported transfer shall be void ab initio without further action by the Exchange and will confer no rights upon the purported transferee.

Rule 2.21(c) Intra-Firm Transfer. An OTP Firm may transfer its OTP from the name of one Nominee employee to that of another Nominee employed by the Firm. The name of the proposed transferee Nominee shall be submitted to the Exchange and approved by the Exchange prior to exercising trading privileges on the Exchange's Trading Facilities. Unless the proposed Nominee is a previously Approved Person or approved Allied Person of the OTP Firm, the Firm shall provide all information required for the Exchange to conduct an investigation of the proposed Nominee prior to his or her approval as a Nominee.

TERMINATION OF AN OTP

Rule 2.22(a) Trading privileges conferred by an OTP will terminate upon the occurrence of any one of the following conditions:

(1) the expulsion of the OTP Holder or OTP Firm from the Exchange's trading facilities;

(2) the suspension of the OTP Holder or OTP Firm where such OTP Holder or OTP Firm failed to be reinstated at the expiration of the period of suspension, including any extension of such period which may have been granted by the Exchange;

(3) the formal or informal dissolution or winding up of an OTP Firm;

(4) the death of an OTP Holder; or

(5) the declaration of legal incompetence of an OTP Holder.

Rule 2.22(b) Obligations of Terminating OTP Holders and OTP Firms. Every OTP Firm, and any successor-in-interest thereto, and each OTP Holder whose trading privileges are terminated due to expulsion, suspension without reinstatement, death, declaration of incompetency, dissolution, winding up, or other cessation of business, must be current in all filings and payments of dues, fees and charges relating to that OTP.

including, without limitation, filing fees and charges required by the Securities and Exchange Commission and the Securities Investor Protection Corporation. If any OTP Holder or OTP Firm, or any successor-in-interest thereto, fails to make such filings, or to pay such dues, fees and charges, the Secretary of the Exchange shall retain such jurisdiction over such former OTP Holder or OTP Firm to require such filings and collect such outstanding dues, fines and charges until such time as they have been filed and/or paid.

EMPLOYEES OF OTP FIRMS

Registration

Rule 2.23(a) Every employee, including branch office managers, of an OTP Firm who is compensated directly or indirectly for the solicitation or handling of business in securities, including trading in securities for the account of the organization, whether such securities are those dealt in on the Exchange or those dealt in over-the-counter, must be registered with and approved by the Exchange.

The Exchange may waive compliance with the requirements of Rule 2.23(a) in the event an OTP Firm is also a member organization of another national securities exchange having comparable requirements.

Rule 2.23(b) Registration of registered employees shall be in such form as the Exchange shall prescribe and the continuance of any registered employee in that capacity shall at all times be in the sole discretion of the Exchange.

Rule 2.23(c) The Exchange may require each applicant for employment as a registered employee to pass such examinations as the Exchange may prescribe to establish the applicant's qualification for such registration.

Rule 2.23(d) A registered employee may not be engaged in any other business or be employed by another employer in any capacity or receive compensation, without the prior written and continuing approval of his or her OTP Holder or OTP Firm, and such registered employee shall devote a substantial portion of the business day to the activities of his or her OTP Firm or OTP Holder.

Rule 2.23(e) No OTP Holder or OTP Firm may employ any employee of the Exchange during the hours of regular employment by the Exchange. No OTP Holder or OTP Firm may employ any employee of the Exchange outside the hours of regular employment by the Exchange without having first obtained the prior written approval therefor of the Exchange and registering therewith the name of said employee, the nature of the services rendered and the amount of said compensation.

Rule 2.23(f) No OTP Holder or OTP Firm shall give any compensation or gratuity in any one calendar year in excess of \$100 to any employee or any other OTP Holder or OTP Firm, or to any employee of a broker or dealer, bank or institution that is not an OTP Holder or OTP Firm, without the prior consent of the employee's employer.

Rule 2.23(g) No OTP Holder or OTP Firm shall give any compensation to any officer, manager, employee or other agent of the Exchange without the prior written consent of the Exchange. No OTP Holder or OTP Firm shall give any gratuity or gift in any one calendar year in excess of \$100 to any officer, director, employee or other agent of the Exchange without the prior written consent of the Exchange. All requests for Exchange consent should contain the following information:

- (1) name and position of the Exchange officer, director, employee or agent;
- (2) nature of the gratuity or gift;
- (3) dollar amount of compensation or gratuity;
- (4) reason for the compensation, gift or gratuity; and
- (5) any other details which may be useful in considering the request.

Rule 2.23(h) Termination of the employment of a registered employee shall be reported to the Exchange, and the Exchange shall be notified in writing of the specific grounds for termination immediately when the employment of any person is terminated by an OTP Holder or OTP Firm under circumstances involving misconduct, fraud or unethical practices.

Floor Employees of OTP Firms

Rule 2.24(a) No employee of an OTP Holder or OTP Firm shall be admitted to the Floor of the Exchange unless such employee is approved by the Exchange, and upon compliance of both the employer and the employee with such requirements as the Exchange may determine. The privilege of admission to the Floor of the Exchange of any such employee may be revoked for cause as determined by the Exchange.

Rule 2.24(b) All Floor employees of OTP Holders and OTP Firms and all employees of OTP Holders and OTP Firms who have submitted registration applications for admission to the Floor are required to be fingerprinted and to submit, or cause to be submitted, such fingerprints to the Exchange for identification and appropriate processing.

Rule 2.24(c) Each OTP Holder and OTP Firm shall take reasonable care to determine the existence of a statutory disqualification as defined in Section 3(a)(39) of the Securities Exchange Act of 1934 prior to employing any prospective employee. If a person already employed by an OTP Holder or OTP Firm thereafter becomes subject to a statutory disqualification, the OTP Holder or OTP Firm shall promptly send notice to the Exchange.

Rule 2.24(d) An OTP Firm or OTP Holder with an employee on the floor of the Exchange must have at least one OTP Holder or nominee present on the floor at all times. Such OTP Holders or Nominees shall be responsible for all floor employees of the OTP Firm.

Electronic Mail Address

Rule 2.25. Each OTP Holder and OTP Firm must maintain with the PCX an Internet electronic mail account for communication with the PCX. Each OTP Holder and OTP Firm must update its contact information via the electronic mail account or such other means as prescribed by the PCX. The PCX will use the electronic mail account to provide OTP Holders and OTP Firms with regulatory bulletins, rule adoption notices, and other official notices.

[Fidelity Bonds

(a). Each member organization which transacts business with the public or clears transactions for other members or member organizations shall carry fidelity bonds in such form and in such amounts as the Exchange may require covering the individual member or, in the case of a member firm, its general partners or officers and its employees.

(b) Member organizations subject to this Rule are required to maintain basic and specific coverages in amounts not less than those prescribed in this Rule. Where applicable such coverage must also extend to limited partners as employees, and outside organizations providing electronic data processing services and the handling of U.S. Government securities in bearer form.

(c) Each member organization that introduces all customers' accounts on a fully disclosed basis must maintain coverage as follows:

(i) Minimum basic coverage for such member organizations whose net capital requirement under Rule 2:

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

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

(ii) Specific coverage for such member organizations shall be as follows:

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

B. Fraudulent Trading (not required of members not associated with a member organization or partnerships having no employees)--the greater of \$25,000 or 50% of the basic bond minimum requirement, up to \$500,000.

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

(d) Each member organization which carries customers' accounts or clears transactions for other members or member organizations must maintain coverage as follows:

(i) Minimum basic coverage for such member organizations shall be based on their net capital requirement under Rule 2 as follows:

Net Capital Requirement Basic Minimum

Under Rule 2 Coverage

\$25,000--\$50,000	\$ 200,000
\$50,001--\$100,000	\$ 300,000
\$100,001--\$200,000	\$ 500,000
\$200,001--\$300,000	\$ 600,000
\$300,001--\$500,000	\$ 700,000
\$500,001--\$1,000,000	\$ 800,000
\$1,000,001--\$2,000,000	\$1,000,000
\$2,000,001--\$3,000,000	\$1,500,000
\$3,000,001--\$4,000,000	\$2,000,000
\$4,000,001--\$6,000,000	\$3,000,000
\$6,000,001--\$12,000,000	\$4,000,000
\$12,000,001 and higher	\$5,000,000

(ii) Specific overages for such member organizations shall be as follows:

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

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

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

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

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

B. Members and member firms requires to carry the above forms of insurance shall advise the Exchange in writing if such insurance is entirely or partially canceled.

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

Approved: September 26, 1996.]