

Rule 6 Options Trading

Rules Principally Applicable to Trading of Option Contracts

Business Conduct

Applicability, Definitions and References

RULE 6.1(a) Rule 6 shall be applicable to the trading on the Exchange of options contracts issued by the Options Clearing Corporation, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading. Except to the extent that specific provisions of Rule 6 govern, or unless the context otherwise requires, the provisions of the [Constitution] Bylaws and of all other Rules and policies of the Board of [Governors] [Managers] Directors shall be applicable to the trading on the Exchange of option contracts. Option contracts (as defined below) are included within the definition of "security" or "securities" as such terms are used in the [Constitution] Bylaws and the Rules of the Exchange.

(b) *Definitions.* The following terms as used in Rule 6 shall, unless the context otherwise indicates, have the meanings herein specified:

(1) *Options Clearing Corporation*-The term "Options Clearing Corporation" means The Options Clearing Corporation, a subsidiary of the Participating Exchanges.

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

(3) *Clearing Member*-The term "Clearing Member" means an Exchange [member organization] OTP Firm or OTP Holder which has been admitted to membership in the Options Clearing Corporation pursuant to the provisions of the Rules of the Options Clearing Corporation.

(4) *Participating Exchange*-The term "Participating Exchange" means a national securities exchange which has qualified for participation in the Options Clearing Corporation pursuant to the provisions of the Rules of the Options Clearing Corporation.

(5) *Option Contract* The term-"option contract" means a put or a call issued, or subject to issuance, by the Options Clearing Corporation pursuant to the Rules of the Options Clearing Corporation.

(6) *Exchange Option Transaction and Exchange Transaction*-The term "Exchange option transaction" and the term "Exchange transaction," as used in Rules 6.6, 6.15, 6.22, 6.36, and 6.79 means a transaction effected on a national securities exchange which has qualified for participation in Options Clearing Corporation pursuant to the provisions of the [By-Laws] Bylaws of Options Clearing Corporation, between members of such exchange or exchanges, for the purchase or sale of an option contract, or for the closing out of a long or short position in an option contract, and as used elsewhere in this Rule means a transaction effected on the Exchange between Exchange [members] OTP Holders or OTP Firms for the purchase or sale of an options contract, or for the closing out of a long or short position in an option contract.

(7) *Type of Option*-The term "type of option" means the classification of an option contract as either a put or a call.

(8) *Call*-The term "call" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Options Clearing Corporation the number of shares of the underlying stock or Exchange-Traded Fund Shares covered by the option contract.

(9) *Put*-The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms of the option, to sell to the Options Clearing Corporation the number of shares of the underlying stock or Exchange-Traded Fund Shares covered by the option contract.

(10) *Class of Options*-The term "class of options" means all option contracts of the same type of option covering the same underlying stock or Exchange-Traded Fund Shares.

(11) *Series of Options*-The term "series of options" means all option contracts of the same class of options having the same expiration date and exercise price, and the same unit of trading.

(12) *Option Issue*-The term "option issue" means the option contract overlying a particular underlying security or Exchange-Traded Fund Share.

(13) *Underlying Stock or Underlying Security*-The term "underlying stock" or "underlying security" in respect of an option contract means the security or Exchange-Traded Fund Share which the Options Clearing Corporation shall be obligated to sell (in the case of a call) or purchase (in the case of a put) upon the valid exercise of such option contract.

(14) *Exercise Price*-The term "exercise price" in respect of an option contract means the stated price per share at which the underlying stock or Exchange-Traded Fund Shares may be purchased (in the case of a call) or sold (in the case of a put) upon the exercise of such option contract.

(15) *Aggregate Exercise Price*-The term "aggregate exercise price" in respect of an option contract means, if the underlying security is a stock or an Exchange-Traded Fund Share, the exercise price of an option contract multiplied by the number of shares of the underlying stock or Exchange-Traded Fund Share covered by such option contract.

(16) *Expiration Month*-The term "expiration month" in respect of an option contract means the month and year in which such option contract expires.

(17) *Expiration Date*-The term "expiration date" in respect of an option contract or Exchange-Traded Fund Share means 2:00 PM on the Saturday immediately following the third Friday of the expiration month.

(18) *Long Position*-The term "long position" means the number of outstanding option contracts of a given series of options held by a person (purchaser).

(19) *Short Position*-The term "short position" means the number of outstanding option contracts of a given series of options with respect to which a person is obligated as a writer (seller).

(20) *Opening Purchase Transaction*-The term "opening purchase transaction" means an option transaction in which the purchaser's intention is to create or increase a long position in the series of options involved in such transaction.

(21) *Opening Writing Transaction*-The term "opening writing transaction" means an option transaction in which the seller's (writer's) intention is to create or increase a short position in the series of options involved in such transaction.

(22) *Closing Sale Transaction*-The term "closing sale transaction" means an option transaction in which the seller's intention is to reduce or eliminate a long position in the series of options involved in such transaction.

(23) *Closing Purchase Transaction*-The term "closing purchase transaction" means an option transaction in which the purchaser's intention is to reduce or eliminate a short position in the series of options involved in such transaction.

(24) *Covered*-The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit" meeting the condition of Rule 610(f) or 610(h), respectively, of

the Rules of the Options Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract means that the writer holds in the same account as the short position, on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), a long position in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or greater than the exercise price of the option contract in such short position.

(25) *Uncovered*-The term "uncovered" in respect of a short position in an option contract means that the short position is not covered.

(26) *Outstanding*-The term "outstanding" in respect of an option contract means an option contract which has been issued by the Options Clearing Corporation and has neither been the subject of a closing sale transaction on the Exchange or a comparable closing transaction on another participating Exchange nor been exercised nor reached its expiration date.

(27) *Primary Market*- The term "primary market" in respect of an underlying stock or Exchange-Traded Fund Share means the principal market in which the underlying stock or Exchange-Traded Fund Share is traded.

(28) *Options Trading*-The term "options trading", when not preceded by the word "Exchange", means trading in any option issued by the Options Clearing Corporation, whether or not of a class or series which has been approved for trading on the Exchange.

(29) *Customer*-For purposes of this Rule, unless the context otherwise provides the term "customer" shall have the meaning as defined in paragraph (c)(6) of Rule 15c3-1 under the Securities Exchange Act of 1934, as amended.

(30) *Trading Crowd*-The term "trading crowd" means all Market Makers who hold an appointment in the option classes at the trading post where such trading crowd is located and all Market Makers who regularly effect transactions in person for their Market Maker accounts at that trading post, but generally will consist of the individuals present at the trading post.

(31) *Foreign Broker/Dealer*-The term "foreign broker/dealer" means any person or entity that is registered, authorized or licensed by a foreign governmental agency or foreign regulatory organization (or should be so registered, authorized or licensed) to perform the function of a broker or dealer in

securities, or both. The terms "broker" and "dealer" mean the same as set out in Sections 3(a)(4) and 3(a)(5) of the Securities Exchange Act of 1934, provided that a "broker" or "dealer" may be a bank.

(32) *Exchange-Traded Fund Share*— For purposes of these Rules, the term Exchange-Traded Fund Share shall include Exchange-listed securities representing interests in open-end unit investment trusts or open-end management investment companies that hold securities based on an index or a portfolio of securities.

(33) *Quote with Size*. The term “Quote with Size” means a quotation to buy or sell a specific number of option contracts at a specific price that a Market Maker has entered into PCX Plus through an electronic interface.

(34) – [*Reserved.*] Trading Official. A Trading Official will be an OTP Holder registered with the Exchange for the purpose of exercising full trading privileges on the Exchange. Any OTP Holder designed as a Trading Official will from time to time as provided in these rules have the ability to recommend and enforce rule and regulations relating to trading access, order, decorum, health, safety and welfare on the Options Trading Floor.

(35) [*Non-Member*] Non-OTP Firm or Non-OTP Holder Market Maker. The terms “[Non-Member] Non-OTP Firm or Non-OTP Holder Market Maker” include[s], but [is] are not limited to, specialists, designated primary market makers, lead market makers, market makers, registered options traders, primary market makers and competitive market makers registered on an exchange other than the PCX.

(36) *Firm*. The term “Firm” means a broker-dealer that is not registered as a dealer-specialist or market maker on a registered national securities exchange or association.

(37) *Consolidated Book*. The term “Consolidated Book” means the Exchange’s electronic book of limit orders for the accounts of Public Customers and broker-dealers, and Quotes with Size. All orders and Quotes with Size that are entered into the Book will be ranked and maintained in accordance with the rules of priority as provided in Rule 6.76.

(38) *Crowd Participants*. The term “Crowd Participants” means the Market Makers appointed to an option issue under Rule 6.35, and any Floor Brokers actively representing orders at the best bid or offer on the Exchange for a particular option series.

(c) References.

[(1) Member Contracts as defined in Article IX, Section 1(a) of the Constitution, include option contracts purchased or sold. Article IX, Section 1(b) of the Constitution provides that the provisions of the Constitution and of the Rules adopted pursuant thereto shall be a part of the terms and conditions of all Member Contracts.]

[(2)] For purposes of the PCX rules, the term “Market Maker” includes Lead Market Makers, Remote Market Makers, Supplemental Market Makers, and Floor Market Makers, unless the context otherwise indicates.

(d) Local Time. All times are stated in this Rule in terms of the local time in effect in the city in which the Options Trading Floor of the Exchange is located.

(e) *Applicability of Other Exchange Rules.* The following Rules apply to transactions on the Exchange in option contracts issued or subject to issuance by the Options Clearing Corporation: Rules [2.15-2.19, 3.1, 3.5, 4.2, 4.3, 4.4, 4.7, 4.23, 9.21-9.28] 4.15-4.19, 5.1 9.21-9.28 11.6 and 11.15. The following Rules do not apply to transactions on the Exchange in option contracts: Rules 1.1[(a)-(f), 3.2, 3.4, 3.5]. All other Exchange rules are applicable to transactions on the Exchange in option contracts unless the context clearly indicates otherwise. In applying the Rules of the Exchange to transactions on the Exchange in option contracts, "security" or "securities" includes option contracts, "specialist" means Market Maker on the Options Trading Floor [and "Floor Trading Committee" means the Options Floor Trading Committee].

Amended: May 16, 1990; March 19, 1997; May 5, 2000 (99-39); September 14, 2000 (99-36); February 28, 2001 (01-12).

Admission to and Conduct on the Options Trading Floor

RULE 6.2(a) *Admission.* No one but an [member] OTP Firm or OTP Holder or authorized Exchange employee shall make any transaction on the Options Trading Floor of the Exchange. Admission to the Floor shall be limited to [members] OTP Firms or OTP Holders, employees of the Exchange, clerks or messengers employed by [members] OTP Firms or OTP Holders and registered with the Exchange, and such other persons as may be provided by resolution of the Board of [Managers] Directors.

(b) *Conduct on the Floor.* Upon the determination of two [Floor] Trading Officials or of the [Options Floor Trading Committee] Exchange that an [member's] OTP Firm or OTP Holder's conduct on the Options Trading Floor of the Exchange is such as to impair the maintenance of a fair and orderly market, or to impair public confidence in the operations of the Exchange, an OTP Firm or OTP Holder [member] of the Exchange may be fined pursuant to the [Constitution] Bylaws and Rules of the Exchange. This shall

also apply to an OTP Holder or OTP Firm's [member's] failure to adequately supervise an employee to ensure his compliance with this rule. An OTP Holder or OTP Firm [member] adversely affected by a determination made under this Section may obtain review thereof in accordance with the provisions of Rule 10. Fines imposed by [Floor] Trading Officials or the [Options Floor Trading Committee] Exchange hereunder shall not preclude further disciplinary action by [an appropriate committee of] the Exchange pursuant to the [Constitution] Bylaws and Rules of the Exchange.

(c) *Standards of Dress and Conduct.* All [members] OTP Holders and OTP Firms are required to act in a manner consistent with a fair and orderly market and with the maintenance of public confidence in the Exchange. Accordingly, appropriate standards pertaining to dress and conduct on the Options Trading Floor, including, but not limited to, the following standards shall be observed:

(1) *Standards of Dress.* All persons on the Options Trading Floor, whether [members] OTP Holders or OTP Firms, employees of OTP Holders or OTP Firms [member organizations] or visitors, shall at all times, whether prior to, during or after trading sessions, be dressed in a manner appropriate for business purposes and in accordance with good taste and professional standards. The term "good taste" shall be interpreted in a conservative manner. The following requirements and prohibitions shall be observed:

(A) Personal attire must be neat, clean and presentable.

(B) Men must wear shirts with collars.

(C) All persons must wear trading jackets and/or suit or sport coats while present on the Trading Floor.

(D) The following are examples of violations of Trading Floor dress code standards:

(i) Blue jeans that are patched, torn, frayed or faded; tie-dyes; tube tops; overalls; military uniforms or fatigues; sweat suits; or trousers that are frayed or torn.

(ii) Bare or stocking feet or thongs.

(iii) Clothing drawing excessive attention, including costumes of any kind, bare midriffs, halter tops, sheer blouses, miniskirts, T-shirts, hot pants, shorts, or abbreviated clothing of any kind.

(E) The [Options Floor Trading Committee] Exchange may impose additional standards of dress or otherwise modify these standards of dress

by means of a written policy that will be distributed to [Options Floor Members] OTP Holders and OTP Firms.

(2) Standards of Conduct.

(A) All persons on the Trading Floor are required to conduct themselves in accordance with a seemly and professional standard of behavior. No person while on the Trading Floor shall:

(i) engage in any act or practice that may be detrimental to the interest or welfare of the Exchange; or

(ii) engage in any act or practice that may serve to disrupt or hinder the ordinary and efficient conduct of business; or

(iii) engage in any act or practice that may serve to jeopardize the safety or welfare of any other individual; or

(iv) act in a disorderly manner, which includes, but is not limited to, the use of abusive or indecorous language.

(B) The entry of food or drink may be permitted at the discretion of the [Options Floor Trading Committee] Exchange. Alcoholic beverages may not be consumed on the Trading Floor at any time.

(C) Smoking in any form, any kind of tobacco use, or any expectorating on the Trading Floor, is prohibited. This prohibition shall apply at all times whether or not the Floor is in session.

(D) Running on the Floor, which shall mean any movement at a degree of speed which may disrupt other occupants of the Floor, is prohibited.

(E) Standing on chairs, furniture, booths, ladders, stools and similar items is prohibited.

(F) No object of any kind may be placed in the trading post areas if it could obstruct the flow of people in or out of the trading crowd. This includes all chairs, stools or other furniture, except for stools used by the market Quote Terminal Operator.

(d) *Trading Floor Badges.*

(1) Admission by Badge Only. Admission to the Trading Floor will be by badge only except in the case of certain designated Exchange officials. While on the Floor, all persons must at all times display appropriate badges. All Exchange

Options Floor employees seeking admission to the Floor without a badge must be identified by the Options Floor Manager or representative thereof and supplied with a temporary badge. Non-[member] OTP Holder Options Floor employees of [member organizations] OTP Firms seeking admission without a badge must be identified by an OTP Holder or OTP Firm [member or a member organization] floor manager and supplied with a temporary badge, and the [member organization] OTP Holder or OTP Firm may be subject to a fine in the event of continual failure of its employees to have an appropriate badges.

(2) Withdrawal of Trading Floor Badges. In the event that any [member's] OTP Holder or OTP Firm's Letter of Authorization and/or Letter of Guarantee is revoked by a clearing member in accordance with the procedures stated in Rules 6.36 and 6.45, such [member] OTP Holder or OTP Firm will not be entitled to enter into transactions on the Floor until and unless a new Letter of Authorization and/or Guarantee has been issued to such [member] OTP Holder or OTP Firm by a clearing member. Accordingly, the Exchange will withdraw promptly the trading floor badge of any [member] OTP Holder or OTP Firm whose appropriate letter has been properly revoked, and will retain such badge under its control until the [member] OTP Holder or OTP Firm is subsequently covered by an appropriate letter. An [member] OTP Holder or OTP Firm whose badge has been withdrawn under this Rule may, so long as his [membership] OTP Holder or OTP Firm status continues, gain access to the Floor by means of his [member] OTP Holder or OTP Firm identification pass, but may not enter into any transactions thereon.

(e) *Visitors on the Options Floor*. The following provisions on Visitors to the Options Floor will apply at all times:

(1) Visitors must be the invited guests of an Exchange OTP Firm or OTP Holder [member], of an OTP Firm [member organization] floor manager, or of certain designated members of the Exchange staff. Other non-[member] OTP Holder employees of an OTP Firm [member organizations] are not permitted to invite visitors to the Floor.

(2) Visitors must be signed in at the reception desk by the inviting OTP Holder or OTP Firm [member, member organization], floor manager, or staff personnel, and wear a visitors badge at all times when on the Floor. The inviting OTP Holder or OTP Firm [member or a member organization] floor manager will be responsible for the visitor's conduct on the Floor and for the return of badges and must accompany such visitors at all times while they are on the Floor.

(3) Visitors may not enter a trading crowd, block passageways, or otherwise disrupt or impairs activity on the Floor.

(4) [Members] OTP Holders and OTP Firms [of the Exchange] who are not normally engaged on the Options Trading Floor (i.e., have not qualified for a “[Member's] Options Trading Floor Badge”) may visit the Floor without an invitation, but must wear a badge when on the Floor.

(5) Allied Persons [members], Floor Representatives, or other persons associated with OTP Firms [member organizations] may visit the Floor only upon an invitation under the terms of subsection (1), above.

(6) The Options Floor Manager may restrict visiting on the Floor in any manner at any time, when with the concurrence of a [Floor] Trading Official or the Exchange, the Floor Manager deems that the presence of some or all visitors may interfere with orderly Floor procedures.

(7) A group of visitors comprising more than fifteen persons may not enter the Trading Floor without prior approval of the [Chair or Vice Chair of the Options Floor Trading Committee] Exchange.

(f) *Complaints from Options Trading Floor OTP Firms and OTP Holders* [Floor Members. Floor Members may direct] OTP Holder and OTP Firm complaints concerning situations arising on or relating to the Options Trading Floor may be directed to the Options Surveillance Department or to the Enforcement Department so that appropriate follow-up action may be taken.

(g) It is conduct inconsistent with just and equitable principles of trade for any OTP Holder, OTP Firm [member, member organization] or associated person of an OTP Holder or OTP Firm [member or member organization] to engage, directly or indirectly, in any conduct that threatens, harasses, intimidates, constitutes a “refusal to deal” or retaliates against any OTP Holder, OTP Firm [member, member organization] or associated person of an OTP Holder or OTP Firm [member or member organization] because such OTP Holder or OTP Firm [member, member organization] or associated person of an OTP Holder or OTP Firm [the member or member organization]:

(1) has made a proposal to any exchange or other market to list or trade any option issue;

(2) has advocated or made proposals concerning the listing or trading of an option issue on any exchange or other market;

(3) has commenced making a market in or trading any option issue on any exchange or other market;

(4) seeks to increase the capacity of any options exchange or the options industry to disseminate quote or trade data;

(5) seeks to introduce new option products or;

(6) seeks to act competitively.

(h) Telephones on the Options Floor.

(1) *Registration.* [Members and Member Firms] OTP Holders and OTP Firms must register, prior to use, any new telephone to be used on the Options Floor. Registration forms are available from the Control Room. Each phone registered with the Exchange must be registered by category of user (Market Maker, Floor Broker, Clerk or Manager). If there is a change in the category of any user, the phone must be re-registered with the Exchange. At the time of registration, [Members and Member Firm] OTP Holder and OTP Firm representatives must sign a statement that they are aware of and understand the rules governing the use of telephones on the Trading Floor. No [Member or Member Firm] OTP Holder or OTP Firm may employ any alternative communication device, including but not limited to e-mail, on the Trading Floor without the prior approval of the [Options Floor Trading Committee] Exchange.

(2) *Capacity and Functionality.* No wireless telephone used on the Trading Floor may have an output greater than one watt. No person on the Trading Floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers intercoms, walkie-talkies and any similar devices. Speed-dialing features are permitted on any [Member] OTP Holder or OTP Firm phone.

(3) *Requirements and Conditions:* The following requirements and conditions shall apply to use of telephoning services at the option posts:

(A) Only those quotations that have been publicly disseminated pursuant to Rule 6.73 may be provided over telephones at the post.

(B) Orders transmitted by registered Exchange Market Makers may be entered directly to the trading posts. All other orders may be entered directly to the trading posts only during outgoing telephone calls that are initiated at the option posts.

(C) The Exchange may provide for the taping of any telephone line into the trading posts or may require [Members] OTP Holders or OTP Firms to provide for the tape recording of a dedicated line at the posts at any time. [Members] OTP Holders and OTP Firms and their clerks using the telephones consent to the Exchange tape recording any telephone or line.

(4) *Market Makers and LMMs.*

(A) Market Makers and LMMs may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Trading Floor).

(B) Only LMMs may use the LMM telephones located at the trading posts and only for the purpose of marketing option issues, responding to customer inquiries, or otherwise conducting Exchange business.

(5) *Floor Brokers.*

(A) Floor Brokers may use cellular and cordless phones to place calls to any person at any location (whether on or off the Trading Floor).

(B) Floor Brokers may receive orders over their phones subject to the provisions of rule 6.2(h)(3)(B). Any telephonic order entered from off the Trading Floor must be placed with a person located in an an [member firm] OTP Holder or OTP Firm booth.

(C) *Ticket to Follow.* A Floor Broker in a trading crowd who receives a telephonic order from an an [Member or Member Firm] OTP Holder or OTP Firm representative located on the Trading Floor may represent that order immediately in the trading crowd, provided (a) that an order ticket for the order must be prepared and time stamped in the [member firm] OTP Holder or OTP Firm booth before the order is transmitted telephonically to the Floor Broker in the trading crowd; and (b) that the written, time-stamped order ticket for the order must be taken to the Floor Broker in the trading crowd immediately after it has been prepared.

(D) Floor Brokers may not use the LMM telephones under any circumstances.

(6) *Clerks.*

(A) Floor Broker Clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(B) Stock Execution Clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(C) Market Maker Clerks are subject to the same terms and conditions on telephone use as Market Makers.

(D) The [Options Floor Trading Committee] Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems or capacity problems resulting from the number of such phones then in use on the Trading Floor. In such circumstances, the [Committee] Exchange will first consider restricting the use of such phones by Market Maker Clerks, then by Stock Execution Clerks, and then finally, by Floor Broker Clerks.

(7) *Floor Managers.* [Member] OTP Firm Floor Managers may use any telephone, including any cellular or cordless phones, for any business purpose relating to their management responsibilities (except that they may not use the LMM phones).

(8) *General Access Phones.* The general access phones located outside of the trading post areas may be used by any [Member] OTP Holder or OTP Firm, Clerk or [Member Firm] OTP Holder or OTP Firm Floor Manager to communicate with persons located on the Trading Floor.

(9) *Telephone Record.* [Members] OTP Holders and OTP Firms must maintain their cellular or cordless telephone records, including logs of calls placed, for a period of not less than one year. The Exchange reserves the right to inspect such telephone records pursuant to Rule 10.2 (Investigations).

(10) *Exchange Liability.* The Exchange assumes no liability to [Members or Member Firms] OTP Holders or OTP Firms due to conflicts between phones in use on the Trading Floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

Commentary

.01 Only [members] OTP Holders or OTP Firms or Exchange employees who have been approved to perform a Floor function are authorized to enter into transactions on the Options Trading Floor. These [members] OTP Holders and OTP Firms and Exchange employees include Floor Brokers who are registered pursuant to Rule 6.44, Order Book Officials as defined in Rule 6.51 and Market Makers registered pursuant to Rules 6.33 and 6.35. While on the Floor, such persons shall at all times display appropriate badges.

.02 The [Options Floor Trading Committee] Exchange has determined that, in order to insure that trading occurs in an open and public manner, all communications on the Floor among [members] OTP Holders or OTP Firms, their clerks and

messengers, and others authorized to enter transactions on the Options Trading Floor, shall be conducted in the English language.

.03 While on the Trading Floor, clerks shall display at all times the badge(s) supplied to them by the Exchange. Any Market-Maker clerk who writes up an option order on the Options Floor must give his employer a copy of that order before it is delivered; the employer must retain the copy on his person until it is executed. A clerk receiving a phone order must initial, must mark as opening or closing and must time-stamp the order.

.04 A clerk shall remain at a booth assigned to his employer or assigned to his employer's clearing firm unless he is: (1) entering or leaving the trading floor; (2) transmitting or checking the status of an order or reporting a fill; (3) standing in the same crowd as his employer who is a Market Maker or Floor Broker; (4) supervising his firm's clerks if he is a floor manager; or (5) acting as a stock clerk. Only stock clerks and Market Maker or Floor Broker clerks may stand in or near a trading crowd; in the latter case, the Market Maker or Floor Broker must be present in the same trading crowd. Terminals on the trading floor (except quote terminals or those located in the booths) may not be used by a clerk unless his employer is a Market Maker or Floor Broker who is standing near the terminal.

Amended: October 8, 1998; March 21, 2000; May 23, 2000 (99-17); September 14, 2000 (99-36); January 11, 2001 (00-33); January 31, 2001 (00-46).

Option Contracts to Be Traded

RULE 6.3. The Exchange may from time to time approve for listing and trading on the Exchange put option contracts and call option contracts in respect of underlying stocks or Exchange-Traded Fund Shares which have been selected in accordance with Rule [3.6] 5.3. All such option contracts shall be designated as to the type of option, the underlying stock or Exchange-Traded Fund Shares, the expiration month and the exercise price. Only option contracts of a series of options approved by the Exchange and currently open for trading on the Exchange may be purchased or sold (written) on the Exchange.

Amended: February 28, 2001 (01-12).

Series of Options Open for Trading

RULE 6.4(a) After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock or Exchange-Traded Fund Share) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series. At the commencement of trading on the Exchange

of a particular class of options relating to an underlying stock or Exchange-Traded Fund Share, series of options therein having four different expiration months will normally be opened. Additional series of options of the same class may be opened for trading on the Exchange at or about the time a prior series expires. The exercise price of each series of options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock or Exchange-Traded Fund Share is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange. Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying stock or Exchange-Traded Fund Share moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened.

(b) The unit of trading and the exercise price initially established for option contracts of a particular series are subject to adjustment in accordance with the Rules of the Options Clearing Corporation. When such adjustment or adjustments have been determined, announcement thereof shall be made by the Exchange and, effective as of the time specified in such announcement, the adjusted unit of trading and the adjusted exercise price shall be applicable with respect to all subsequent transactions in such series of options.

(c) Option contracts shall be subject to adjustments in accordance with the Rules of the Options Clearing Corporation.

(d) Unless otherwise provided in the rules of the Exchange, the Exchange may open for trading, with respect to any class of stock or Exchange-Traded Fund Share option series that expire twelve (12) to thirty-nine (39) months from the time they are opened for trading, and stock index options that expire twelve (12) to thirty-six (36) months from the time they are opened for trading. The Exchange may open for trading up to six such extended far term expiration months for any index or equity option class. The Exchange rules regarding strike price interval, bid/ask differentials and continuity shall not apply to such series until the time to expiration is less than twelve months for index options, and less than nine months for equity options. When open for trading, trading in such option series shall commence either when there is buying or selling interest, or forty minutes prior to the close of trading for the day, whichever occurs first. Quotations will not be posted for extended far term option series until trading in such series is commenced on the day.

LEAPS

(e) The Exchange may open for trading up to six extended far term expiration months for any index, Exchange-Trade Fund Share, or equity option class. The Exchange rules regarding strike price interval, bid/ask differentials and continuity shall not apply to such series until the time to expiration is less than twelve months for index options, and less than nine months for equity options or Exchange-Traded Fund Shares. When open

for trading, trading in such option series shall commence either when there is buying or selling interest, or forty minutes prior to the close of trading for the day, whichever occurs first. Quotations will not be posted for extended far term option series until trading in such series is commenced on the day.

Commentary:

.01 When put options contracts or put and call options contracts are first opened for trading on an underlying security or Exchange-Traded Fund Share, the Exchange may open a series of put options contracts corresponding to each series of call options contracts open or to be opened for trading on the same underlying security or Exchange-Traded Fund Share.

.02 The Exchange may delist any option series which has no open interest, and will notify [members and member organizations] OTP Holders and OTP Firms prior to such delisting.

.03 The Exchange may select a limited number of its listed options on individual stocks or Exchange-Traded Fund Shares for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50. In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply traded option once another exchange trading that option selects such options.

.04 The Exchange may select a limited number of its listed options on individual stocks for which the interval of strike prices will be \$1.00 (“\$1 strike prices”) provided the strike price is \$20.00 or less, but not less than \$3. The listing of \$1 strike prices will be limited to options issues overlying no more than five (5) individual stocks (the “\$1 Strike Pilot Program”) as specifically designated by the Exchange. The Exchange may list \$1 strike prices on any other option issues if those issues are specifically designated by other securities exchanges that employ a \$1 Strike Pilot Program under their respective rules. To be eligible for inclusion into the \$1 Strike Pilot Program, an underlying stock must close below \$20 in its primary market on the previous trading day. After a stock is added to the \$1 Strike Pilot Program, the Exchange may list \$1 strike prices from \$3 to \$20 that are no more than \$5 from the closing price of the underlying on the preceding day. For example, if the underlying stock closes at \$13, the Exchange may list strike prices from \$8 to \$18. The Exchange may not list series with \$1.00 intervals within \$0.50 of an existing \$2.50 strike price (e.g., \$12.50, \$17.50) in the same series, and may not list \$2.50 intervals (e.g. \$12.50, \$17.50) below \$20 under Commentary .03 of this Rule for any issue included within the \$1 Strike Pilot Program if the addition of \$2.50 intervals would cause the issue to have strike price intervals that are \$.50 apart. Additionally, the Exchange may not list long-term option series (“LEAPS”) at \$1 strike price intervals for any option class selected for the \$1 Strike Pilot Program.

A stock shall remain in the \$1 Strike Pilot Program until otherwise designated by the Exchange. The \$1 Strike Pilot Program shall expire on June 5, 2004.

.05 The interval of strike prices of series of options on Exchange-Traded Fund Shares will be \$1 or greater where the strike price is \$200 or less.

Amended: July 19, 1995; July 21, 1997; September 14, 2000 (99-36); February 28, 2001 (01-12); April 27, 2001 (01-20).

Rights and Obligations of Holders and Writers

Rule 6.5. Subject to the provisions of this Rule, the rights and obligations of holders and writers of option contracts of any class of options dealt in on the Exchange shall be as set forth in the Rules of the Options Clearing Corporation.

Reporting of Options Positions

RULE 6.6(a) In a manner and form as may be prescribed by the Exchange, each [Member] OTP Holder and OTP Firm must report the name, address, and social security or tax Identification number of any customer who, acting alone or in concert with others, on the previous business day, maintained aggregate long or short positions on the same side of the market of 200 or more contracts of any single class of option contract dealt in on the Exchange. The Report must indicate for each class of option, the number of option contracts comprising each such position and, in the case of short positions, whether covered or uncovered.

(b) In addition to the requirements under Rule 6.6(a), each [Member] OTP Holder or OTP Firm (other than an Exchange Market Maker), that maintains a position in excess of 10,000 Non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, must report information, in a manner and form prescribed by the Exchange, as to whether such positions are hedged and provide documentation as to how such contracts are hedged. In addition, whenever the Exchange determines, based on a report to the Exchange or otherwise, that a higher margin requirement is necessary in light of the risks associated with an under-hedged Non-FLEX equity option position in excess of 10,000 contracts on the same side of the market, the Exchange may, pursuant to its authority under Exchange Rule [2.16(a)] 4.16, consider imposing additional margin upon the account maintaining such under-hedged position. It should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency from the higher margin requirements.

(c) In addition to the reports required by Rule 6.6(a), each [member organization] OTP Holder or OTP Firm shall report promptly to the Exchange any instance in which

such [member organization] OTP Holder or OTP Firm has reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the position limits prescribed pursuant to Rule 6.8 or the exercise limits prescribed pursuant to Rule 6.9.

(d) For purposes of this rule, the term "customer" in respect of any [Member] OTP Holder or OTP Firm includes the [Member] OTP Holder or OTP Firm, any general or special partner of the [Member] OTP Holder or OTP Firm, any officer or director of the [Member] OTP Holder or OTP Firm, or any participant, as such, in any joint, group or syndicated account with the [Member] OTP Holder or OTP Firm or with any partner, officer or director thereof.

Amended: December 31, 1998.

Liquidation of Positions

RULE 6.7 Whenever the Exchange shall determine that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all option contracts of one or more classes or series dealt in on the Exchange in excess of the applicable position limit established pursuant to Rule 6.8, it may direct all [member organizations] OTP Holders and OTP Firms carrying a position in option contracts of such classes or series for such person or persons to liquidate such position as expeditiously as possible consistent with the maintenance of an orderly market. Whenever such a direction is issued by the Exchange, no [member organization] OTP Holder or OTP Firm receiving notice thereof shall accept any order to purchase, sell or exercise any option contract for the account of the person or persons named in such directive, unless in each instance express approval therefor is given by the Exchange, or until such directive is rescinded.

Position Limits

RULE 6.8(a) Except with the prior written approval of the Exchange in each instance, no [member or member organization] OTP Holder or OTP Firm shall effect, for any account in which such [member or member organization] OTP Holder or OTP Firm has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, an opening transaction in an option contract (i) of any class of options dealt in on the Exchange or (ii) of any class of options dealt in on another exchange (if the [member or member organization] OTP Holder or OTP Firm is not a member of that other exchange) if the [member or member organization] OTP Holder or OTP Firm has reason to believe that as a result of such transaction the [member or member organization] OTP Holder or OTP Firm or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of:

- (1) an aggregate long position in any class of options; or
- (2) an aggregate short position in any class of options; or
- (3) an aggregate position on the same side of the market in the same underlying stock, which position shall be ascertained by combining long call options with short put options and short call options with long put options; or
- (4) an aggregate uncovered short position in any class of options in excess of such number of option contracts as shall be fixed from time to time by the Exchange as the position limit for that particular class of options or expiration month or as shall be fixed by another exchange if the class of options is not dealt in on the Exchange. Position limits for equity options are set forth in Rule 6.8 Commentary .05 and position limits for index options are set forth in Rule [7.6] 5.16.

Commentary:

.01 The position limits established pursuant to this Rule shall be announced by the Exchange and it shall be the responsibility of each [member or member organization] OTP Holder or OTP Firm accepting orders for opening transactions (purchase or writing) in option contracts of any class of options dealt in on the Exchange to inform its customers of the applicable position limits and not to accept any such orders from any customer in any instance in which such [member or member organization] OTP Holder and OTP Firm has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such position limits.

.02 The position limits established by the Exchange pursuant to this Rule in respect of long positions shall in no event exceed the exercise limits prescribed by the Exchange pursuant to Rule 6.9(a).

.03 The Exchange will not approve any opening purchase or writing transaction or the carrying of any positions which would exceed the limits established pursuant to this Rule except in highly unusual circumstances. Requests for such approval must be directed to the Department of Options Surveillance of the Exchange and must be accompanied by a detailed statement of the facts justifying an exception to such position limits.

.04 The Exchange may establish higher position limits for Market Maker transactions than those applicable with respect to other accounts. Whenever a Market Maker reasonably anticipates that he or she may exceed such position limits in the performance of his or her function of assisting in the maintenance of a fair and orderly market, he or she must consult with and obtain the prior approval of an Options [Floor] Trading Official or the Exchange.

.05 The current position limits, determined pursuant to Commentary .06 below, are 13,500 or 22,500 or 31,500 or 60,000 or 75,000 option contracts (whether long or short) of the put class and the call class on the same side of the market respecting the same underlying security or Exchange-Traded Fund Share, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options.

.06 (a) The position limit shall be 31,500 contracts for options:

(i) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 40,000,000 shares during the most recent six-month trading period; or

(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 30,000,000 shares during the most recent six-month trading period and has at least 120,000,000 shares currently outstanding.

(b) The position limit shall be 22,500 contracts for options:

(i) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 20,000,000 shares during the most recent six-month trading period; or

(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 15,000,000 shares during the most recent six-month trading period and has at least 40,000,000 shares currently outstanding.

(c) The position limit shall be 13,500 contracts for all other options, except as provided in subsections (d) and (e), below.

(d) The position limit shall be 60,000 contracts for options:

(i) on underlying stock or Exchange-Traded Fund Share that had trading volume of at least 80,000,000 shares during the most recent six-month trading period; or

(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 60,000,000 shares during the most recent six-month trading period and has at least 240,000,000 shares currently outstanding.

(e) The position limit shall be 75,000 contracts for options:

(i) on underlying stock or Exchange-Traded Fund Share that lead trading volume of at least 100,000,000 shares during the most recent six-month trading period; or

(ii) on an underlying stock or Exchange-Traded Fund Share that had trading volume of at least 75,000,000 shares during the most recent six-month trading period and has at least 300,000,000 shares currently outstanding.

The Exchange will review the volume and outstanding share information on all underlying stocks or Exchange-Traded Fund Shares on which options are traded on the Exchange every six months to determine which limit shall apply. A higher contract limit will be effective on the date set by the Exchange, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher contract limit is met at the time of the intervening six-month review. However, if subsequent to a six-month review an increase in volume and/ or outstanding shares would make a stock eligible for a higher position limit prior to the next review, the Exchange, at its discretion, may immediately increase such position limit.

(f) The position limit for options contracts overlying the Nasdaq-100 Index Tracking Stock (“QQQ”) shall be 300,000 contracts.

.07 Equity Hedge Exemption. The following qualified hedging transactions and positions are exempt from the established position and exercise limits prescribed under Commentary .06 above. However, for back-to-back options or where one of the option components of a qualified hedge consists of an over-the-counter (“OTC”) option, then the hedge exemption is limited to five times the established position limit. For purposes of this Rule, qualified hedge strategies or positions are defined as follows:

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

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

(c) A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call and long

put is equal, and where each short call and long put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“conversion”).

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

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

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

(g) For those strategies described under (b), (c), and (d) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the customer account.

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

.08 Firm Facilitation Exemption. To the extent that the following procedures and criteria are satisfied, an OTP Holder or OTP Firm [Member Organization] may receive and maintain for its proprietary account an exemption (“facilitation exemption”) from the applicable standard position limit in non-multiply-listed Exchange options for the purpose of facilitating, pursuant to the provisions of Rule 6.47(b), (a) orders for its own customer (one that will have the resulting position carried with the firm) or (b) orders received from or on behalf of a customer for execution only against the [Member Firm's] OTP Holder or OTP Firm’s proprietary account.

(a) The [member organization] OTP Holder or OTP Firm must receive approval from the Exchange prior to executing facilitating trades. The facilitation exemption shall be, granted to the [member organization] OTP Holder or OTP Firm owning or controlling the account in which the exempt option positions are held. Exchange approval may be given on the basis of verbal representations, in which event the [member organization] OTP Holder or OTP Firm shall, within

two business days or a period of time to be designated lay the Exchange, furnish the Department of Options Surveillance with appropriate documentation substantiating the basis for the exemption. The approval for the facilitation exemption shall specify the maximum number of contracts that may be exempt under this Commentary. In no event may the aggregate exempted position under this Commentary exceed the number of contracts specified in the following table:

Option Type	Firm Facilitation Exemption (is in addition to standard limit)
Equity	2 X applicable standard limit
Broad-based index	2 X standard overall limit
Narrow-based (industry or sector) index	2 X applicable standard limit

Example: If an [firm] OTP Holder or OTP Firm desires to facilitate customer orders in the XYZ option issue, which is assumed to be in a non-multiply listed option issue with a 75,000 contract standard position limit, the firm may qualify for a firm facilitation exemption of up to twice the standard limit or 150,000 contracts as well as an equity hedge exemption of up to twice the standard limit or 150,000 contracts, both in addition to the 75,000 contract standard limit. If both exemptions are allowed, the facilitation firm may hold or control a combined position of up to 375,000 XYZ contracts on the same side of the market (150,000 facilitation + 150,000 hedge + 75,000 standard = 375,000 contracts).

The facilitation exemption is in addition to the standard limit and other exemptions available under Exchange rules, interpretations and policies. An [member organization] OTP Holder or OTP Firm so approved is referred to in this Commentary as a "facilitation firm."

(b) The facilitation firm must provide all information required by the Exchange and keep such information current. The facilitation firm shall promptly provide to the Exchange any information or documents requested concerning the exempted option position(s) and the position(s) hedging them. Copies of all applicable order tickets must be provided to the Department of Options Surveillance on the day of execution.

(c) The facilitation firm shall comply with the following provisions regarding the execution of its customer's order and its own facilitating order:

(1) Neither order may be contingent on "all or none" or "fill or kill" instructions.

(2) The orders may not be executed until Rule 6.47(b) procedures have been satisfied and crowd members have been given a reasonable time to participate pursuant thereto.

(d) To remain qualified, a facilitation firm must, within five business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish the Department of Options Surveillance with documentation reflecting the resulting hedging positions.

(e) The facilitation firm shall liquidate and establish its customer's and its own option and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and such firm shall not initiate or liquidate its customer's or its own stock position or its equivalent with an equivalent index option position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option.

(f) The facilitation firm shall promptly notify the Exchange of any material change in the exempted options position or the hedge.

(g) The facilitation firm shall not increase the exempted option position once it is closed unless approval is received again pursuant to a reapplication under this Commentary.

(h) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for Subsequent denial of an application for a facilitation exemption under this Commentary.

Amended: September 14, 1993; December 3, 1993; October 6, 1995; October 23, 1995; May 8, 1996; September 9, 1997; April 13, 1998; December 31, 1998 (98-33); February 28, 2001 (01-12) January 18, 2002 (02-03).

Exercise Limits

RULE 6.9(a) Except with the prior approval of the Exchange in each instance, no [member organization] OTP Holder or OTP Firm shall exercise, for any account in which such [member organization] OTP Holder or OTP Firm has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a long position in any option contract (i) of a class of options dealt in on the Exchange or (ii) of any class of options dealt in on another exchange (if the [member organization] OTP Holder or OTP Firm is not a member organization of that other exchange) if as a result thereof such [member organization] OTP Holder or OTP Firm or partner, officer,

director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in that particular class of options in excess of such number of option contracts as shall be fixed from time to time by the Exchange as the exercise limit for that particular class of options or as shall be fixed by another exchange if the class of options is not dealt in on the Exchange.

Commentary:

.01 The exercise limits established pursuant to Rule 6.9(a) shall be 13,500 or 22,500 or 31,500 or 60,000 or 75,000 or 300,000 option contracts of any particular class of options and it shall be the responsibility of each Member or Member Organization accepting orders for the purchase (in opening transactions) of option contracts to inform its customers of the applicable exercise limits and not to accept any exercise of an option contract from any customer in any instance in which such Member or Member Organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such exercise limits. Whether an exercise limit is 13,500 or 22,500 or 31,500 or 60,000 or 75,000 or 300,000 option contracts shall be determined in the manner described in Rule 6.8, Commentary .06.

.02 The Exchange will not approve exercises exceeding the limits established pursuant to this Rule except in highly unusual circumstances. Requests for such approval must be directed to the Department of Options Surveillance of the Exchange and must be accompanied by a detailed statement of the facts justifying an exception to such exercise limits.

.03 The position limits under Rule 6.8 applicable to options on shares or other securities that represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that satisfy the criteria set forth in Rule [3.6, Commentary .06] 5.3(g) shall be the same as the position limits applicable to equity options under Rule 6.8, Commentary .05.

Amended: December 3, 1993; October 6, 1995; October 7.3, 1995; April 13, 1998; December 31, 1998 (98-33), January 18, 2002 (02-03).

Limit on Uncovered Short Positions

RULE 6.10. Whenever the Exchange shall determine in light of current conditions in the Exchange options market or in the markets for underlying stocks or Exchange-Traded Fund Shares that there are outstanding an excessive number of uncovered short positions in options contracts of a given class dealt in on the Exchange or that an excessively high percentage of outstanding short positions in option contracts of a given

class dealt in on the Exchange are uncovered, the Exchange may prohibit any further opening writing transactions in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short position in option contracts of one or more series of options of that class, as it deems appropriate in the interests of maintaining a fair and orderly market in such option contracts or in the underlying stocks or Exchange-Traded Fund Shares, or otherwise deems advisable in the public interest or for the protection of investors. The Exchange may exempt transactions of Market Makers from restriction, imposed under this Section and it shall rescind such restrictions upon its determination that they are no longer appropriate.

Amended: February 28, 2001 (01-12).

Other Restrictions on Exchange Option Transactions and Exercises

RULE 6.11. The Exchange shall have the power to impose, from time to time in its discretion, such restrictions on Exchange option transactions or the exercise of option contracts in one or more series of options of any class dealt in on the Exchange as it deems advisable in the interests of maintaining a fair and orderly market in option contracts or in the underlying stocks or Exchange-Traded Fund Shares covered by such option contracts, or otherwise deems advisable in the public interest or for the protection of investors. During the effectiveness of any such restriction, no [member organization] OTP Holder or OTP Firm shall effect any Exchange option transaction or exercise any option contract in contravention of such restriction. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, no restriction on the exercise of option contracts shall remain in effect with respect to that series of options.

Amended: February 28, 2001 (01-12).

Open Orders on "Ex-Date"

RULE 6.12. Open orders for one or more option contracts dealt in on the Exchange held by [members or member firms] OTP Holders or OTP Firms prior to the effective date of an adjustment by the Options Clearing Corporation to the terms of a class of options pursuant to the Rules of the Options Clearing Corporation shall be adjusted on the "ex-date" by such amount as the Options Clearing Corporation shall specify, unless otherwise instructed by the customer.

RULE 6.13. Reserved.

General Comparison and Clearance Rule

RULE 6.14. All Exchange option transactions shall be submitted to the Exchange for comparison of trade information, and all compared transactions shall be cleared through the Options Clearing Corporation and shall be subject to the Rules of the Options Clearing Corporation. No [member] OTP Holder or OTP Firm shall make any false statement or misrepresentation to the Options Clearing Corporation with respect to the reporting of clearance of any Exchange transaction or adjust any position at the Options Clearing Corporation in any class of options traded on the Exchange except that an adjustment for the purpose of correcting a bona fide error in recording or transferring a position as the result of an account transferring to another clearing member will be permitted. Each [member organization] OTP Holder or OTP Firm which is a clearing member of the Options Clearing Corporation shall file with the Exchange trade information in accordance with Rule 6.69(d) for each Exchange option transaction for which such clearing member is responsible.

Responsibility of Clearing [Members] OTP Holders and OTP Firms for Exchange Option Transactions

RULE 6.15. Every [member organization] OTP Holder and OTP Firm which is a clearing member of the Options Clearing Corporation shall be responsible for the clearance of the Exchange option transactions of such [member organization] OTP Holder and OTP Firm and of each [member organization] OTP Holder and OTP Firm which gives up the name of such clearing member in an Exchange option transaction, provided the clearing member has authorized such [member organization] OTP Holder and OTP Firm to give up its name with respect to Exchange option transactions.

Comparison Information

RULE 6.16. On each business day the Exchange shall effect comparisons of the trade information submitted on that day by [member organizations] OTP Holders and OTP Firms which are clearing members of the Options Clearing Corporation or to those member firms which have been delegated such authority by such clearing members and shall issue to each such clearing member (1) a contract list for each account maintained by such clearing member with the Options Clearing Corporation, which will show such clearing member's compared trades in such account on such day, and (2) an uncomparing trade list, which will contain a list (a) of such clearing member's trades on such day for which the Exchange did not receive from another clearing member trade information which compares with the trade information filed by such clearing member (called "uncomparing trades") and (b) of all trades reported by other clearing members for which the clearing member submitted no trade information which compares with the trade information filed by such other clearing members (called "advisory trades") or shall make available such information described above through electronic display terminals. Compared trades shall include only trades where the trade information agrees as to (i) the identity of the other party to the transaction, (ii) the type of option contract, (iii) the underlying stock, (iv) the exercise price, (v) the expiration month, (vi) the number of

option contracts, (vii) the amount of the premium and (viii) the designation of the parties as purchaser and writer, respectively.

Verification of Compared Trades and Reconciliation of Uncompared Trades

RULE 6.17. [Member organizations] OTP Holders and OTP Firms that [which] are clearing members of the Options Clearing Corporation or their delegates shall be obligated to verify the information shown on the contract lists or on such electronic display terminals to reconcile all uncompared trades and advisory trades shown on the uncompared trade list and to report all reconciliations, corrections and adjustments to the Exchange in accordance with such procedures as may be established by the Exchange from time to time. Such reconciliation report shall be filed with the Exchange prior to such cut-off time as the Exchange may prescribe and shall be binding on the clearing member on whose behalf it is filed.

Commentary:

.01 Rule 6.17 requires clearing members to verify and reconcile compared and uncompared trades promptly in accordance with procedures established by the Exchange from time to time. Trades must be routinely compared during the course of the trading session.

All executing [members] OTP Holders and OTP Firms must be available for the settlement of uncompared trades throughout the trading day and for an appropriate period of time following the close of trading, either in person or through a designated representative empowered to negotiate settlement of any dispute in such member's name and account. This time period will normally be established when the Trade Processing Department closes and the number of transactions on that day is announced to the Trading Floor. The minimum amount of time that members and/or their representatives will be required to remain after Trade Processing closes will be as follows:

0-8,000 transactions	30 minutes
8,001 - 12,000 transactions	45 minutes
Over 12,000 transactions	60 minutes

For purposes of complying with this provision, the authorized representative must be physically present on the Trading Floor during this time.

All authorized representatives will also be required to be present on the Trading Floor each Saturday immediately prior to expiration for a period of one hour beginning at 6:00 a.m. Pacific time or for longer periods of time as may be determined from time to time by an Exchange representative. An [PCX] Exchange options staff member will be responsible for determining that such representatives are present for this period.

While there may be occasional instances when a trade must remain uncompar ed overnight, and be resolved in conformance with Rule 6.21, any [member or member organization] OTP Holder or OTP Firm responsible for an undue number of such occurrences will be subject to disciplinary action pursuant to Rule 10.

Amended: September 14, 2000 (99-36).

Unreconciled Trade Report

RULE 6.18. On each business day after the cut-off hour for the receipt of reconciliation reports, the Exchange shall issue to each [member organization] OTP Holder and OTP Firm which is a clearing member of the Options Clearing Corporation or its delegate, an unreconciled trade report[,] which will contain a list of any new or remaining uncompar ed trades and advisory trades of such clearing member. If any such trades are subsequently reconciled between the parties, they may be submitted for comparison on the next business day. Trades which are not so reconciled by the parties shall be closed in accordance with the provisions of Rule 6.21.

Reporting of Compar ed Trades to Options Clearing Corporation

RULE 6.19. On each business day at or prior to such time as may be prescribed by the Options Clearing Corporation, the Exchange shall furnish the Options Clearing Corporation a report of each clearing member's compar ed trades based on the comparison service performed by the Exchange on that day. Only trades which have been compar ed in accordance with the provisions of this Rule shall be furnished by the Exchange to the Options Clearing Corporation, and the Exchange shall assume no responsibility with respect to any uncompar ed trade nor for any delays or errors in the reporting of trades for comparison.

Time Synchronization

RULE 6.20. (a) Each [Member Organization] OTP Holder and OTP Firm must synchronize, within a time frame established by the Exchange, the business clocks that it uses for the purpose of recording the date and time of any event that must be recorded pursuant to the Rules of the Exchange. [Member Organizations] OTP Holders and OTP Firms may use any time provider source. Each [Member Organizations] OTP Holder and OTP Firm must, however, ensure that the business clocks it uses on the Exchange are accurate to within a three-second[s] tolerance of the National Institute of Standards and Technology Atomic Clock in Boulder Colorado ("NIST Clock") or the United States Naval Observatory Master Clock in Washington D.C. ("USNO Master Clock"). This tolerance includes all of the following:

- (1) the difference between the NIST/USNO standard and a time provider's clock;

(2) transmission delay from the source; and

(3) the amount of drift of the [Member Organization's] OTP Holder or OTP Firm's business clock.

For purposes of this Rule, "business clocks" mean [Member Organization] an OTP Holder or OTP Firm's proprietary system clocks. [Member Organizations] OTP Holders and OTP Firms must set forth in their written supervisory procedures, required by [PCX] Rule 4.25, the manner in which synchronization of business clocks will be conducted, documented and maintained.

Amended: November 19, 2001 (01-24).

Resolution of Uncompared Trades

RULE 6.21. (a) Notice of uncompared trades must be provided no later than the scheduled commencement of trading unless directed otherwise by a [Floor] Trading Official or the Exchanges. The amount of loss as a result of an uncompared trade will be the opening price for such contract on the business day following the trade date. With respect to instances where the uncompared trade side is one for the purchase of option contracts and no trade occurred on the opening, the price used in fixing the amount of the loss will be the offer at the time of the opening. In instances where the uncompared trade side is one for the sale of option contracts and no trade occurred on the opening, the price used in fixing the amount of the loss will be the bid price.

(b) In the event an uncompared transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange option transaction can be effected to establish the amount of any loss, the Order Book Official or [member organization] OTP Holder or OTP Firm not at fault may claim damages against the other party involved in the transaction based on the terms of such transaction. All such claims shall be made promptly but in no event shall such claim be made after the close of trading on the first business day following the date of the uncompared transaction in question.

Amended: September 14, 2000 (99-36).

Commentary:

.01 In order to ensure that trades can be resolved by the scheduled commencement of trading in such series or class of options on the first business day following the trade date, [member organizations] OTP Holders and OTP Firms are required to have an authorized representative of such [organization] OTP Holder or OTP Firm available to resolve uncompared trades no later than 45 minutes from the scheduled commencement of trading on said business day following the trade date.

.02 The Exchange may, at its discretion, remove from record any transactions that have, in error, been matched but which are actually uncomparing transactions.

Failure to Pay Premium

RULE 6.22. Whenever the Options Clearing Corporation shall reject an Exchange option transaction because of the failure of the clearing [member] **OTP Holder or OTP Firm** acting on behalf of the Options Clearing Corporation, the [member organization] **OTP Holder or OTP Firm** acting as or on behalf of the seller (writer) shall have the right either to cancel the transaction by giving notice thereof to the defaulting clearing member or to enter into either a new opening writing transaction or closing sale transaction, as the case may be, in respect of the same option contract that was the subject of the rejected Exchange option transaction, charging any loss resulting therefrom (including any commissions paid or payable in connection with such new transaction) to the defaulting clearing member. Such action shall be taken as soon as possible and in any event not later than the close of trading on the day the Exchange option transaction was rejected by the Options Clearing Corporation, unless the Exchange shall extend such time.

In the event the rejected transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange option transaction can be effected to establish the amount of any loss, the [member organization] **OTP Holder or OTP Firm** acting as or on behalf of the seller shall have a claim against the defaulting clearing member for the amount of the premium due thereon.

Option Contracts of Suspended [Members] OTP Holder and OTP Firms

RULE 6.23. When announcement is made pursuant to the [Constitution] Bylaws and Rules of the Exchange of the suspension of an [member organization] **OTP Holder or OTP Firm**, other than a clearing member of the Options Clearing Corporation, all open short positions of the suspended [member organization] **OTP Holder or OTP Firm** in option contracts and all open positions resulting from exercise of option contracts, other than positions that are secured in full by a specific deposit or escrow deposit in accordance with the Rules of the Options Clearing Corporation, shall be closed without unnecessary delay by all [member organizations] **OTP Holders and OTP Firms** carrying such positions for the account of the suspended [member organization] **OTP Holder or OTP Firm**; provided, however, that upon any such suspension the Board of **[Managers]** **Directors** may, in its discretion, suspend the mandatory close-out provisions of this Section and may, in its discretion, reinstate such provisions at such time as it may determine. No temporary suspension of the mandatory close-out provisions of this Section shall relieve the suspended [member organization] **OTP Holder or OTP Firm** of his or of its obligations or for any damages incurred by [member organizations] **OTP Holders or OTP Firms** carrying positions for the account of such suspended **OTP Holder or OTP Firm** [member organization]. Should an open short position or an open position resulting from an exercise of an option contract not be closed when required to be closed by this Section, the price for the purpose of determining claims pursuant to **Article VII**,

Section 4 of the [Constitution] Bylaws shall be fixed by the price current at the time when such position should have been closed under this Section. When a clearing member of the Options Clearing Corporation is suspended pursuant to the [Constitution] Bylaws and Rules of the Exchange, the positions of such clearing member shall be closed out in accordance with the Rules of the Options Clearing Corporation.

Exercise of Option Contracts

RULE 6.24. (a) An outstanding option contract may be exercised by the tender to the Options Clearing Corporation (“OCC”) of an exercise notice made during the periods, and using the procedures, specified in OCC rules. An exercise notice may be tendered to the OCC only by the clearing member in whose account such option contract is carried with the OCC. Option exercises are also subject to restrictions that are established by or may be imposed by the Exchange in Rules 6.9, 6.11 and in this rule. OTP Holders and OTP Firms [Members and Member Organizations] may establish fixed procedures as to the latest time they will accept exercise instructions from customers.

(b) Special procedures apply to the exercise of equity options on the last business day before their expiration (“expiring options”). Unless waived by OCC, expiring options are subject to the Exercise by Exception (“Ex-by-Ex”) procedure under OCC Rule 805. This rule provides that, unless contrary instructions are given, option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to OCC rules, the following Exchange requirements apply with respect to expiring options. Option holders desiring to exercise or not exercise expiring options must either: (i) take no action and allow exercise determinations to be made in accordance with OCC’s Ex-by-Ex procedures where applicable; or (ii) submit a “Contrary Exercise Advice” to the Exchange by the deadline specified in paragraph (c) below. A Contrary Exercise Advice is a communication either (A) to not exercise an option that would be automatically exercised under OCC’s Ex-by-Ex procedure, or (B) to exercise an option that would not be automatically exercised under OCC’s Ex-by-Ex procedure. A Contrary Exercise Advice may be submitted by an OTP Holder or OTP Firm [Member or Member Organization] by using the Exchange’s Contrary Exercise Advice Form, OCC’s ENCORE System, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a Member and where the option is listed, or such other method as the Exchange may prescribe. A Contrary Exercise Advice may be canceled by filing an “Advice Cancel” with the Exchange or resubmitted at any time up to the submission cut-off times specified below.

(c) Exercise cut-off time. Option holders have until 2:30 p.m. (PST) on the business day immediately prior to the expiration date to make a final decision to exercise or not exercise an expiring option. For customer accounts, OTP Holders and OTP Firms [Members and Member Organizations] may not accept exercise instructions after 2:30 p.m. (PST) but have until 3:30 p.m. (PST) to submit a Contrary Exercise Advice. For non-customer accounts, OTP Holders and OTP Firms [Members and Member Organizations] may not accept exercise instructions after 2:30 p.m. (PST) but have until

3:30 p.m. (PST) to submit a Contrary Exercise Advice if such OTP Holders and OTP Firms [Member or Member Organization] employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Consistent with Commentary .04, OTP Holders and OTP Firms [Members and Member Organizations] are required to submit a Contrary Exercise Advice by 2:30 p.m. (PST) for non-customer accounts if such OTP Holders and OTP Firms [Members and/or Member Organization] do not employ an electronic submission procedure with time stamp for the submission of exercise instructions by option holders.

(d) If OCC has waived the Ex-by-Ex procedure for an options class, OTP Holders and OTP Firms [Members and Member Organizations] must either:

(i) submit to the Exchange, a Contrary Exercise Advice, in a manner specified by the Exchange, within the time limits specified in paragraph (c) above if the holder intends to exercise the option, or

(ii) take no action and allow the option to expire without being exercised.

The applicable underlying security price in such instances will be as described in OCC Rule 805(j). In cases where the Ex-by-Ex procedure has been waived, OCC rules require that OTP Holders and OTP Firms [Members and Member Organizations] wishing to exercise such options must submit an affirmative Exercise Notice to OCC, whether or not a Contrary Exercise Advice has been filed with the Exchange.

(e) An OTP Firm [Exchange Member Organization] that has accepted the responsibility to indicate final exercise decisions on behalf of another OTP Holders and OTP Firms [Member or non-Member firm] shall take the necessary steps to ensure that such decisions are properly indicated to the Exchange. Such OTP Firm [Member Organization] may establish a processing cut-off time prior to the Exchange's exercise cut-off time at which it will no longer accept final exercise decisions in expiring options from option holders for whom it indicates final exercise decisions. Each OTP Holders and OTP Firms [Member or Member Organization] that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are indicated in a timely manner to such broker-dealer.

(f) OTP Holders and OTP Firms [Members and Member Organizations] may receive and submit final exercise decisions after the exercise cut-off time but prior to expiration without having submitted a Contrary Exercise Advice: (i) in order to remedy mistakes made in good faith; (ii) to take appropriate action as the result of a failure to reconcile unmatched Exchange option transactions; or (iii) where exceptional circumstances have restricted an option holder's ability to inform an OTP Firm [Member organization] of a decision regarding exercise, or an OTP Firm's [Member organization's] ability to receive an option holder's decision by the cut-off time. The

burden of establishing any of the above exceptions rests solely on the OTP Holders and OTP Firms [Member or Member Organization] seeking to rely on such exceptions.

(g) In the event the Exchange provides advance notice on or before 2:30 p.m. (PST) on the business day immediately prior to the last business day before the expiration date indicating that a modified time for the close of trading in equity options on such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 28 minutes following the time announced for the close of trading on that day instead of the 2:30 p.m. (PST) deadline found in Rule 6.24(c). However, OTP Holders and OTP Firms [Members and Member Organizations] may deliver a Contrary Exercise Advice or Advice Cancel to the Exchange within 2 hours 28 minutes following the time announced for the close of trading in equity options on that day instead of the 3:30 p.m. (PST) deadline found in Rule 6.24(c) for customer accounts and non-customer accounts where such OTP Firm [Member firm] employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, OTP Holders and OTP Firms [Members and Member Organizations] that do not employ an electronic procedure with time stamp for the submission of exercise instructions are required to deliver a Contrary Exercise Advice or Advice Cancel within 1 hour and 28 minutes following the time announced for the close of trading on that day instead of the 2:30 p.m. (PST) deadline found in Rule 6.24(c).

(h)(1) The Exchange may establish extended cut-off times for decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case by case basis due to unusual circumstances.

(2) The Exchange with at least one (1) business day prior advance notice, by 9:00 a.m. (PST) on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a Contrary Exercise Advice be before the close of trading.

Commentary:

.01 For purposes of this Rule 6.24, the terms “customer account” and “non-customer account” have the same meaning as defined in OCC By-Laws Article I(C)(28) and Article I (N)(2), respectively.

.02 Each OTP Firm [Member Organization] shall prepare a memorandum of every exercise instruction received showing the time when such instruction was received. Such memoranda shall be subject to the requirements of SEC Rule 17a-4(b).

.03 In the event of an “unusual circumstance,” Rule 6.24(h)(1) provides that the Exchange may extend the cut-off times for exercise instructions and the submission of a Contrary Exercise Advice beyond the normal time frames specified in Rule 6.24(c). For purposes of subparagraph (h)(1), an “unusual circumstance” includes, but is not limited to, increased market volatility; significant order imbalances; significant volume surges and/or systems capacity constraints; significant spreads between the bid and offer in underlying securities; internal system malfunctions affecting the ability to disseminate or update market quotes and/or deliver orders; or other similar occurrences. Rule 6.24(h)(2) specifies that the Exchange may also reduce such cut-off times for “unusual circumstances.” For purposes of subparagraph (h)(2), an “unusual circumstance” includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day immediately prior to expiration.

.04 Although the deadline for all option holders to make a final decision to exercise or not exercise is 2:30 p.m. (PST), the deadline for the submission of the Contrary Exercise Advice in the case of non-customer accounts will depend on the manner of the decision to exercise or not exercise.

- (i) For electronic timestamp submissions of the exercise decision by non-customer option holders, a Contrary Exercise Advice submitted by OTP Holders and OTP Firms [Members and Member Organizations] must be received by the Exchange by 3:30 p.m. (PST).
- (ii) For manual submissions of the exercise decision by non-customer option holders, OTP Holders and OTP Firms [Members and Member Organizations] must submit a Contrary Exercise Advice at the Exchange via the Contrary Exercise Advice Box by 2:30 p.m. (PST).

.05 Each OTP Firm [Member Organization] shall establish fixed procedures to insure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

.06 In the event an OTP Holder or OTP Firm [Member or Member Organization] receives and submits a final exercise decision after the exercise cut-off time pursuant to an exception set forth in clauses (i), (ii) or (iii) of paragraph (f) of Rule 6.24, the OTP Holder or OTP Firm [Member or Member Organization] shall maintain a memorandum setting forth the circumstances regarding such exception and shall file a copy of the memorandum with the Exchange's Market Surveillance Department no later than 9:00 a.m. on the first business day following the respective expiration.

.07 The filing of a Contrary Exercise Advice required by this rule does not serve to substitute as the effective notice to OCC for the exercise or non-exercise of expiring options.

.08 The failure of any OTP Holder [Member] to follow the provisions in this Rule may be referred to the Ethics and Business Conduct Committee and result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by the Committee.

.09 Submitting or preparing an exercise instruction after the exercise cut-off time in any expiring option on the basis of material information released after the cut-off time is actively inconsistent with just and equitable principals of trade.

Allocation of Exercise Assignment Notices

RULE 6.25. (a) Each [member organization] OTP Holder or OTP Firm shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in option contracts in such [member organization's] OTP Holder or OTP Firm's customers' accounts. Such allocation shall be on a "first in, first out" or automated random selection basis that has been approved by the Exchange or on a manual random selection basis that has been specified by the Exchange. Each [member organization] OTP Holder or OTP Firm shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' accounts, explaining its manner of operation and the consequences of that system.

(b) Each [member organization] OTP Holder or OTP Firm shall report its proposed method of allocation to the Exchange and obtain the Exchange's prior approval thereof, and no [member organization] OTP Holder or OTP Firm shall change its method of allocation unless the change has been reported to and been approved by the Exchange. The requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another self-regulatory organization having comparable standards pertaining to methods of allocation.

(c) Each [member organization] OTP Holder or OTP Firm shall preserve for a three-year period sufficient work papers and other documentary materials relating to the allocation of exercise assignment notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

Commentary:

.01 When an [member organization] OTP Holder or OTP Firm clears all of its transactions, both proprietary and customer transactions, through another [member organization] OTP Holder or OTP Firm in a single omnibus account, exercise notices allocated to the non-clearing [member organization's] OTP Holder or OTP Firm's omnibus account shall first be allocated, in accordance with this Rule, on a fair and equitable basis between the proprietary and customer accounts of the non-clearing

[member organization] OTP Holder or OTP Firm and then allocated among the customer accounts in accordance with Rule 6.25(a).

.02 Listed below is a procedure to be used by [member organizations] OTP Holders and OTP Firms lacking an automated exercise allocation system. The attached example should help to clarify each step.

Step 1: a) Prepare a list of accounts and their respective short positions for each option series in which exercise notices have been received.

b) Assign an interval of sequential numbers to each account based upon the number of contracts short.

Step 2: a) Obtain the NYSE Consolidated Stock Volume for the previous trading day. Select the four digits in the hundred thousands, ten thousands, thousands, and hundreds positions of the volume figure.

b) Place a decimal point to the left of the first digit to create a number ranging from .0000 to .9999. Add .0001 to this number to obtain a random number ranging from .0001 to 1.0000.

c) Perform this step once daily, and use the same random number for all series in which exercise notices have been received.

Step 3: a) Multiply the random number times the total number of short positions in the option series for which exercise notices have been received. The position in the interval at which the product falls (rounded up to the next higher integer) is the starting point for exercise allocation. Assignment of exercises should proceed downward from the starting point and go to the top if additional notices need to be allocated after reaching the bottom of the list.

EXAMPLE

Step 1: Short position accounts in one options series.

<u>Acct. #</u>	<u>Short Positions</u>	<u>Sequential Interval</u>
105	5	1 - 5
118	3	6 - 8

227	9	9 - 17
259	7	18 - 24
291	1	25
320	35	26 - 60
388	10	61 - 70
394	30	71 - 100
410	5	101 - 105
488	2	106 - 107
	107	

Step 2:

NYSE Volume = 27,637,500

$.6375 + .0001 = .6376 = \text{random number}$

Step 3:

$.6376 \times 107 = 68.2232$

Starting point = 69 in Acct. #388

Notices Received (for 1 option series)

1. 4 contracts

2. 35 contracts

3. 7 contracts

Allocated as follows:

- a) 2 contracts to Acct. #388
- b) 30 contracts to Acct. #394
- c) 5 contracts to Acct. #410
- d) 2 contracts to Acct. #488
- e) 5 contracts to Acct. # 105
- f) 2 contracts to Acct. #118

.03 Listed below is a procedure to be followed by [member organizations] OTP Holders or OTP Firms who intend to use a computerized random allocation method.

Step 1: Sequencing of Accounts-All customer and firm accounts having open short positions in the options series for which exercise notices have been received must be included. Identify and list these accounts.

Step 2: Assigning Sequence Numbers-Each account in the sequence must be assigned a range of sequential numbers based on the number of contracts short in the account. This is illustrated in the following example:

XYZ Oct 20's	Sequential	
<u>Account Number</u>	<u># of Contracts Short</u>	<u>Numbers</u>
1	5	1 through 5
2	8	6 through 13
3	2	14 through 15
4	10	16 through 25
5	<u>11</u>	26 through 36

In this example, all accounts having a short position in XYZ Oct 20's, the series for which exercise notices have been received, are arranged in order according to account number. The number of contracts short in each account is noted and shows that there is a total of 36 contracts short in all customer and firm accounts. Account #1 is assigned a range of numbers that begin with "1" and ends with the number reflecting the total contracts short in the account which is "5." Thus the sequential numbers assigned to this account are 1-5. The sequential numbers for Account #2 must begin with 6 and encompass eight numbers representing the 8 contracts short in the account. This results in sequential numbers of 6-13 being assigned to Account #2. Account #3 is short by 2 contracts and similarly is assigned sequential numbers beginning with 14 and ending with 15. This process is continued until all accounts in the sequence have been assigned unique sequential numbers. By assigning sequential numbers in this manner, the likelihood that a particular account will be selected for exercise will be proportional to its share of the total short position.

Step 3: Random Number Generation-After completing the assignment of sequential numbers, choose a random decimal number of at least five digits that is greater than 0 and less than or equal to 1.

Computer manufacturers normally provide programs to generate uniformly distributed random numbers. If your computer installation does not already have this capability, contact the computer manufacturer for assistance. If a suitable program is not available, request that he provide a random number algorithm that can be programmed to operate on your computer.

Computer-generated random numbers ordinarily include the number 0. Since this procedure requires a decimal random number that is greater than 0 and less than or equal to 1, an adjustment must be made. This is easily accomplished by increasing the least significant digit of the computer generated number by 1. For example, if the computer generates a five digit random number that lies in the range from .00000 to .99999, increasing the least significant digit by 1 will result in a random number that lies in the range from .00001 to 1.00000.

Step 4: Selection of a Starting Point Using the Random Number-Take a random decimal number generated over the range specified in Step 3, multiply it by the total number of contracts short in all accounts. The product, rounded to the next higher integer will determine the starting point of the exercise assignment. In the example above there was a total of 36 contracts short in all of the accounts that had a short position in XYZ Oct. 20's. Assume that 13 contracts of XYZ Oct. 20's have been called and that the random number .48555 is selected and multiplied by 36. The result of the multiplication is 17.48, which when rounded to

the next higher integer is 18. The starting point for the first contract assigned is 18, which falls in Account #4.

Step 5: Allocation of the Exercise Notice-Continuing with the example, since the exercise notice specifies that 13 contracts are to be assigned, and 18 is the starting point, 8 contracts are selected from Account #4. The next account in the sequence, Account #5, will be assigned the remaining 5 contracts. If the exercise notice related to more than 13 contracts, the assignment would continue to be absorbed by succeeding accounts in the sequence established in Step 1 until the entire assignment is absorbed. If additional notices need to be allocated after reaching the bottom of the list, continue with the first account at the top to complete the assignment.

Delivery and Payment

RULE 6.26. Delivery of the shares of underlying security or Exchange-Traded Fund Share upon the exercise of an option contract and payment of the aggregate exercise price in respect thereof, shall be effected in accordance with the Rules of the Options Clearing Corporation. As promptly as practicable after the exercise of an option contract by a customer, the [member organization] OTP Holder or OTP Firm shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract, or to deposit the underlying security or Exchange-Traded Fund Share in the case of a put option contract, or to make the required margin deposit in respect thereof if such transaction is effected in a margin account, in accordance with the Rules of the Exchange and the applicable Regulations of the Federal Reserve Board. As promptly as practicable after the assignment to a customer of an exercise notice, the [member organization] OTP Holder or OTP Firm shall require the customer to deposit the underlying security or Exchange-Traded Fund Share in the case of a call option contract if the shares of underlying security or Exchange-Traded Fund Share are not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put option contract, or in either case to deposit the required margin in respect thereof if such transaction is effected in a margin account, in accordance with the Rules of the Exchange and the applicable Regulations of the Federal Reserve Board.

Amended: February 28, 2001 (01-12).

Reports of Open Exercise Positions

RULE 6.27. The Exchange may require each [member organization] OTP Holder and OTP Firm to file with the Exchange a report, as of the 15th of each month, of all open positions resulting from the exercise of option contracts in accounts carried by such [member organization] OTP Holder or OTP Firm. Such reports, when required, must be

filed no later than the second business day following the date as of which the report is made.

Amended: September 14, 2000 (99-36).

Fast Markets and Unusual Market Conditions

RULE 6.28. (a) Whenever in the judgment of two Options [Floor] Trading Official, because of an influx of orders or other unusual conditions or circumstances, the interests of maintaining a fair and orderly market so requires, such Options [Floor] Trading Officials or the Exchange may declare the market in one or more classes of option contracts to be "fast".

(b) The following procedures will become effective in a fast market situation:

(1) The stock sign will be turned to red for the options class experiencing fast market conditions. The Staff Manager may request that a [Floor] Trading Official remain behind the Book and/or in the crowd to ensure proper crowd control and the maintenance of a fair and orderly market.

(2) The OBO may temporarily move less active issues to another post if the Book is extremely active. Books left at the post may be separated and order shoes provided for the most active series to facilitate order flow. A special time stamp will be placed behind the Book to stamp incoming transactions before they go to Price Reporting.

(3) To assure orderly trading and order processing, the Staff Manager may close the Book to all orders except cancels and cancel/replace orders if necessary.

(4) If applicable, the Control Room will send the "Tape Late" message across the vendor networks.

(5) Market Makers will be required to trade a minimum of one contract based on quoted markets, pursuant to Rule 6.37, Commentary .05.

(6) Regular trading procedures will be resumed when two Options [Floor] Trading Officials or the Exchange determine that the conditions supporting the declaration of a fast market no longer exist.

(c) The Options [Floor] Trading Officials or the Exchange declaring the fast market will have the power to do one or more of the following with respect to the issue or issues involved:

(1) Assign one or more classes or series of options traded at the post to an Order Book Official at other posts;

- (2) Authorize Order Book Official clerks to execute transactions;
- (3) Authorize one or more Market Makers to act as Floor Brokers;
- (4) Direct that one or more trading rotations be employed pursuant to Rule 6.64;
- (5) Restrict the entry of new orders into the Book; or
- (6) Suspend the Automatic Execution System ("Auto-Ex") pursuant to Rule 6.87(h)(3)(B).
- (7) Take such other actions as are deemed necessary in the interest of maintaining a fair and orderly market.
- (8) The Exchange may increase the permissible size of orders that may be automatically executed over the Auto-Ex system pursuant to Rule 6.87(h)(3)(C).

(d) Whenever market conditions warrant such special action, two [Floor] Trading Officials or the Exchange may restrict the entry of one or more types of orders in one or more classes or series of options for a period not in excess of two consecutive days. The [Board of Governors] Exchange must approve any such restriction that is to be effective for more than two consecutive days.

Amended: February 10, 1998; June 4, 1999; September 14, 2000 (99-36).

Payment for Floor Brokerage Services

RULE 6.29. When an [member] OTP Holder or OTP Firm acts as floor broker for another [member] OTP Holder or OTP Firm and is to receive remuneration for such brokerage services, then payment of these brokerage commissions shall be made no later than the thirtieth day of the month provided that an invoice detailing the brokerage charges for the services performed is delivered to the [member] OTP Holder or OTP Firm receiving such brokerage services no later than the tenth day of that month.

Commentary:

.01 In the event of a dispute as to the amount of brokerage due, the amount agreed upon as owed shall be payable in accordance with the provisions of this Rule.

.02 Nothing in this Rule will operate to supersede any pre-existing agreement between [members] OTP Holders or OTP Firms for the payment of commissions.

RULE 6.30. Reserved.

RULE 6.31. Reserved.

MARKET MAKERS

Market Maker Defined

RULE 6.32. (a) A Market Maker is an individual who is registered with the Exchange for the purpose of making transactions as a dealer-specialist on the Floor of the Exchange or, in the case of a Remote Market Maker, through the facilities of the Exchange in accordance with the provisions of this subsection. Registered Market Makers are designated as specialists on the Exchange for all purposes under the Securities Exchange Act of 1934 and the Rules and Regulations thereunder. Except as provided in subsection (c) below, only transactions that are initiated on the Floor of the Exchange or executed through the facilities of the Exchange by a Remote Market Maker will count as Market Maker transactions for the purposes of Rule 6.32. A Market Maker on the Exchange must be either a Lead Market Maker, a Remote Market Maker, a Supplemental Market Maker, or a Floor Market Maker.

(1) A Lead Market Maker is a registered Market Maker who makes transactions as dealer-specialist while on the Floor of the Exchange and who meets the qualification requirements of Rule 6.82(b).

(2) A Remote Market Maker is an individual who is registered with the Exchange for the purpose of making transactions as dealer-specialist from a location off the Floor of the Exchange. A Remote Market Maker may also execute transactions while on the Floor of the Exchange. Transactions of Remote Market Makers that are executed through the facilities of the Exchange are deemed to be Market Maker transactions for purposes of Rule 6.32.

(3) A Supplemental Market Maker is a registered Market Maker who makes transactions as dealer-specialist while on the Floor of the Exchange and who provides quotations: (A) manually, by public outcry; or (B) automatically, through an electronic interface device at the LMM's prevailing bid or offering price, with a size to be designated by the Supplemental Market Maker.

(4) A Floor Market Maker is a registered Market Maker who makes transactions as a dealer-specialist while on the Floor of the Exchange and provides quotations: (A) manually, by public outcry, or (B) automatically through an auto-quoting device.

(b) Market Makers and Floor Brokers effecting transactions as Market Makers are instructed that, except as specified in subsection (c) below, only transactions that are initiated on the Floor of the Exchange or, in the case of a Remote Market Maker, through the facilities of the Exchange by that person shall count as Market Maker transactions and

be entitled to special margin treatment, pursuant to the net capital requirements of Rule 15c3-1 under the Securities Exchange Act of 1934 and Regulation T of the Board of Governors of the Federal Reserve system. Accordingly, any position established for the account of a Market Maker other than a Remote Market Maker which has been "entered from off the floor" must be placed in the Market Maker's investment account and be subject to applicable customer margin.

(c) A Market Maker may enter opening orders from off the Floor of the Exchange and receive special margin treatment for such orders during any calendar quarter, provided that such Market Maker executes in person, and not through the use of orders, at least 80% of his or her total transactions during that calendar quarter. This provision, if applicable, shall supersede the 60% in-person requirement of Rule 6.37(d). In addition, the off-floor orders for which a Market Maker received market-maker treatment shall be consistent with a Market Maker's duty to maintain fair and orderly markets and in general shall be effected for the purpose of hedging, reducing the risk of, or rebalancing open positions of the Market Maker. Remote Market Makers may enter opening orders from off the Floor of the Exchange for execution by Floor Brokers and receive special margin treatment for them as long as the entry of such orders is consistent with the Remote Market Maker's duty to maintain fair and orderly markets and such orders are entered for the purpose of hedging, reducing the risk of, or rebalancing open positions of the Remote Market Maker.

(d) A Market Maker, while on the floor, may enter a GTC order with a Floor Broker and still receive special margin treatment, as described in subsection (b) above. However, the order must be a limit order where the quantity cannot be increased or the limit changed. If the quantity is increased or the limit changed, the GTC order shall be treated as an order entered from off the floor. Likewise, limit orders to "buy and sell" in the same series, discretionary orders, and "market not-held" orders may not be handled on a GTC basis without being treated as orders subject to customer margin treatment.

(e) With regard to orders of Market Makers entered from off the floor that are not entitled to special margin treatment pursuant to subsections (c) and (d) above Market Maker clearing firms are directed to instruct their respective trading desks to identify such orders by placing a "C" after the Market Maker's number in the "firm" box on the ticket. Floor Brokers, when accepting an order by phone from a Market Maker, are similarly directed to identify such orders in the same manner.

Amended: July 8, 1994.

Registration of Market Makers

RULE 6.33. An applicant for registration as a Market Maker shall file an application in writing with the [Department of Operations of the] Exchange on such form or forms as the Exchange may prescribe. Applications shall be reviewed by the [Options Floor Trading Committee] Exchange, which shall consider an applicant's ability, as

demonstrated by his passing a Market Maker examination (consisting of 100 questions) prescribed by the Exchange, financial resources and such other factors as the [Options Floor Trading Committee] Exchange deems appropriate. Applicants will be given three hours to take the examination. After reviewing the application, the [Options Floor Trading Committee] Exchange shall either approve or disapprove the applicant's registration as a Market Maker. Before a registration shall become effective, the Exchange[, upon direction of the Options Floor Trading Committee] shall post the name of the applicant on the bulletin board on the Floor of the Exchange for at least 3 business days. The registration of any person as a Market Maker may be suspended or terminated by the [Options Floor Trading Committee] Exchange upon a determination of any substantial or continued failure by such Market Maker to engage in dealings in accordance with Rule 6.37.

An OTP Holder or OTP Firm [member] or prospective [member] OTP Holder or OTP Firm adversely affected by a determination of the [Options Floor Trading Committee] Exchange under Rule 6.33 may obtain a review thereof in accordance with the provisions of Rule [10.12] 10.14.

Amended: August 14, 2001 (01-29).

Trading by [Members] OTP Holders and OTP Firms on the Floor

RULE 6.34. No [member] OTP Holder or OTP Firm shall initiate a transaction, while on the Floor, for an account in which he has an interest unless such [member] OTP Holder or OTP Firm is registered with the Exchange as a Market Maker and is acting in accordance with Rules 6.32 through 6.40 and Rule [2.5] 4.4; however, an [member] OTP Holder or OTP Firm may take into his own account, and subsequently liquidate, any position that results from an error made while attempting to execute, as Floor Broker, an order for a customer.

Commentary:

.01 Floor Brokers' Use of the Book. Unless otherwise prohibited in this Rule or Rule 6.38 or Rule 6.52(a), a Floor Broker may enter an order for its proprietary account in the Consolidated Book for the purpose of liquidating a position resulting from a bona fide error made in the course of its floor brokerage business.

Appointment of Market Makers

RULE 6.35. (a) On a form or forms prescribed by the Exchange, a registered Market Maker must apply for a Primary Appointment, having the obligations hereunder, and of Rule 6.37, in one or more classes of option contracts.

(b) The [Options Allocation Committee] Exchange will ordinarily appoint a minimum of one or up to a maximum of six posts on the Options Trading Floor to each registered Market Maker. In making such Primary Appointments, the [Committee] Exchange may consider:

- (1) the preference of the applicant;
- (2) the maintenance and enhancement of competition among Market Makers in each class of option contracts;
- (3) assuring that the financial resources available to the applicant are sufficient to satisfy the obligations set forth in Rule 6.37 with respect to each class of option contracts to which the applicant is appointed; and
- (4) the applicant's prior performance as a Market Maker.

(c) A Market Maker may request a minimum of one post or up to a maximum of six contiguous posts to comprise his Primary Appointment Zone. The [Committee] Exchange may appoint more than six posts or non-contiguous posts in the existence of special circumstances.

(d) Newly registered Market Makers have a grace period (60 days from the commencement of trading) during which time they may have, but are not required to have, a Primary Appointment Zone. Prior to the completion of the grace period, the Market Maker must select a Primary Appointment Zone. Market Makers who fail to select a Primary Appointment Zone prior to the expiration of their grace periods will be subject to disciplinary action pursuant to Rule 10.^[13]¹².

(e) Requests for new or changes in Primary Appointment Zones will be reviewed by the [Committee] Exchange. The [Committee] Exchange may suspend, terminate or change any Primary Appointment of a Market Maker under this Rule, and may appoint a Market Maker to additional classes of option contracts whenever, in the [Committee's] Exchange's judgment, the interests of a fair and orderly market are best served by such action.

No Primary Appointment of a Market Maker shall be made without the Market Maker's consent to such appointment; however, refusal to accept a Primary Appointment may be deemed a sufficient cause for termination or suspension of a Market Maker's registration.

An [member] OTP Holder or OTP Firm or prospective [member] OTP Holder or OTP Firm adversely affected by a determination of the [Committee] Exchange under this Rule may obtain a review by the Board of [Governors] [Managers] Directors of such determination.

(f) *Primary Appointment Trading Requirement.* Except in unusual circumstances, at least 75% of the trading activity of a Market Maker (measured in terms of contract volume per quarter) must be in classes of option contracts to which that Market Maker's Primary Appointment extends. In computing the percentage specified herein, a weighting factor may be assigned based upon relative inactivity of one or more classes or series of options contracts.

Amended: April 13, 1990; October 13, 1995; December 5, 2000 (00-08).

[(b)- (f) – *Reserved.*]

(g) *Remote Market Makers.*

(1) Each Remote Market Maker must select a primary appointment as set forth in subsection (2), below. Remote Market Makers may select from among any option issues traded on the Exchange for inclusion in their primary appointments, which must be approved by the [Options Allocation Committee] Exchange. In considering the approval of the appointment of a Remote Market Maker in each security, the [Options Allocation Committee] Exchange will consider:

(A) the financial resources available to the Remote Market Maker;

(B) the Remote Market Maker's experience, expertise and past performance in making markets, including the Remote Market Maker's performance in other securities;

(C) the Remote Market Maker's operational capability; and

(D) the maintenance and enhancement of competition among Market Makers in each security in which they are appointed.

(2) Except as provided in subsection (h), below, the following rules apply to the primary appointments of Remote Market Makers:

(A) Remote Market Makers on a single seat may have up to 8 option issues within their primary appointments.

(B) Remote Market Makers with 2 seats may have up to 18 option issues within their primary appointments.

(C) Remote Market Makers with 3 seats may have up to 30 option issues within their primary appointments.

(D) Remote Market Makers with 4 seats may have up to 44 option issues within their primary appointments.

(E) Remote Market Makers with 5 seats may have up to 60 option issues within their primary appointments.

(F) Remote Market Makers with 6 seats may have up to 78 option issues within their primary appointments.

(G) Remote Market Makers with 7 seats may have up to 98 option issues within their primary appointments.

(H) Remote Market Makers with 8 seats may have up to 120 option issues within their primary appointments.

The [Options Floor Trading Committee] Exchange will determine uniform limits on the number of issues applicable to RMMs with more than 8 seats.

(3) Remote Market Makers may change the option issues that are included in their primary appointments, subject to the approval of the [Options Allocation Committee (“OAC”)] Exchange. Such requests must be made in a form and manner prescribed by the Exchange. In considering whether to approve Remote Market Makers’ request to change their primary appointments, the OAC will consider the factors set forth in subsection (g)(1), above.

(4) Remote Market Makers may withdraw from trading an option issue that is within their primary appointment by providing the Exchange with a three-business-day written notice of such withdrawal. Remote Market Makers who fail to give advance written notice of withdrawal to the Exchange may be subject to formal disciplinary action pursuant to Rule 10. Subsequent to withdrawal, the Remote Market Maker may not be re-appointed as a Remote Market Maker in that option issue for a period of one full calendar quarter.

(5) The Exchange may suspend or terminate any appointment of a Remote Market Maker in one or more option issues under this Rule whenever, in the Exchange’s judgment, the interests of a fair and orderly market are best served by such action.

(6) A Remote Market Maker may seek review of any action taken by the Exchange pursuant to this subsection (g), including the denial of the appointment for, or the termination or suspension of, a Remote Market Maker’s appointment in an option issue or issues, in accordance with Rule 10 [or 11], as applicable.

(g) If an [Member Firm] OTP Holder or OTP Firm has two or more Nominees that are registered as Remote Market Makers, then:

(1) the number of seats held in the name of such Remote Market Makers may be aggregated for the purpose of determining the number of options issues eligible for primary appointment pursuant to subsection (g)(2) above;

(2) the primary appointment applies to the [Member Firm] OTP Holder or OTP Firm, subject to the approval of the [Options Allocation Committee] Exchange;

(3) the distribution of the option issues within the primary appointments for each Remote Market Maker will be at the discretion of the [Member Firm] OTP Holder or OTP Firm; and

(4) at no time will a Remote Market Maker concurrently trade or quote the same option issue as a Remote Market Maker who is a Nominee for the same [Member Firm] OTP Holder or OTP Firm.

(i) An [Member Firm] OTP Holder or OTP Firm acting as an LMM firm may trade up to four issues as a Remote Market Maker. These four issues are not required to be located at posts that are contiguous with the existing primary appointments of the [Member Firm's individual Members] OTP Holder or OTP Firm. The Lead Market Maker may enter quotations electronically in such issues from a location away from the trading post.

Commentary:

.01 A registered Market Maker shall be exempt from this rule if he is, or promptly after being granted one or more Primary Appointments will be, primarily engaged in the business of a Floor Broker on the Exchange Options Trading Floor (i.e., that he acts as a Floor broker in at least 51% of his trades, measured in terms of his quarterly contract volume), or if other circumstances exist which prevent him from undertaking the full-time Market Maker obligations of a Primary Appointment.

.02 In order to facilitate fair and orderly options trading, the Board of [Governors] [Managers] Directors of the Exchange may act to make all initial Primary Appointments provided for in this Section.

.03 Reserved.

.04 For the purposes of this rule, temporarily undertaking the obligations of a Primary Appointment with respect to non-Primary Appointment classes of option contracts at the request of an [Options Floor Trading Committee] Exchange OTP Holder or OTP Firm [member] shall not be deemed trading in non-Primary Appointment classes. In addition, a Market Makers' trades effected through a floor broker do not count for nor

against the Market Maker's 75% requirement, regardless of whether the trades are in issues within or without his Primary Appointment. Also, Market Makers who are solicited on an order on behalf of an account other than that of another Market Maker may accommodate such orders, provided that the orders are clearly announced in the trading crowd as solicited, and such transactions shall not count for nor against the 75% requirement. Such trades shall be designated by the Market Maker with an "S" in the "optional Data" section of the trade ticket.

.05 A failure to comply with the 75% contract volume requirement may result in a fine pursuant to Rule 10.13; however, if aggravating circumstances are present, formal disciplinary action may be taken pursuant to Rule 10.3.

Amended: April 13, 1990; July 6, 1994.

Letters of Guarantee

RULE 6.36. (a) *Required of Each [Member] OTP Holder or OTP Firm*. No Market Maker may make any transaction on the floor of the Exchange or, in the case of a Remote Market Maker, through the facilities of the Exchanges unless there is in effect a Letter of Guarantee which has been issued for such [member] OTP Holder or OTP Firm by a **Clearing Member** and approved by the Options Clearing Corporation and the Exchange. An [member] OTP Holder or OTP Firm may not have more than one such Letter in effect at the same time except for the purpose of facilitating the transfer of that [member's] OTP Holder or OTP Firm's Market Maker account from one Clearing Member to another or unless the Exchange determines otherwise.

(b) *Terms of Letter of Guarantee*. A Letter of Guarantee shall provide that the issuing Clearing Member accepts financial responsibility for all Exchange transactions made by the guaranteed [member] OTP Holder or OTP Firm.

(c) *Revocation of Letter of Guarantee*. A Letter of Guarantee filed with the Exchange shall remain in effect until a final written notice of revocation has been filed with the Exchange and posted on the bulletin board of the Options Trading Floor of the Exchange. If such final written notice has not been posted for at least one hour prior to the opening of trading on a particular business day, such revocation shall not become effective until the close of trading on such day. A final revocation shall in no way relieve a **clearing [member] OTP Holder or OTP Firm** of responsibility for transactions guaranteed prior to the effective date of such final revocation.

(d) *Flex Options*. Market Makers may not effect transactions in FLEX Options unless one or more Letter(s) of Guarantee on behalf of such Market Makers has been issued by a Clearing [Member] OTP Holder or OTP Firm in accordance with Rule [8.115] 5.41(a).

Commentary:

.01 When a Market Maker is subject to a written interim notice of revocation and open positions remain in a Market Maker Account, held by such Market Maker, closing transactions only may be effected for such account for the period between the effective date of the written interim notice of revocation and the effective date of the final notice of revocation required by subsection (c) of this Rule.

Obligations of Market Makers

RULE 6.37. (a) *General*. Transactions of a Market Maker should constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and no Market Maker should enter into transactions or make bids or offers that are inconsistent with such a course of dealings.

(b) *Appointment as a Primary Market Maker*. With respect to each class of option contracts to which his appointment under Rule 6.35 imposes the continuous obligations set forth in this paragraph (b), a Market Maker is expected to engage, to a reasonable degree under the existing circumstances, in dealings for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Market Maker is expected to perform the following activities in the course of maintaining a fair and orderly market.

(1) Bidding and/or offering so as to create differences of no more than

(A) .25 between the bid and the offer for each option contract for which the bid is less than \$2,

(B) no more than .40 where the bid is \$2 or more but does not exceed \$5,

(C) no more than .50 where the bid is more than \$5 but does not exceed \$10,

(D) no more than .80 where the bid is more than \$10 but does not exceed \$20, and

(E) and no more than \$1 when the last bid is \$20.10 or more, provided that the [Options Floor Trading Committee] Exchange may establish differences other than the above for one or more series or classes of options.

(2) Bidding no more than \$1 lower and/or offering no more than \$1 higher than the last preceding transaction price for the particular option contract.

However, this standard shall not ordinarily apply if the price per share (or other unit of trading) of the underlying security or Exchange-Traded Fund Share has changed since the last preceding transaction for the particular option contract, in which even a Market Maker may then bid no lower than or offer no more than \$1 plus the aggregate, change in the price per share (or other unit of trading) of the underlying security or Exchange-Traded Fund Share since the time of the last preceding transaction for the particular option contract. Nothing in this subparagraph (b)(2) shall alter the maximum bid/ask differentials established by subparagraph (b)(1) of Rule 6.37.

(3) In the event the bid/ask differential in the underlying security is greater than the bid/ask differential set forth in subsection (b)(1), the permissible price differential for any in-the-money option series may be identical to those in the underlying security market. In the case of the at-the-money and out-of-the-money series, two [Floor] Trading Officials or the Exchange may waive the requirements of subsection (b)(1) on a case-by-case basis when the bid/ask differential for the underlying security is greater than .50. In such instances, the bid/ask differentials for the at-the-money series and the out-of-the-money series may be half as wide as the bid/ask differential in the underlying security in the primary market. Whenever in the judgment of two [Floor] Trading Officials or the Exchange and if the interest of maintaining a fair and orderly market so requires, those [Floor] Trading Officials or the Exchange may waive the requirements of subsection (b)(2) on a case-by-case basis. Exemptions from subsections (b)(1) and (b)(2) are subject to [Options Floor Trading Committee] Exchange review.

(4) If the interest of maintaining a fair and orderly market so requires, two [Floor] Trading Officials or the Exchange may declare a fast market in a particular issue and allow Market Makers in that issue to make bids and offers with spread differentials of up to two times, or in exceptional circumstances, up to three times, the legal limits permitted under Rule 6.37(b)(1). In making such determinations to allow wider markets, such [Floor] Trading Officials or the Exchange should consider the following factors:

(A) whether there is an extreme influx of option orders due to pending news, a news announcement or other special events;

(B) whether there is an imbalance of option orders in one series or on one side of the market;

(C) whether the underlying security or Exchange-Traded Fund Share is trading outside the bid or offer in such security then being disseminated;

(D) whether [Floor Members] OTP Holders or OTP Firms receive no response to orders placed to buy or sell the underlying security; and

(E) whether a vendor quote feed for POETS is clearly stale or unreliable.

(5) Whenever a Floor Broker enters a trading crowd and calls for a market in a particular option series, each Market Maker present at the trading post will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)) for a minimum of 10 contracts. This obligation only applies to:

(A) Market Makers who have executed a transaction in the issue, but not those who have been assigned contracts by the Order Book Official pursuant to Commentary .05, on the day of the Floor Broker's call for a market or on the previous business day;

(B) Option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month;

(C) Non-broker-dealer orders; and

(D) Series not designated as LEAPS (pursuant to Rule 6.4). For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month.

(c) *In Classes of Option Contracts Other Than Those to Which Appointed.* With respect to classes of option contracts other than those to which their Primary Appointments extend, pursuant to Rule 6.35 Market Makers should not engage in transactions for an account in which they have an interest that are disproportionate in relation to, or in derogation of, the performance of their obligations as specified in paragraph (b) of this Rule with respect to those classes of option contracts to which their appointments do extend. Whenever Market Makers enter the trading crowd for a class of options in which they do not hold a Primary Appointment in other than a floor brokerage capacity, they must fulfill the obligations established by paragraph (b) of this Rule. In addition, when present anywhere on the Options Trading Floor, with regard to all securities traded on the Trading Floor, Market Makers are expected to undertake the obligations specified in paragraph (b) of this Rule in response to a demand therefore from the Order Book Official that the performance of such obligations by other Market Makers requires supplementation. Furthermore, Market Makers should not:

- (1) Congregate in a particular class of option contract; or
- (2) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; or
- (3) Effect purchases or sales on the floor of the Exchange except in a reasonable and orderly manner.
- (4) Whenever a Floor Broker enters a trading crowd and calls for a market in a particular option series, each Market Maker present at the trading post will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)) for a minimum of 10 contracts. This obligation only applies to:
 - (A) Market Makers who have executed a transaction in the issue, but not those who have been assigned contracts by the Order Book Official pursuant to Commentary .05, on the day of the Floor Broker's call for a market or on the previous business day;
 - (B) Option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the one month of trading activity that occurred two months prior to the current month;
 - (C) Non-broker-dealer orders; and
 - (D) Series not designated as LEAPS (pursuant to Rule 6.4).

(d) In-Person Requirements for Market Makers (other than Remote Market Makers who are not present on the Trading Floor). In order to meet the obligations of this rule, and in the interest of a fair and orderly market, an adequate number of Market Makers must be available throughout each trading session. In acknowledgement thereof, the following minimum in-person trading requirements shall be in effect: At least 60% of a Market Maker's transactions must be executed by the Market Maker in-person, while he is present on the Options Trading Floor of the Exchange. Orders executed for a Market Maker through a Floor Broker will not be credited toward the 60% requirement. A failure to comply with this 60% in-person trading requirement may result in a fine pursuant to Rule 10.13; however, if aggravating circumstances are present, formal disciplinary action may be taken pursuant to Rule 10.3.

In order to assure compliance with the spirit and intent of the 60% requirement, the Exchange may review each of the Market Maker's transactions used to meet the 60% requirement, so as to ensure that the Market Maker is not effecting numerous single or

small-lot transactions during limited appearances on the floor of the Exchange, only to meet the technical requirements of the 60% requirement.

(e) Prohibited Practices and Procedures.

(1) Any practice or procedure whereby Market Makers trading any particular option issue determine by agreement the spreads or option prices at which they will trade that issue is prohibited.

(2) Any practice or procedure whereby Market Makers trading any particular option issue determine by agreement the allocation of orders that may be executed in that issue is prohibited.

(f) Notwithstanding the prohibitions set forth in Subsection (e), the LMM and members of the trading crowd are permitted to act collectively as set forth below:

(1) The LMM may receive input from the [members of] the trading crowd on any one or more of the following variables of the formula the LMM uses to generate automatically updated market quotations in each option issue: (A) options pricing calculation model; (B) volatility; (C) interest rates; and (D) dividends (both declared and anticipated). However, members of the trading crowd are not required to provide input to the LMM on any of these variables. Notwithstanding any input that the members of the trading crowd may have provided with regard to these variables, it is within the LMM's sole discretion to make the final independent decision regarding the variables to be used in operating the automated quotation system. LMMs using Exchange-approved proprietary automated quotation updating systems are not required to disclose proprietary information concerning the variables used by those systems; provided, however, that LMMs may disclose the variables themselves pursuant to Rule 6.82(c)(8).

(2) The obligation of Market Makers to make competitive markets does not preclude the LMM and members of the trading crowd from making a collective response to a request for a market, provided the [member] OTP Holder or OTP Firm representing the order requests such a response in order to fill a large order. For purposes of this rule, a large order is an order for a number of contracts that is greater than the eligible order size for automatic execution pursuant to Rule 6.87.

(3) In conjunction with their obligations as a responsible broker or dealer pursuant to Rule 6.86 and SEC Rule 11Ac1-1, the LMM and Market Makers in the trading crowd may collectively agree to the best bid, best offer and aggregate quotation size required to be communicated to the Exchange pursuant to Rule 6.86(c).

(g) Quoting Obligations of Market Makers.

(1) Lead Market Makers. Lead Market Makers must provide continuous two-sided quotations throughout the trading day in each of their appointed issues. Such quotations must meet the legal quote width requirements of Rule 6.37(b). LMMs must also specify a size for each of their quotations applicable to:

(A) orders for Public Customers; and

(B) orders and Quotes with Size for broker-dealers.

Lead Market Makers must enter their quotations through an automated quotation system with the Exchange, but may also provide quotations by public outcry.

(2) Remote Market Makers. Remote Market Makers must provide continuous two-sided quotations in each issue in which they are appointed during 60% of all times during which the Exchange is open for options trading. Such quotations must meet the legal quote width requirements of Rule 6.37(b). In addition, Remote Market Makers must specify a size for each of their quotations applicable to:

(A) orders for Public Customers; and

(B) orders and Quotes with Size for broker-dealers.

These obligations will apply to all of the Remote Market Maker's appointed issues collectively, rather than on an issue-by-issue basis. Compliance with this obligation will be determined on a per-calendar-quarter basis. Remote Market Makers must enter all of their quotations through an electronic interface with the Exchange. The public outcry requirements of Rule 6.73 do not apply to Remote Market Makers.

(3) Supplemental Market Makers. When present in the Trading Crowd, Supplemental Market Makers must provide the size of their quotations for PCX Plus through an electronic interface with the Exchange, but may also provide quotations by public outcry. Whenever a Floor Broker enters the trading crowd and calls for a market in a particular option series, the Supplemental Market Maker will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)). Any resulting transactions will count toward that Supplemental Market Maker's in-person requirement.

(4) Floor Market Makers. When present in the Trading Crowd, Floor Market Makers must provide the price and size for their quotations for PCX Plus through an electronic interface with the Exchange, but may also provide quotations by public outcry. Whenever a Floor Broker enters the trading crowd

and calls for a market in a particular option series, the Floor Market Maker will be obligated to vocalize a two-sided, legal-width market (pursuant to Rule 6.37(b)(1)). Any resulting transactions will count toward that Floor Market Maker's in-person requirement.

(h) Obligations of Remote Market Makers

(1) All PCX Rules applicable to Market Makers will also apply to Remote Market Makers unless otherwise provided or unless the context clearly indicates otherwise. The following Rules do not apply to Remote Market Makers who are not present on the Trading Floor: Rule 6.2(b) – (f) and (h) (Admission to and Conduct on the Options Trading Floor); Rule 6.35(a) – (e) (Appointment of Market Makers); Rule 6.37(d) and Commentaries .03 and .05 (Obligations of Market Makers); Rule 6.53, Commentary .01 (Issuing a Call for Market Makers); Rule 6.66 (Order Identification); Rule 6.73 (Manner of Bidding and Offering); Rule 6.74 (Bid and Offers in Relation to Units of Trading); and Rule 6.100 (Evaluation of Options Trading Crowd Performance).

(2) For purposes of the following Rules, Remote Market Makers are deemed not to be members of the trading crowd: Rule 6.8, Commentary .08(c)(2) (the firm facilitation exemption procedures relating to position limits); Rule 6.47(a) – (f) (Crossing Orders and Stock/Option Orders); and Rule 6.66 (trading crowd participants to whom order identification information must be provided).

(3) Each Remote Market Maker must meet its quoting obligations as set forth in Rules 6.35(h)(2) and 6.37(g). A failure to comply with the 60% quoting requirement may result in a fine pursuant to Rule 10.1[3]2; however, if aggravating circumstances are present, formal disciplinary action may be taken pursuant to Rule 10.4. The Exchange may consider exceptions to this quoting requirement based on demonstrated legal or regulatory requirements or other mitigating circumstances (e.g., excused leaves of absence, personal emergencies, or equipment problems).

(4) A Remote Market Maker may be called upon by an Exchange official designated by the Board of Governors to submit a single quote or maintain continuous quotes in one or more series of an option issue to which the Remote Market Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of maintaining fair and orderly markets.

(5) Remote Market Makers must trade at least 75% of their average daily trading volume per quarter in issues included in their primary appointments pursuant to Rule 6.35(g) and 6.35(h)(2). Remote Market Makers may trade up to 25% of their quarterly contract volume in option issues that are not included within their primary appointments. Remote Market Makers may not enter two-

sided quotations in option issues that are not included within their primary appointments.

(6) If the Exchange finds any failure by a Remote Market Maker to engage in a course of dealings as specified in subsections (3) – (5) above, such Remote Market Maker will be subject to disciplinary action or suspension or revocation of registration by the Exchange in one or more of the option issues in which the Remote Market Maker holds a primary appointment. Nothing in this Rule will limit any other power of the Board of Governors under the [Constitution] Bylaws, Rules, or procedures of the Exchange with respect to the registration of a Remote Market Maker or in respect to any violation by a Remote Market Maker of the provisions of this Rule.

(7) Performance Standards. The [Options Allocation Committee] Exchange will periodically conduct an evaluation of Remote Market Makers to determine whether they have fulfilled performance standards relating to, among other things, quality of markets, competition among Market Makers, observance of ethical standards, and administrative factors. The [Options Allocation Committee] Exchange may consider any relevant information including, but not limited to, the results of a Remote Market Maker evaluation, trading data, a Remote Market Maker's regulatory history and such other factors and data as may be pertinent in the circumstances.

(A) If the [Options Allocation Committee] Exchange finds any failure by a Remote Market Maker to meet minimum performance standards, the [Options Allocation Committee] Exchange may take the following actions, after written notice and after opportunity for hearing pursuant to Rule 11:

(i) restriction of appointments to additional option issues in the Remote Market Maker's primary appointment;

(ii) suspension, termination, or restriction of an appointment in one or more option issues; or

(iii) suspension, termination, or restriction of the Remote Market Maker's registration in general.

(B) If a Remote Market Maker's appointment in an option issue or issues has been terminated pursuant to this subsection (7), the Remote Market Maker may not be re-appointed as a Remote Market Maker in that option issue or issues for a period not to exceed six (6) months.

Commentary:

.01 The limitations of Rule 6.37(b)(2) should not be carried over from one day to the next, and therefore are not applicable to the Exchange's opening.

.02 The bid-ask differentials as stated in paragraph (b)(1) of Rule 6.37 shall apply to all option series open for trading in each option class.

.03 (a) When a Market Maker other than a remote Market Maker displays a market on the screen that is the best market in that crowd, the Market Maker is obligated to ensure that its market is removed from the screen when the Market Maker leaves the crowd.

.04 The obligations of a Market Maker with respect to those classes of option contracts to which he holds a Primary Appointment, pursuant to Rule 6.35, shall take precedence over his other Market Maker obligations.

.05 Whenever a Floor Broker enters a trading crowd and calls for a market in any class and series at that post, each Market Maker present at the post where the option is traded is obligated, at a minimum, to make a market for one contract except as provided for in Rule 6.37(b)(5) and Rule 6.37 (c) (4), at the established price. In addition, the [Options Floor Trading Committee] Exchange may determine that Market Makers in trading crowds shall increase the depth of their markets as set forth in Options Floor Procedure Advice B-12. In the event a Floor Broker is unable to satisfy his order from bids and offers given in the crowd, the Order Book Official may assign one contract to every Market Maker present within the primary zone to assist the Floor Broker in satisfying his order. If a Market Maker at the post either bids lower or offers higher than the established market, such Market Maker shall be obligated to trade one contract at the price quoted by the Market Maker.

.06 The maintenance of a fair and orderly market has been determined to be impaired in instances where a Market Maker refuses to honor a market quotation that has just been given, in response to a request for a market.

.07 Leaves of Absence: In order to assure compliance with all applicable rules, regulations and guidelines, the [Options Allocation Committee] Exchange has provided the following procedures for granting leaves of absence to Market Makers:

(a) Market Makers may request leaves of absence when they plan to be away from the floor or, in the case of a Remote Market Maker, withdraw temporarily from entering quotations into the PCX Plus system, for periods in excess of two weeks during a calendar quarter.

(b) Requests for leaves of absence must be submitted in writing to the Exchange prior to the commencement of the intended leave.

(c) While on leave, Market Makers will not be permitted to make opening transactions in Exchange listed options, in their Market Maker accounts, through the use of a Floor Brokers, except as provided in Rule 6.32(c).

(d) If a Market Maker on an extended leave of absence is appointed, as his Primary Appointment, to a closed post and a liquidity problem arises at that post, the [Options Allocation Committee] Exchange, in reviewing the situation, may rescind the Market Maker's Primary Appointment in order to enhance trading liquidity in the post. A Market Maker so affected might then be reappointed to an open post, and may reapply for appointment to the closed post upon his return.

.08 A Market Maker may be compelled to buy/sell a specified quantity of option contracts at the disseminated bid/offer pursuant to his obligations under Rule 6.86.

Amended: September 27, 2000 (00-23); December 5, 2000 (00-08); February 28, 2001 (01-12); June 1, 2001 (01-18); November 19, 2001 (01-39); March 15, 2002 (01-50).

Restriction on Acting as Market Maker and Floor Broker

RULE 6.38. (a) Application

(1) The restrictions in subsection (b) do not apply to Lead Market Makers who are performing the functions of a Floor Broker pursuant to Rule 6.82(h)(3).

(2) Remote Market Makers that are trading from a location off the Floor are not eligible to perform the functions of Floor Brokers.

(b) Restrictions

(1) Except under unusual circumstances and with the prior permission of [an Options Floor Trading Committee Member] the Exchange, no Market Maker shall on the same business day and with respect to option contracts covering the same underlying security, act as such and also act as a Floor Broker.

(2) [Members] OTP Holders and OTP Firms who act as both Market Makers and Floor Brokers whose quarterly total contract volume as a Market Maker exceeds that as a Floor Broker must obtain a Primary Appointment and comply with the terms of Rule 6.35 and Rule 6.37.

(3) With the exception of those [members] OTP Holders and OTP Firms who are sole proprietors and/or those who are given Primary Appointments, [members] OTP Holders and OTP Firms who act as Floor Brokers and Market Makers shall be limited to the trading of 100 contracts per month as a Market Maker.

(4) [Members] OTP Holders and OTP Firms who wish to apply for the privilege of acting in the capacity of both a Market Maker and Floor Broker must apply for and receive approval from the [Options Allocation Committee] Exchange.

(5) A Market Maker who acts as a Floor Broker in options covering the same underlying security in which he holds a Primary Appointment would be gravely restricting his ability to fulfill the obligations of his Primary Appointment, pursuant to Rule 6.37. Accordingly, no [member] OTP Holder or OTP Firm shall act as a Floor Broker in options covering the same underlying security to which [his] its Primary Appointment extends. "Acting as" a Floor Broker shall be considered the acceptance of orders for execution, and shall not be limited to executing transactions or executing orders.

Amended: April 13, 1990.

Securities Accounts and Orders of Market Makers

RULE 6.39. (a) Identification of Accounts Upon Request. In a manner prescribed by the Exchange, each Market Maker shall upon request file with the Exchange a list identifying all accounts for stock, option, and related securities trading in which the Market Maker may directly or indirectly engage in trading activities or over which the Market Maker exercises investment discretion.

(b) Report of Executed Orders. In a manner prescribed by the Exchange, with respect to transactions to be cleared into all accounts carried for Market Makers for whom a clearing firm Letter of Guarantee has been issued pursuant to Rule 6.36, each clearing firm shall, on the business day following order entry date, report to the Exchange every executed order entered by the Market Maker for the purchase or sale of a security underlying options traded on the Exchange or a security convertible into or exchangeable for such underlying security as well as opening and closing positions in all such securities held in each account reported pursuant to this Rule.

Commentary:

.01 Reports of accounts and transactions required to be filed with the Exchange pursuant to this Rule relate only to accounts in which a Market Maker, as an individual, directly or indirectly controls trading activities or has a direct interest in the profits or losses of such account. Such reports would be required for accounts over which a Market Maker exercises investment discretion as well as a Market Maker's proprietary accounts.

Amended: June 19, 1990; December 15, 1997.

RULE 6.40. Reserved.

Market Maker Marketing Reports

RULE 6.41. The Exchange will provide its Market Makers with statistical reports designed to measure trading volume and participation in trading activity in each option issue traded on the Exchange. The reports will provide monthly trading information that will identify, by order flow provider, the issue and number of contracts traded, the LMM post where the issue is traded, the contra and executing broker symbols, and whether the trade was executed through the Exchange's Automatic Execution System, through the Limit Order Book, or manually in the trading crowd.

Amended: March 20, 2000.

RULE 6.42. Reserved.

FLOOR BROKERS

Options Floor Broker Defined

RULE 6.43.(a) A Floor Broker for the purposes of this Rule is an individual (either an [member] OTP Holder or OTP Firm or a nominee [member] of an [member organization] OTP Holder or OTP Firm) who is registered with the Exchange for the purpose, while on the Exchange Floor, of accepting and executing option orders received from [members] OTP Holders and OTP Firms. A Floor Broker shall not accept an order from any other source unless he has registered his individual [membership] for an [member organization] OTP Holder or OTP Firm approved to transact business with the public in accordance with Rule 9, in which event he may accept orders for public customers of the [member organization] OTP Holder or OTP Firm.

(b) Conducting a Limited Public Business

(1) Notwithstanding the provisions of subsection (a) of this Rule, qualified Floor Brokers and Floor Clerks of qualified Floor Brokers may conduct a public business limited to accepting orders directly from Professional Customers, as defined below, for execution on the Floor of the Exchange. Any Floor Broker or Floor Clerk of a Floor Broker seeking to conduct such a limited public business must first:

(A) successfully complete the Series 7 Examination or the Series 7A Examination; and

(B) register and receive approval from the Exchange. The form of registration will be prescribed by the Exchange.

(2) For purposes of this rule, a "Professional Customer" includes a bank; trust company; insurance company; investment trust; a state or political subdivision thereof; charitable or nonprofit educational institution regulated under the laws of the United States, or any state, or pension or profit sharing plan subject to ERISA or of any agency of the United States as of a state or political subdivision thereof; or any person (other than a natural person) who has, or who has under management, net tangible assets of at least sixteen million dollars.

(3) [Members] OTP Holders or OTP Firms who conduct a limited public business pursuant to the provisions of subsection (b) of this Rule 6.43 are strictly prohibited from holding customer funds and customer securities.

Amended: September 13, 2001 (01-26).

Registration of Floor Brokers

RULE 6.44.(a) An applicant for registration as a Floor Broker must file an application in writing with the Exchange on such form or forms as the Exchange may prescribe. Applicants must pass a Floor Broker examination (consisting of 121 questions) prescribed by the Exchange. Applicants will be given three and one-half hours to take the examination. Before a registration becomes effective, the Exchange will post the name of the applicant on the bulletin board on the Floor of the Exchange for at least three business days.

(b) The registration of any person as a Floor Broker may be suspended or terminated by the [Options Floor Trading Committee] Exchange upon a determination that such person has failed to perform properly as a Floor Broker. Any [member] OTP Holder or OTP Firm or prospective [member] OTP Holder or OTP Firm adversely affected by a determination of the [Options Floor Trading Committee] Exchange under this Rule may obtain a review thereof in accordance with the provisions of Rule 10.

Amended: June 8, 2001 (99-45); August 14, 2001 (01-29).

Letters of Authorization

RULE 6.45.(a) *Required of Each Floor Broker.* No Floor Broker shall act as such on the Exchange unless there is in effect a Letter of Authorization that has been issued for such Floor Broker by a clearing member. Unless the Exchange determines otherwise a Floor Broker may not have more than one such letter in effect at the same time.

(b) *Terms of Letter of Authorization.* A Letter of Authorization shall provide that the issuing clearing member shall be responsible for the clearance of the Exchange transactions of the Floor Broker when the name of such clearing member is given up.

(c) *Revocation of Letter of Authorization.* A Letter of Authorization filed with the Exchange shall remain in effect until a written notice of revocation has been filed with the Exchange and posted on the bulletin board of the Options Trading floor. If such written notice has not been posted for at least one hour prior to the opening of trading on a particular business day, such revocation shall not become effective until the close of trading on such day.

(d) *FLEX Options.* Floor Brokers may not act as such in respect of FLEX Options contracts unless one or more Letter(s) of Authorization on behalf of such Floor Brokers has been issued by a Clearing Member in accordance with Rule 8.115(b).

Amended: June 8, 2001 (99-45).

Responsibilities of Floor Brokers

RULE 6.46.(a) *General Responsibility.* A Floor Broker handling an order is to use due diligence to execute the order at the best price or prices available to him, in accordance with the Rules of the Exchange.

(b) *Contingency order or one-cancels-the-other order.* A Floor Broker handling a contingency order or a one-cancels-the-other order that is dependent upon the price of the underlying security shall be responsible for satisfying the dependency requirement on the basis of the last reported price of the underlying security in the primary market that is generally available on the floor of the Exchange at any given time. Unless mutually agreed by the [members] OTP Holders or OTP Firms involved an execution or non-execution that results shall not be altered by the fact that such price is subsequently found to have been erroneous.

(c) *Combination orders at the opening or close.* A Floor Broker shall not be held responsible for executing a single order combining different series of options based upon transaction prices that are established at the opening or close of trading or during any trading rotation employed in accordance with Rule 6.64.

(d) Pursuant to Rule 6.46(a), the [Options Floor Trading Committee] Exchange has made a determination regarding print-throughs on limit orders held either by a Floor Broker, or an Order Book Official. This determination distinguishes print-throughs which occur intra-day from print-throughs occurring on the opening. When a print-through is discovered, the Floor Broker should ascertain whether the limit price or a more favorable price is available. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade,

is responsible at the original limit price for whatever number of contracts have traded-through the limit order. Print-throughs on the opening should be treated differently than those which occur intra-day. On the opening, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible for the number of contracts that trade-through the customer's limit order at the opening price, rather than at the limit price. If a more favorable price is available, the order for the customer should be filled at the more favorable price; if a more favorable price is not available, the Floor Broker, or the Exchange, to the extent provided in Rule 6.59, in the case of a Book trade, is responsible at the original limit price for whatever number of contracts have traded-through the limit order.

(e) Under certain circumstances a best bid or best offer is disseminated as a result of an order represented by a Floor Broker. It is the responsibility of the Floor Broker holding such an order to instruct the Order Book staff to remove such bid or offer when it is canceled or when such order which represented such best bid or offer has been filled in its entirety.

(f) Floor Brokers may accept orders that bid for or offer a specified number of contracts and no less. These include orders designated as "fill or kill," "all or none," or "immediate or cancel," (including such orders specifying that any unfilled portion of a multiple order is to be immediately canceled). However, Floor Brokers must assure that all such orders (including the contingency) are vocalized in the trading crowd, and that the bid or offer is not disseminated.

(g) Floor Brokers who are required to establish and maintain error accounts pursuant to Rule 4.21 may only use such error accounts for the purpose of correcting bona fide errors, as provided in Rule 6.14.

Commentary:

.01 Pursuant to Rule 6.46, a Floor Broker's use of due diligence in executing an order shall include ascertaining whether a better price than is being displayed at that time is being quoted by another Floor Broker or a Market Maker. This rule requires that Floor Brokers announce solicitations of the best price or prices available and that they allow adequate time, depending upon market conditions, for other [members] OTP Holders or OTP Firms to respond. If a market satisfying the standards of Rule 6.37 is not present, then the Floor Broker should request the Order Book Official to call for bids and offers by Market Makers in accordance with Rule 6.53.

.02 Pursuant to Rule 6.46, a Floor Broker's use of due diligence in executing an order includes the use of a reasonable effort to make all persons in the trading crowd aware of the Floor Broker's request for a quotation

.03 Pursuant to Rule 6.46, a Floor Broker's use of due diligence in executing a market order as defined in paragraph (a) of Rule 6.62 shall include (i) the prompt

execution of such order at the best obtainable price after representing the order at the post in accordance with the provisions of Commentary .02 of this Rule; and (ii) the representation of such order at the post within a reasonable time after such order reaches the trading floor.

.04 A Floor Broker's use of due diligence in handling an order is applicable to the provisions of Rule 6.86, in that it includes taking the necessary measures to ensure the proper execution of an order as it pertains to the executable quantity for a trading crowd's firm disseminated bid/offer. The failure of a Floor Broker to remove a bid/offer that he has caused to be disseminated, upon his leaving the trading post shall constitute a violation of this Rule.

.05 A Floor Broker's use of due diligence in handling an order shall include the immediate and continuous representation of market and marketable orders at the trading post where the option class represented by his order is designated for trading, except that a Floor Broker who is acting pursuant to Rule 6.49 need not represent such orders immediately at the designated trading post.

Amended: May 16, 1990; April 4, 2001 (00-36); June 8, 2001 (99-45).

"Crossing" Orders and Stock/Option Orders

RULE 6.47.(a) *Non-Facilitation (Regular Way) Crosses*. A Floor Broker who holds orders to buy and sell the same option contract may cross such orders, provided that he proceeds in the following manner:

(1) He must request bids and offers for the option series involved and make all persons in the trading crowd, including the Order Book Official, aware of his request for a market.

(2) After providing an opportunity for such bids and offers to be made, he must (i) bid above the highest bid in the market by at least the MPV and give a corresponding offer at the same price or at prices differing by the MPV or (ii) offer below the lowest offer in the market by at least the MPV and give a corresponding bid at the same price or at prices differing by the MPV.

(3) If such higher bid or lower offer is not taken, he may cross the orders (or any part remaining unexecuted) at such higher bid or lower offer by announcing by public outcry that he is crossing and giving the quantity and price.

(b) *Crossing of Facilitation Orders*. A Floor Broker who holds an order for a public customer or a broker-dealer ("customer order") and an order for the proprietary account of an an [member organization] OTP Holder or OTP Firm that is representing that customer (the "facilitation order") may cross those orders only if the following procedures and requirements are followed.

(1) The size of the customer order subject to facilitation must be at least fifty contracts. Orders for less than fifty contracts may be facilitated pursuant to this rule but are not subject to subsection (4) below pertaining to firm guarantees.

(2) The option order tickets for both the facilitation order and the customer order must display all of the terms of such orders, including any contingencies involving, and all related transactions in, either options or underlying or related securities. The Floor Broker must disclose all securities that are components of the customer order.

(3) The Floor Broker must request bids and offers for all components of the customer order and clearly disclose his intention to execute a facilitation cross transaction to the trading crowd. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the facilitation market has been improved. (The term "significant change" will be interpreted on a case-by-case basis by two [Floor] Trading Officials or the Exchange based upon the extent of recent trading in the option and in the underlying security, and any other relevant factors.)

(4) Once a market has been established and all public customer orders represented in the trading crowd have been satisfied, the Floor Broker may cross:

(A) forty percent (40%) of any remaining contracts at a price between the trading crowd's quoted market (e.g., if the trading crowd's quoted market is 2.10 - 2.50, and the Floor Broker is representing a customer order to buy 1000 contracts, then the Floor Broker may cross 40% of 1000 at any 2.25 or any other improved price); or

(B) twenty-five percent (25%) of the contracts at the trading crowd's best bid or offer (e.g., if the trading crowd's quoted market is 2.10 - 2.50, and the Floor Broker is representing a customer order to buy 1000 contracts, then the Floor Broker may cross 25% of 1000 at the trading crowd's offer).

(5) If the facilitation trade occurs at the LMM's quoted bid or offer in their allocated issue, then the LMM's guaranteed participation level shall apply only to the number of contracts remaining after all public customer orders and the firm facilitation order being represented by the Floor Broker have been satisfied pursuant to this rule. However, the total amount of participation that any firm and/or LMM may receive, as a guarantee, may not exceed, in the aggregate, forty percent (40%) of the customer order. If the trade occurs at a price other than the LMM's quoted bid or offer, the LMM is entitled to no guaranteed participation.

(6) The [members] OTP Holders or OTP Firms of the trading crowd who established the facilitation market will have priority over all other non-public customer orders that were not represented in the trading crowd at the time that the facilitation market was established and will maintain priority over non-customer orders except for orders that improve the bid or offer. A Floor Broker who is holding a customer order and a facilitation order and who calls for a facilitation market will be deemed to be representing both the customer order and the facilitation order, so that the customer order and the facilitation order will also have priority over all other non-public customer orders that were not being represented in the trading crowd at the time that the facilitation market was established.

Nothing in this rule is intended to prohibit a Floor Broker or LMM from trading more than their percentage entitlements if the other members of the trading crowd do not choose to trade the remaining portion of the order.

(c) *Crossing of Solicited Orders.* A Floor Broker who holds an order for a public customer of an [member organization] OTP Holder or OTP Firm may solicit an opposing side for such order. The solicited order shall be entitled to priority of execution on the original order amount of the order which prompted the solicitation, provided the following criteria are met.

(1) The initial order shall be first represented in the trading crowd by public outcry, at which time the size and all components of the order shall be disclosed. This order must remain active in the trading crowd during the entire solicitation process.

(2) The prevailing bid/ask quotation on the underlying security must remain unchanged between the time the initial order is first represented in the trading crowd pursuant to paragraph (1) above and the consummation of the subject transaction.

(3) Both the order prompting the solicitation and the solicited order shall be represented by an [member] OTP Holder affiliated with the [member organization] OTP Holder or OTP Firm that had initially represented the order prompting the solicitation pursuant to paragraph (1) above.

(4) "Solicited" shall be written in the "Optional Data" area on the order ticket of the solicited order. If the solicited order is for a market maker account, the order ticket shall be personally initialed by the solicited market maker, who must have in his possession a copy of such order ticket at all times such order is active.

(5) If a Floor Broker announces an order in the trading crowd, and then steps out of the trading crowd to solicit interest, but continues to be within hearing

distance, the Floor Broker need not re-announce the order upon returning to the trading crowd.

(d) *Trading Crowd Opportunity to Respond.* Floor Brokers are cautioned that they must allow [members] OTP Holder or OTP Firm represented in the trading crowd a reasonable period in which to respond to the bid and/or offer prior to consummating the cross transaction. A reasonable period will not be defined in terms of a specific time limit. However, an obvious attempt to execute the cross in an uninterrupted sequence with the announcement of the bid and offer is deemed to be a violation of Rule 6.47 and Rule 6.73, and grounds for objection to the cross transaction.

(e) *Use of the Book to Effect a Cross.* In some instances, a Floor Broker may deem it necessary to place one side of the proposed cross transaction on the Order Book with the intention of effecting the cross transaction with the Order Book. To effect such a transaction, the Floor Broker must use the following procedure: Following the announcement of the new bid or offer by the Order Book Official or his clerk, the Floor Broker must again request a market in the series, and upon determination that the bid or offer represented by the Order Book is the best market, he may then execute the cross by trading with the order on the Book.

(f) *Stock/Option Orders.* When a stock/option order is taken to a crowd for execution, the stock transaction must be effected prior to the option transaction pursuant to Rule 6.47, Commentary .04. The following procedure applies to all executions of stock/option orders: After an agreement with other members of the crowd has been reached as to the terms of the transaction, the option order tickets must be written up and time stamped. However, the order tickets should not be turned in to the Order Book Official at this time. The [members] OTP Holders or OTP Firms shall attempt to immediately effect the transaction in the underlying or related security. If the stock transaction cannot be executed immediately or is effected at a price other than the agreed-upon price, the [members] OTP Holders or OTP Firms shall not be held to the option transaction. If the stock transaction is effected at the agreed-upon price, then all the [members] OTP Holders and OTP Firms who participated in the option transaction shall be held to their agreed-upon price. At the time the stock transaction is effected, the option trade tickets should be given to the Order Book Official.

Commentary:

.01 The term "public customer of an [member organization] OTP Holder or OTP Firm" shall mean, in connection with Rule 6.62(i) and 6.47, a customer that is neither an [member] OTP Holder or OTP Firm nor a broker/dealer.

.02 When accepting a bid or offer made on behalf of a public customer, all contingencies of the public customer order must be satisfied by the accepting [member] OTP Holder or OTP Firm.

.03 Spread, straddle, combination or stock/option orders may be crossed, provided that the Floor Broker holding such orders proceeds in the manner described in paragraphs (a), (b) or (c) above, as appropriate. Representation and acceptance of these orders, as well as stock/option orders, may be made: on the basis of either the net debit/credit of the order or the prices for each component separately. [Members] OTP Holders or OTP Firms may not prevent a spread, straddle, combination or stock/ option cross from being completed by giving a competing bid or offer for one component of such order.

.04 Where a related transaction must be effected in another market, that transaction must be effected prior to effecting the options transaction.

.05 Market Makers are under an affirmative obligation to indicate their market and size so that the Floor Broker may establish the current market.

.06 The [Options Floor Trading Committee] Exchange has determined that deliberate misrepresentation of an order will subject an [member] OTP Holder or OTP Firm to disciplinary action.

Amended: May 26, 2000 (99-18); September 27, 2000 (00-23); June 8, 2001 (99-45); November 19, 2001 (01-39)

Discretionary Transactions

RULE 6.48.(a) No Floor Broker shall execute or cause to be executed any transaction on this Exchange with respect to which transaction such Floor Broker is vested with discretion as to: (1) the choice of the class or series of options to be bought or sold; (2) the stated number of option contracts to be bought or sold; (3) the ability to increase the stated volume; or (4) whether any such transaction shall be one of purchase or sale. A Floor Broker may be vested with discretion as to the ability to decrease the stated volume of option contracts.

(b) Pursuant to Rule 6.48, the [Options Floor Trading Committee] Exchange has determined that no Floor Broker may hold concurrently a "not held" market order to buy and a "not held" market order to sell (or orders which have the effect of such "not held" market orders to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Holding such orders will be interpreted as allowing the Floor Broker discretion with respect to whether to purchase or sell such options.

(c) A Market Maker shall not exercise discretion in an account unless he has a direct interest in such account. Market Makers may not exercise discretion over any account other than: a joint account approved pursuant to Rule 6.39, or an account in which the Market Maker has a direct interest. For purposes of this Rule, the term "direct interest" in an account is limited in its meaning to include only a participation in the profits and losses in such account, or in the case of a partnership or corporation, a

representative of such partnership or corporation who has a supervisory responsibility over such account. Only persons registered as Market Makers and subject to the performance obligations set forth in Rule 6.37, may exercise discretion over an account.

(1) A Market Maker wishing to effect such discretionary transactions for accounts other than the Market Maker's personal account or a joint account must enter the order with a Floor Broker and the procedures set forth in Rule 6.85. The identification of the order as a discretionary order is required pursuant to PCX Rule 6.68(a)(7), "Record of Orders."

(A) The name of the Market Maker for whom the transaction is being executed must be printed at the bottom of the ticket (B-6-1(c)), along with the badge number of the Market Maker exercising discretion (i.e. e.g., Joe Trader/MO7); and

(B) A "D" must be placed after the Market Maker's number, for whose account the trade is executed, in the firm box (e.g., MO5 D).

Amended: June 8, 2001 (99-45).

Solicited Transactions

RULE 6.49.(a) An [member or member organization] OTP Holder or OTP Firm representing an order in options ("originating order") may solicit another [member, member organization or non-member] non-OTP Holder or OTP Firm or broker/dealer outside the trading crowd ("solicited party") to participate in the transaction on a proprietary basis provided the following criteria are met.

(1) The [member or member organization] OTP Holder or OTP Firm, upon entering the trading crowd to execute the transaction must announce to the trading crowd the same terms and conditions of the originating order that have been disclosed to the solicited party;

(2) The [member or member organization] OTP Holder or OTP Firm must bid at the price he is prepared to buy from the solicited party or offer at the price he is prepared to sell to the solicited party; and

(3) The [member or member organization] OTP Holder or OTP Firm must give the trading crowd a reasonable opportunity to accept the bid or offer.

The members of the trading crowd will have priority over the solicited party order.

(b) It will be considered conduct inconsistent with just and equitable principles of trade for any [member, member organization] OTP Holder or OTP Firm or person

associated with an [member or member organization] OTP Holder or OTP Firm, who has knowledge of all material terms and conditions of an originating order, a solicited order, or a facilitation order, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option on the underlying securities of any option that is the subject of the order, or an order to buy or sell the security underlying any option that is the subject of the order, or any order to buy or sell any related instrument until either:

(1) All the terms and conditions of the originating order and any changes in the terms or conditions of the order of which the [member, member organization] OTP Holder or OTP Firm or person associated with the [member or member organization] OTP Holder or OTP Firm has knowledge are disclosed to the trading crowd, or

(2) The trade can no longer reasonably be considered imminent in view of the passage of time since the order was received.

For the purposes of this rule, an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

(c) "Solicited" shall be written in the "Optional Data" area on the order ticket of the Solicited order.

Amended: April 4, 2001 (00-36).

Floor Broker Acting as Both Principal and Agent in the Same Transaction

RULE 6.50.(a) A Floor Broker holding an agency order may not fill any part of such order as principal unless that Floor Broker inadvertently "misses the market" for the account of a customer and, owing a report at a specified price or better, cannot effect the necessary transaction except by filling all or some portion of the order as principal.

(b) For the purposes of facilitating a customer order via the firm error account, in connection with a broker's "missing the market," the following procedures will apply:

(1) Floor Broker errors (positions resulting from a broker's error or omission) must be liquidated promptly except for unusual circumstances that are beyond the control of such Floor Broker.

(2) Error account positions not liquidated by the next business day must be maintained in a customer (investment) account and be subject to customer margin.

(3) Error account positions, not initially established as part of an investment transaction (i.e., executed as agent) may not subsequently be transferred, adjusted, or journaled into a Market Maker account.

(4) The price and size of the transaction, if made through the Exchange's adjustment system, must be justified by the market condition at the time the order was entered, if it was a market order and at the limit or better if it was a limit order.

Amended: June 8, 2001 (99-45).

ORDER BOOK OFFICIALS

Order Book Official Defined

RULE 6.51.(a) An Order Book Official ("OBO") is an Exchange employee who is responsible for (i) maintaining the book with respect to the classes of options assigned to him; (ii) effecting proper executions of orders placed in the book; (iii) displaying bids and offers pursuant to Rule 6.55 and (iv) monitoring the market for the classes of options assigned to him.

(b) A list of the Market Makers holding primary appointments in a particular issue will be maintained by the OBO at each trading post where such issue is traded.

Amended: July 12, 2000 (99-40); December 28, 2000 (99-44).

Obligations for Orders

RULE 6.52. (a) In option issues designated for trading on PCX Plus pursuant to Rule 6.90, limit orders for the accounts of Public Customers, broker-dealers and Market Makers will be eligible for representation in the Consolidated Book. In addition, Quotes with Size of Market Makers will be included in the Consolidated Book. [Members] OTP Holders or OTP Firms submitting orders or Quotes with Size to the Order Book Official for execution or for entry into the Consolidated Book must comply with such format requirements as may be prescribed by the Exchange. There is no limit to the size of orders or quotes that may be entered into the Consolidated Book. The Exchange will determine whether any or all types of contingency orders (as defined in Rule 6.62(c)) will be eligible to be included in the Consolidated Book.

If an option issue has not been designated as eligible for trading on PCX Plus, then the provisions of subsections (b) through (d) below will apply.

(b) *Acceptance*. Order Book Officials will, for all options contracts of the class or classes assigned to them, accept and maintain a written record of orders that are placed in their custody. Such orders shall include limit orders (as defined in Rule 6.62) and such

other orders as may be designated by the [Options Floor Trading Committee] Exchange. An Order Book Official will not accept orders of any other type or from any source other than an [member] OTP Holder or OTP Firm. Only non-broker/dealer customer orders may be placed with an Order Book Official pursuant to this Rule. For the purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

(c) *Execution*. Order Book Officials must use due diligence to execute the orders placed in their custody at the best prices available.

(d) *Timeliness of Entering Orders in the Book*. Floor Brokers have a positive obligation to ensure that the urgency of the need to deal with the Book at a given moment is consistent with the maintenance of an orderly Book market. In some situations it may be unnecessarily disruptive to the maintenance by the OBO of an orderly market if an attempt is made to enter into, cancel from, or change an order in the Book that is reasonably away from the market and had no immediate urgency. OBOs must report to [Floor] Trading Officials or the Exchange any instances that appear to violate this obligation.

Commentary:

.01 In addition to limit orders that the Order Book Official is obligated to accept, an Order Book Official may only accept such other types of orders that have been designated by the [Options Floor Trading Committee] Exchange.

.02 Pursuant to Rule 6.52(a), the [Options Floor Trading Committee] Exchange has adopted the following guideline: Order Book Officials shall be under no obligation to accept orders after the time set for the opening of trading on the Exchange for execution at the opening of the market. In addition, Order Book Officials shall be under no obligation to accept a cancel/replace (CFO) or cancel order relating to a prior market order once the opening rotation for option contracts covering the same underlying security has begun.

.03 For purposes of this Rule, an order shall be deemed to be from an [member] OTP Holder or OTP Firm if the order is placed with an Order Book Official by a person associated with an [member] OTP Holder or OTP Firm (e.g., a clerk or a runner), provided that the order is either (i) an order to buy at a price equal to or below the highest bid in the Order Book Official's book or (ii) an order to sell at a price equal to or above the lowest offer in the Order Book Official's book. These conditions will not be applicable when a person associated with an [member] OTP Holder or OTP Firm is placing a cancel/replace (CFO) with the Book.

.04 For purposes of this Section, orders will be within the custody of Order Book Officials only when they have been deposited, properly time-stamped and marked, in the proper receptacle.

.05 In the exercise of "due diligence" within Rule 6.62(b), Order Book Officials are allowed a reasonable time, (never to exceed five minutes) after book orders are put in their custody before incurring responsibility for execution of such orders.

Amended: September 17, 1996; March 19, 1997; July 12, 2000 (99-40).

Obligation for Fair, Orderly and Competitive Market

RULE 6.53. At the request of a Floor Broker who holds an order for a particular option contract, or before any crossing transaction is effected in accordance with Rule 6.47, or whenever in the Order Book Official's opinion the interests of a fair and orderly and competitive market are best served by such action, an Order Book Official must call upon those Market Makers appointed to act as such in that class of option contracts to make bids and/or offers that contribute to meeting the standards set forth in Rule 6.37. To the extent practicable, and in a form prescribed by the Exchange, the Order Book Official will keep a record of the responses of Market Makers that provide or improve upon a market commensurate with these standards. If satisfactory responses are not forthcoming promptly, the Order Book Official will make a record of this fact. Copies of all records kept in accordance with the Rule will be forwarded to the Options Surveillance Department.

Commentary:

.01 *Issuing a Call for Market Makers.* The issuing of a call for Market Makers to come to a specified post will be the responsibility of the OBO. Only the OBO may cause this call to be made. A call for Market Makers will be made only after it has been determined that those Market Makers present at the post are not carrying out the functions of Market Makers as stipulated in Rule 6.37, and not on the basis only that Market Makers are not present in numbers.

If as few as two Market Makers are present and the OBO determines that an orderly market is being maintained with respect to quote and size, then a call will not be issued merely to bring more Market Makers to the post. However, the provision is not in any way to be taken as a limitation on the responsibilities of the OBO to issue such calls for Market Makers as may be necessary to implement fully the requirements of PCX Rule 6.37.

Amended: July 12, 2000 (99-40).

Duty to Report Unusual Conditions

RULE 6.54. When, in the opinion of an Order Book Official, there is any unusual activity, transactions, or price change or there are other unusual market conditions or circumstances which are, with respect to any option contract in which he is acting as an

Order Book Official, detrimental to the maintenance of a fair and orderly and competitive market, he shall promptly make a report to an Options [Floor] Trading Official.

Commentary:

.01 The [Options Floor Trading Committee] Exchange has determined that when a facilitation cross transaction occurs, as defined in Rule 6.47(b); or when, pursuant to Rule 6.75(d), a spread, straddle, combination or stock/option order involving a transaction in an underlying or related security takes priority over orders in the Order Book or orders held by other [members] OTP Holder or OTP Firm, a record of such transaction shall be kept by the Order Book Official and forwarded to the Surveillance Department at the end of the trading day.

Displaying Bids and Offers in the Book

RULE 6.55. The limit orders in the custody of an Order Book Official shall constitute his book. So far as practicable, an Order Book Official shall continuously display, in a visible manner, the highest bid and lowest offer along with an indication of the number of option contracts bid for at the highest bid and offered at the lowest offer in his book in each option contract for which he is acting as Order Book Official; provided, however, that where the highest bid or lowest offer is for more than twenty-five option contracts, or such other number of option contracts as may be prescribed from time to time by the [Options Floor Trading Committee] Exchange, the Order Book Official may display an indication that the bid or offer is for at least that number of option contracts. When required by market conditions, he may make such quotations available orally rather than by displaying them.

Commentary:

.01 In displaying the highest bid or the lowest offer in his book for a particular option contract, an Order Book Official shall indicate the full size of such bid or offer if it is for 25 or fewer option contracts. If the highest bid or the lowest offer is for more than 25 option contracts, the Order Book Official shall display a size indication of at least 25 units, and may indicate at his discretion, a larger number.

.02 At any time, the highest bid or the lowest offer, and the size in each, by which the Order Book Official is bound shall be those bids and offers actually appearing on his book, notwithstanding bids, offers, or sizes erroneously displayed at other prices or sizes.

.03 Order Book Officials shall not be bound by verbal confirmations of executions based on their book displays until a reasonable period (never to exceed five minutes) has been allowed for OBO's to determine that the terms of the executions may be satisfied by their books.

Transactions Outside Order Book Official's Last Quoted Range

RULE 6.56. If a transaction or the cancellation of an order causes the Order Book Official's last displayed bid or last displayed offer to be removed from the market, no [member] OTP Holder or OTP Firm may participate in any transaction at a price below such last bid or above such last offer until the Order Book Official has displayed a new bid or a new offer. The term "displayed" as used above includes either having verbally made known a new bid or offer or having entered the new bid or offer on the quotation screen.

Amended: July 12, 2000 (99-40).

Disclosure of Orders

RULE 6.57. *Equal Access to Book Depth and Size.* (a) If an option issue has not been designated by the Exchange as eligible for trading on PCX Plus, the provisions of Rule 6.57(b) will apply. If an option issue has been designated as eligible for trading on PCX Plus, then the provisions of subsection (c), below, will apply.

(b) Upon request of an [Member] OTP Holder or OTP Firm and so long as such request does not interfere with the operation of the Book, an OBO, or such other person designated by the Exchange, may disclose the price and number of contracts which are bid below or that are offered above the Book information displayed pursuant to Rule 6.55. The OBO or such designated person shall not disclose such information until the requesting [member] OTP Holder or OTP Firm discloses by open outcry to the trading crowd for what [Member or Member Organization] OTP Holder or OTP Firm such request is being made. The Exchange may, in its discretion from time to time, establish the depth to which such information may be disclosed.

(c) In option issues designated for trading on PCX Plus, all Crowd Participants (as defined in Rule 6.1(b)(38)) will be able to access at the same time the same information in regard to orders and Quotes with Size placed through PCX Plus.

Designation by Exchange

RULE 6.58. Order Book Officials will be designated by the Exchange to perform the functions set forth herein.

Liability of Exchange for Actions of Order Book Officials

RULE 6.59.(a) Except to the extent provided in Rule 6.59(b), the Exchange's liability to [members] OTP Holders or OTP Firms or persons associated therewith, for any loss, expense, damages or claims arising out of any errors or omissions of an Order

Book Official or the assistants or clerks of an Order Book Official shall be subject to the limitations set forth in Rule 13.

(b) As used in this Rule, the term "transaction" shall mean any single order or instruction, which is placed with an Order Book Official, or any series or orders or instructions, which is placed at the same time with an Order Book Official by the same [member organization] OTP Holder or OTP Firm and which relates to any series of options of the same class. All errors and omissions made by an Order Book Official in the course of executing a transaction shall give rise to a single claim against the Error Fund or the Exchange or the Error Fund and the Exchange together for losses resulting therefrom as provided in this Section. However, no claim shall arise when such errors or omissions are found to have resulted from the [member or member firm's] OTP Holder or OTP Firm's failure to enter or cancel an order on a timely basis, or to clearly and accurately communicate to the Order Book Official:

- (i) the description or symbol of the security involved; or
- (ii) the exercise price or option contract price; or
- (iii) the type of option; or
- (iv) the number of trading units; or
- (v) the expiration month; or
- (vi) any other type of information or data which is material to the Order Book Official's role in the transaction.

(c) Any claim for losses arising from errors or omissions of an Order Book Official shall be presented in writing to the Exchange no later than the opening of trading on the next business day following the transaction giving rise to the claim; provided, that if an error or omission by an Order Book Official has resulted in an uncomparated trade, then any claim based thereon shall be presented after the uncomparated trade has been closed out in accordance with Rule 6.21, but no later than the opening of trading on the next business day following such resolution of the uncomparated trade.

(d) All disputed claims shall be referred for binding arbitration to an Arbitration Panel whose resolution of the dispute shall be final. The Arbitration Panel shall be composed of an odd number of panelists who shall be selected as follows. Each of the parties to the dispute shall select one member of the [Options Floor Trading Committee] Exchange to serve as panelist on the Arbitration Panel. The panelists so selected shall then among them agree on the selection of one or more additional panelists; provided that the additional panelists so selected are either members or representatives of member organizations of the Exchange, and provided further that no member of the Arbitration Panel may be a person with a direct or indirect financial interest in the claim. In the event

that the initial panelists selected by the parties to the dispute cannot agree on the selection of the above-mentioned additional panelist or panelists, as the case may be, then in that event such additional panelist(s) shall be appointed by the [Options Floor Trading Committee] Exchange, except that any [members] OTP Holders or OTP Firms of the [Committee] Exchange who either have already been selected to serve on the Arbitration Panel or who have a direct or indirect financial interest in the claim shall not participate in the selection of such additional panelist(s). Parties (including the Exchange) interested in the proceedings before such Arbitration Panel may make oral and written submissions thereto; provided, that any such submission must be made within seven calendar days of the selection of the Arbitration Panel, or, if the Arbitration Panel determines that delay in the resolution of the dispute may increase the loss, within such shorter period of time as the Arbitration Panel, in its discretion may prescribe.

(e) Out of the transaction fee charged by the Exchange for use of the services of an Order Book Official, an amount, fixed from time to time by the Board of [Governors] [Managers] Directors (which amount may be zero), shall be paid into an Error Fund. The Error Fund shall be initially augmented by a one-time contribution by the Exchange of \$200,000 made prior to the commencement of options trading on the Exchange. In the discretion of the Board of [Governors] [Managers] Directors of the Exchange any cash contained in the Error Fund may from time to time be wholly or partially invested by the Exchange in securities issued or guaranteed by the United States and to the extent not so invested shall be deposited by the Exchange in its name in such depository or depositories as may be selected by the Exchange. Contributions to the Error Fund shall be held separate and apart from the other assets of the Exchange; provided, that interest, or any return received, on investment of the Error Fund may, at the discretion of the Board of Governors, be added to the general assets of the Exchange, and, provided further, that the Board of [Governors] [Managers] Directors may withdraw all or any portion of the principal amount contained in the Error Fund upon thirty days written notice to the [membership] OTP Holder or OTP Firm. If the use of Exchange employees as Order Book Officials for options trading is ever discontinued, then any assets of the Error fund remaining after the resolution of all outstanding claims arising under this Section shall become a part of the general assets of the Exchange.

(f) Except with respect to criminal, dishonest, or fraudulent acts of Order Book Officials or other acts of Order Book Officials to the extent the Exchange is indemnified for such acts, the Exchange shall not be liable to [its members and member organizations] the OTP Holder or OTP Firm, and any successors or representatives thereof for any claims growing out of errors or omissions of an Order Book Official, and no assets of the Exchange shall be applied, or shall be subject, to any such liability except to the extent provided in this paragraph.

(i) If the Error Fund contains at least \$200,000 both (A) at the time recovery on the claim is granted and (B) at any time during the trading day on which the transaction giving rise to the claim occurs, then the Exchange shall not be liable or responsible for any errors or omissions of an Order Book Official

giving rise to such claim except to the extent of the Error Fund existing at the time recovery on the claim is granted. If a number of claims subject to this subparagraph arise from transactions occurring on the same trading day and cannot be fully satisfied out of amounts existing in the Error Fund, then final recovery on each such claim shall be deemed to be given on the same day and such recovery shall be limited to a pro rata share of the amount existing in the Error Fund at that time.

(ii) Notwithstanding subparagraph (i) of this paragraph or any other provision of this Rule 6, recovery on any one claim, against the Error Fund or against the Exchange, or against the Error Fund and the Exchange together, shall not exceed \$100,000. The Board of [Governors] [Managers] Directors may, from time to time, by an amendment to this Rule, set further limits with respect to recovery for particular types of claims.

(iii) Should an [member or member organization] OTP Holder or OTP Firm fail to close out an uncomparing trade in the period of time provided in Rule 6.21, then the Exchange's liability with respect to any claims arising from such trade shall be limited to the least recovery as measured by: (A) the recovery permitted by subparagraph (i) of this paragraph; (B) the recovery permitted by subparagraph (ii) of this paragraph; (C) the loss which would have been experienced by the [member organization] OTP Holder or OTP Firm if the uncomparing trade had been closed out at the opening of trading on the day provided in Rule 6.21 for the closing out of such uncomparing trade; or (D) the actual loss realized by the [member organization] OTP Holder or OTP Firm making the claim.

(g) If any damage is caused by an error or omission of an Order Book Official which is the result of any error or omission of an [member organization] OTP Holder or OTP Firm, then such [member organization] OTP Holder or OTP Firm shall indemnify the Exchange and the Order Book Official and hold them harmless from any claim of liability resulting from or relating to such damage.

(h) Except to the extent this Rule provides for the contrary, nothing contained in this Rule 6.59 shall in any way limit, waive, or proscribe any defenses the Exchange may have to any claim, demand, liability, action or cause of action, whether such defense arises in law or equity, or whether such defense is asserted in a judicial, administrative, or other proceeding.

Commentary:

.01 The limitations of liability referred to in this Rule 6.59 are applicable only to claims against the Exchange by its [members and member organizations] OTP Holders or OTP Firms, and any successors or representatives thereof. These provisions of limited liability have no applicability to claims of or liabilities, if any, to other persons.

.02 Nothing contained in this Rule 6.59 shall, in any way, limit the PCX's ability to authorize an Order Book Official to enter into a transaction either for the purpose of satisfying its obligation to the book or for the purpose of correcting a trade made in error by an Order Book Official.

Amended: August 14, 1996.

Order Service Firms

RULE 6.60.(a) An Order Service Firm is an member or member organization OTP Holder or OTP Firm that is registered with the Exchange for the purpose of accepting orders for the purchase or sale of stocks or commodity futures contracts (and options thereon) from Market Makers on the Floor of the Exchange and forwarding such orders for execution. An applicant for registration as an Order Service Firm shall file its application in writing with the [Membership Department of the] Exchange. Applications will be reviewed by the [Membership Committee] Exchange, which will consider an applicant's financial condition, regulatory history, and such other factors as the [Membership Committee] Exchange deems appropriate. After reviewing the application, the [Membership Committee] Exchange will either approve or disapprove the applicant's registration as an Order Service Firm. Before registration, the Exchange's Membership Department, upon direction of the Membership Committee, shall post the names of the applicant and its nominee(s) on the floor of the Exchange for at least three business days.

(b) An Order Service Firm must make available to Market Maker customers upon request a statement of financial condition as disclosed on its most recent balance sheet, which must be prepared no later than the tenth business day following each calendar month-end.

(c) A Clearing Member need not register as an Order Service Firm in order to accept orders for the purchase or sale of stocks or commodity futures contracts (and options thereon) from a Market Maker for which it has a currently outstanding Letter of Authorization.

(d) An Order Service Firm that accepts orders for the purchase or sale of commodity futures contracts (and options thereon) must comply with the Commodity Exchange Act ("CEA") and the rules and regulations promulgated thereunder. Such a firm must keep the Department of Financial and Operational Compliance Department ("FOCD") apprised of its registration status under the CEA on an ongoing basis and must also keep it apprised regarding any financial reporting or capital requirements.

(e) Prior to accepting any orders from Market Makers on the Floor of the Exchange, an Order Service Firm must have on file with the Exchange and in effect an updated Letter of Authorization issued for such firm by a member of The Options Clearing Corporation.

(1) The Letter of Authorization must be in a form prescribed by the Exchange and must provide that the issuing Clearing Member accepts financial responsibility for all orders handled by the Order Service Firm on the Floor of the Exchange and for all financial obligations of the Order Service Firm to the Exchange.

(2) A Letter of Authorization filed with the Exchange must remain in effect until a written notice of revocation has been filed with the Exchange. If such a written notice of revocation filed with the Exchange within at least one hour prior to the opening of trading on a particular business day, such revocation will not become effective until the close of trading on such day. Upon the request of the Clearing Member that files such a written notice of revocation, the Exchange will post notice of the revocation on the Floor of the Exchange. A revocation will in no way relieve a Clearing Member of responsibility for transactions authorized prior to the effective date of such revocation.

(3) No Clearing Member will be permitted to authorize more than three Order Service Firms without the prior written approval of the FOCD. In considering a request to guarantee more than three such firms, the FOCD will consider the Clearing Member's level of excess net capital, additional financial resources, and such other factors as the FOCD deems appropriate. Clearing Members that choose to act as Order Service Firms will not be counted towards the limit of three.

Amended: August 14, 2001 (01-32).

RULE 6.61. Reserved.

TRADING PRACTICES AND PROCEDURES

Certain Types of Orders Defined

RULE 6.62.(a) *Market order*. A market order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.

(b) *Limit order*. A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.

(c) *Contingency order*. A contingency order is a limit or market order to buy or sell that is contingent upon a condition being satisfied while the order is at the Post.

(1) *Stop-limit order*. A stop-limit order is a contingency order to buy or sell at a limited price when the market for a particular option contract reaches a

specified price. A stop-limit order to buy becomes a limit order when the option contract trades at or above the stop price, or when the bid is quoted at or above the stop price. A stop-limit order to sell becomes a limit order when the option contract trades at or below the stop price or when the offer is quoted at or below the stop price.

(2) *Stop (stop-loss) order.* A stop order is a contingency order to buy or sell when the market for a particular option contract reaches a specified price. A stop order to buy becomes a market order when the option contract trades at or above the stop price or when the bid is quoted at or above the stop price. A stop order to sell becomes a market order when the option contract trades at or below the stop price or when the offer is quoted at or below the stop price.

(d) *Spread order.* A spread order is an order to buy a stated number of option contracts and to sell the same number of contracts (or contracts representing the same number of shares of the underlying security or Exchange-Traded Fund Share) of the same class of options.

(e) *Not held order.* A not held order is an order that is marked "not held", "NH", "take time" or that bears any qualifying notation giving discretion as to the price or time at which such order is to be executed. The "not held" designation must appear in the "special instructions" portion of the order ticket. Orders that merely include a "not held" designation as part of the time stamp will not be deemed to be "not held" orders.

(f) *One-cancels-the-other (OCO) order.* A one-cancels-the-other order consists of two or more orders treated as a unit. The execution of any one of the orders causes the others to be cancelled.

(g) *Straddle order.* A straddle order is an order to buy or to sell the same number of options of each type with respect to the same underlying security or Exchange-Traded Fund Share and having the same exercise price and expiration date. (e.g., an order to buy two XYZ July 50 calls and to buy two July 50 puts is a straddle order.) In the case of adjusted options contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares of the underlying security or Exchange-Traded Fund Share.

(h) *Combination order.* A combination order is an order involving a number of call option contracts and the same number of put option contracts with respect to the same underlying security or Exchange-Traded Fund Share. In the case of adjusted options contracts, a combination order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares of the underlying security or Exchange-Traded Fund Share.

(i) *Facilitation order.* A facilitation order is an order which is only to be executed in whole or in part in a cross transaction with an order for a public customer of an

[member organization] OTP Holder or OTP Firm and which is clearly designated as a facilitation order.

(j) *Stock/option order.* A stock/option order is an order to buy or sell a stated number of units of an underlying or a related security coupled with either (i) the purchase or sale of option contract(s) of the same series on the opposite side of the market representing the same number of units of the underlying or related security or (ii) the purchase and sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and number of units of the underlying or related security, on the opposite side of the market representing in aggregate twice the number of units of the underlying or related security.

Commentary:

.01 All orders must either be "day", "immediate or cancel" or "good 'til cancelled".

Amended: October 8, 1998; September 14, 2000 (99-36); February 28, 2001 (01-12).

Units of Trading

RULE 6.63. The unit of trading in each series of options dealt in on the Exchange shall be the unit of trading established for that series by the Clearing Corporation pursuant to the Rules of the Clearing Corporation and the agreements of the Exchange with the Clearing Corporation.

Trading Rotations

RULE 6.64. (a) A "trading rotation" is a process by which trading is initiated in a specified options class. Two [Floor] Trading Officials or the Exchange may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market. For each rotation so employed, two [Floor] Trading Officials or the Exchange must specify the particular option contracts to be included and the sequence of such option contracts in the rotation. Two or more trading rotations may be employed simultaneously, if two [Floor] Trading Officials or the Exchange so prescribe. Trading rotations may be employed at the opening and at the close of the Exchange each business day. Trading rotations, when held, will be conducted by the Order Book Official acting in such class of options. The rotations will be conducted in the following manner:

(b) *Opening Rotations.* The opening rotation, when used, will be held promptly following the opening of the underlying security or Exchange Traded Fund Share on the principal market where it is traded. The Order Book Official will follow the following procedures when conducting an opening rotation:

- (1) As a rule, an Order Book Official acting in more than one class of options should open them in the same order in which opening transactions are reported in the underlying securities or Exchange Traded Fund Shares. In conducting each such opening rotation, the Order Book Official should first open the one or more series of options of a given class having the nearest expiration, and then proceed to series of options having the next distant expiration, and so forth, until all series have been opened.
 - (2) Prior to the opening of the underlying security on the primary market, the OBO will try to determine from the Floor Brokers the size and prices of those customer orders which are near the previous closing prices of those classes traded at the post.
 - (3) The OBO will then ask the Floor Brokers in the crowd what customer orders they are holding to be executed at the opening and, when possible, match all customer orders at the appropriate price.
 - (4) Except as other provided by two [Floor] Trading Officials or the Exchange, if both puts and calls covering the same underlying security or Exchange Traded Fund Share are traded, the Order Book Official will determine which type of options could open first, and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions.
 - (5) After the underlying security or Exchange Traded Fund Share has opened, the OBO will request markets in each of the series traded at the post from the primary Market Makers at the post.
 - (6) If the OBO believes that the response to a request for a market is insufficient either as to price or size, the OBO may request markets from each Market Maker who did not respond and/or may call for supplemental Market Makers.
 - (7) If imbalances occur the OBO will allocate to the Market Maker or Market Makers who established that price.
 - (8) Broker-dealer orders and/or Market Maker orders held by Floor Brokers with limit prices better than the opening price are not entitled to participate in the opening rotation unless the OBO has called for Market Maker and/or broker-dealer participation in response to an imbalance of customer orders.
- (c) *Automated Opening Rotations*. The Exchange will designate option issues that are eligible for automated opening rotations pursuant to this Rule 6.64(c). The Exchange will also designate option issues that are eligible for automated opening rotations pursuant to Rule 6.64(d). If an option series has not been designated as eligible for

automated opening rotations pursuant to Rule 6.64(d), and if that series is not opened automatically pursuant to Rule 6.64(c), then that series will be opened manually pursuant to Rule 6.64(b).

(1) Establishing a Market for the Opening Rotation: Prior to the opening rotation in a particular option series, the Order Book Official will determine whether there are any manual orders being represented in the trading crowd to be executed during the opening rotation. In doing so, the Order Book Official will call for bids and offers from the trading crowd once the underlying security has opened. The trading crowd may determine that the bids and offers then being displayed on the overhead screens are accurate, or alternatively, may modify those bids and offers by public outcry.

(2) Designating Series that are Not Eligible for the Automated Opening Rotation. The Order Book Official must identify, prior to the opening, all option series that are not eligible for the automated opening rotation. These series include:

(A) Series for which there are no market or marketable limit orders in the POETS system.

(B) Series for which there are one or more manual orders being represented in the trading crowd that are likely to be executed during the opening rotation, as determined by an Order Book Official.

(C) Series for which one or more [members] OTP Holder or OTP Firm of the trading crowd has reasonably requested that a manual opening rotation be conducted. Two [Floor] Trading Officials or the Exchange may deny [member] OTP Holder or OTP Firm requests for manual opening rotations in the absence of reasonable justification for doing so.

(D) Series in which the "imbalance threshold" has been exceeded. Prior to the opening, the OBO, in conjunction with the Lead Market Maker in the issue, will set for each option issue a number of contracts that constitutes an imbalance threshold, i.e., a specific number of option contracts to buy in excess of the number of contracts to sell or a specific number of contracts to sell in excess of the number of contracts to buy. The POETS system will not automatically open any series with an imbalance exceeding the threshold for that issue.

(3) Automated Opening Rotations. Series eligible for the Automated Opening Rotation will be opened automatically based on the following principles and procedures:

(A) The POETS system will determine a single price at which a particular option series will be opened, as provided in Commentary .03, below.

(B) Orders in the system will maintain priority over Market Maker bids and offers. Orders in the system will be matched up with one another, if possible, before they are executed against the accounts of Market Makers participating on the Automatic Execution System.

(C) If there is an imbalance in the number of contracts to buy or sell at the opening, then the imbalance will be cleaned up by the Market Makers who are participating on the Automatic Execution System. Accordingly, each Market Maker will be assigned a number of option contracts for execution until the imbalance has been exhausted. When the Auto-Ex System assigns the imbalance of contracts to Market Makers, the assignments will be made in the same manner in which option contracts are allocated to Market Makers who are participating on the Auto-Ex System pursuant to Rule 6.87. The maximum number of contracts assigned will be the same as the number assigned under the Auto-Ex procedures established pursuant to Rule 6.87.

(4) Manual Accommodation of Non-Bookable Orders. If a non-bookable order is represented in the trading crowd and disclosed to the Order Book Official prior to the opening rotation, and if the order is either a market order or a limit order with a limit price equal to the opening price of the particular series, then that order will be entitled to an execution immediately following the opening of that series as follows:

(A) If the order is a market order or limit order for a public customer, the order will be filled in its entire size by the Market Makers in the trading crowd (assuming that any contingency accompanying the order is satisfied).

(B) If the order is a limit order for a broker-dealer, the order will be entitled to be filled up to a number of contracts equal to a pro rata share of the number of contracts that the Auto-Ex system assigns to the Market Makers in the trading crowd pursuant to subsection (3), above. If a broker is holding more than one order to trade at the same limit price, then that broker is limited to no more than one pro rata share of the number of contracts that the Auto-Ex System assigns to the Market Makers.

(d) *PCX Plus Automated Opening Rotations.* The following Rule 6.64(d) will apply to automated opening rotations in options designated for trading under PCX Plus, pursuant to Rule 6.90.

(1) Establishing a Market for the Opening Rotation. The PCX Plus system will accept market and limit orders and Quotes with Size for inclusion in the opening rotation process (“Rotation Process”) up until the Rotation Process is initiated in that option series. Contingency orders (except for “opening only” orders) will not participate in the Rotation Process. Market orders will have priority over limit orders during the Rotation Process. Any open orders residing in the Consolidated Book from the previous trading session will be included in the Rotation Process. After the primary market for the underlying security disseminates the opening trade or the opening quote, the related option series will be opened automatically based on the following principles and procedures:

(A) PCX Plus will verify that a Quote with Size has been received from the LMM before a series is eligible for automated opening rotation.

(B) PCX Plus will determine a single price at which a particular option series will be opened, as provided in Commentary .02, below.

(C) Orders in the PCX Plus system will maintain priority over Market Maker bids and offers that are not being represented in the Consolidated Book as Quotes with Size. Orders in the PCX Plus system will be matched up with one another, based on the priority rules as set forth in Rule 6.76(a); provided, however, that:

(i) Market Maker Quotes with Size will have priority over orders for Firms, Market Makers, and Non-[Member] OTP Holder or OTP Firm Market Makers during the Automated Opening Rotation; and

(ii) orders for the accounts of Firms, Market Makers, and Non-[Member] OTP Holder or OTP Firm Market Makers will be executed based on price/time priority.

(D) Following the opening, any unexecuted contracts will be represented as bids and offers on the Exchange.

(e) *Closing Rotations.* Transactions may be effected in a class of options after 1:02 p.m. (Pacific Time) if they occur during a trading rotation. Such a trading rotation may be employed in connection with the opening or reopening of trading in the underlying security or Exchange Traded Fund Share after 12:30 p.m. (Pacific Time) or due to the declaration of a "fast market" pursuant to Rule 6.28. The decision to employ a trading rotation after 12:30 p.m. will be publicly announced on the Trading Floor prior to the commencement of such rotation and Book Staff should notify Floor Brokers by 12:50 p.m., if possible, that a closing rotation may be necessary. The closing rotation should commence at least ten minutes after the Trading Floor has been notified. No more than one trading rotation may be commenced after 1:02 p.m. If a trading rotation is in progress

and [Floor] Trading Officials or the Exchange determine that a final trading rotation is needed to assure a fair and orderly close, the rotation in progress will be halted and a final rotation begun as promptly as possible after 1:02 p.m. Any trading rotation conducted after 1:02 p.m. may not begin until ten minutes after news of such rotation is disseminated. Only orders that have been entered before 1:02 p.m. are eligible for execution during the closing rotation.

(1) When a closing rotation is necessary, the Order Book Official shall use a single price closing procedure. In a closing rotation, customer orders will receive the same priority as they do during opening rotations.

(2) Except as otherwise provided by the [Options Floor Trading Committee] Exchange, if both puts and calls covering the same underlying security or Exchange Traded Fund Share are traded, the Order Book Official shall determine the order of closing each series of such puts and calls in light of current market conditions, in the manner provided in paragraph (a) for opening rotations.

(f) A closing trading rotation shall be employed for each series of individual stock options on the last business day prior to its expiration. The closing rotation shall commence at 1:02 p.m. Pacific Time, or after a closing price of the stock in its primary market is established, whichever is later. Open trading on expiring series of index options shall be permitted on the last business day prior to expiration until 1:15 p.m. Pacific Time, but a closing rotation for such expiring series of index options shall not be employed.

(g) For those option classes and within such time periods as the [Options Floor Trading Committee] Exchange may designate, [members] OTP Holders or OTP Firms may, prior to opening rotation, enter option market quote indications based upon the anticipated opening price of the securities underlying such designated option class.

(h) *Responsibility of Floor Brokers at the Opening.*

(1) Rule 6.46(a) places a general responsibility upon Floor Brokers to use due diligence in executing orders entrusted to them. This will be interpreted to mean that Floor Brokers who do not fully cooperate with the OBO or other [members] OTP Holders or OTP Firms in creating a single price orderly opening, or fail to notify the OBO of the size and price of orders that they anticipate executing at the opening, or attempt to execute at the opening orders that are clearly too late to participate in the opening rotations, may be deemed in violation of this Rule.

(2) As an aid in facilitating an orderly opening, the Exchange will permit OBOs, as a convenience to Floor Brokers, to match market orders during the opening or any subsequent rotation. Orders so matched will be entered into Price Reporting by the OBO, and the Exchange will impose no charge for this service.

However, a Floor Broker who elects to make use of this convenience must remain on the trading floor during the rotation. The [Options Floor Trading Committee] Exchange has determined that the OBO is under no obligation to accept CFOs and cancels of market orders placed with the OBO once the opening rotation for option contracts covering the same underlying security has begun.

(3) If a Floor Broker is unable to remain on the trading floor, he may notify the OBO that he has appointed another Floor Broker who will represent the order on his behalf in accordance with the provisions of Rule 6.66(d). If the Floor Broker fails to designate another Floor Broker to represent the order, the OBO shall select a Floor Broker in the crowd to receive the report copy and the provisions of Rule 6.66(d) will apply.

(4) Floor Brokers holding eligible market orders during a rotation who do not choose to avail themselves of the above procedures are cautioned that they may not disrupt an opening price once arrived at, nor may they presume automatic inclusion of their order in the opening.

Commentary:

.01 Determining the Opening Price for Option Issues Not Designated for Trading on PCX Plus. The appropriate price to be used in a single price opening on the Exchange is determined in the following manner: Once the trading crowd has established the bid and offering prices in a particular series, the Order Book Official will identify the number of contracts available to sell at the previously-established bid price and the number of contracts available to buy at the previously-established offering price.

(a) If the number of contracts available to sell at the bid price is greater than the number available to buy at the offering price, then the opening price will be the bid price.

(b) If the number of contracts available to buy at the offering price is greater than the number available to sell at the bid price, then the opening price will be the offering price.

(c) If eligible market and marketable limit orders can be completely satisfied by trading against other orders in the Book, then the market may open between the established bid and ask prices, with no Market Maker participation. For example, if the market is 2 - 2.25, with an order in the Book to sell 20 contracts at 2.10, and there is a market order to buy 5 contracts, the single price opening will occur with 5 contracts trading at 2.10. The opening price will always be on or between the established bid and offer.

(d) If there is no trading increment available at the half-way point between the bid and offering prices (e.g., as in the case of a market of 2 bid, 2.10 asked), then the opening price will be established at the price closest to the last sale price of option contracts in that series.

.02 Determining the Opening Price for Option Issues Designated for Trading on PCX Plus. PCX Plus will determine a single price at which a particular option series will be opened. The opening price is that price at which the maximum number of contracts may be executed within the established market.

(a) The opening price will always be on or between the bid and offer established by the Rotation Process.

(b) If there are two or more prices at which the maximum number of contracts are executable within the established market, then the opening price will be the midpoint of the available prices. If, however, the midpoint of the available prices is not consistent with the minimum price variation (“MPV”), then the opening price will be determined as follows:

(1) at the next higher (lower) price that is consistent with the MPV if that price is closer to the midpoint than the next lower (higher) price that is consistent with the MPV; or

(2) if the next higher and lower prices that are consistent with the MPV are equidistant from the midpoint, then the opening price will be established at the next higher or lower price consistent with the MPV that leaves the least residual customer limit order volume; or

(3) if the next higher and lower prices consistent with the MPV are equidistant from the midpoint price and leave equal residual customer limit order volume, then the opening will be determined at the next MPV that is greater than the midpoint price.

(c) If the opening price cannot be determined within the range of 75% of the lowest Quote with Size bid and 125% of the highest Quote with Size offer, then PCX Plus will initiate a Request for Quote (“RFQ”) process as follows:

(1) An RFQ will be sent to all Crowd Participants (as defined in Rule 6.1(b)(38)). The RFQ will indicate the series and the total sell (buy) interest at the lowest Quote with Size bid (highest Quote with Size offer), if insufficient bids (offers) have been submitted.

(2) All opening eligible bids and offers will continue to be accepted during the RFQ period for inclusion in the opening transaction

calculation. At the conclusion of the RFQ period, the Rotation Process will determine an opening price pursuant to subsection (b) of this Commentary .02.

(3) If the Rotation Process cannot be completed after the first RFQ, a second RFQ will be disseminated.

(4) If the Rotation Process cannot be completed following the second RFQ period, a third, expanded, RFQ will be disseminated to all Crowd Participants and any other Market Makers logged on to the system. The expanded RFQ will include the series; the volume representing the total sell (buy) interest at the lowest Quote with Size bid (highest Quote with Size offer), if insufficient bids (offers) have been submitted; and the side of the market with the imbalance.

(5) If the Rotation Process cannot be completed following the third RFQ period, an alert will be generated to Exchange staff. No additional RFQs will be disseminated. The Rotation Process will attempt to open the series every 30 seconds until it can be successfully completed.

.03 *Pilot Program.* The Automated Opening Rotation System set forth in Rule 6.64(c) is subject to a pilot program, which is set to expire on September 30, 2004.

Amended: May 14, 1997; September 30, 1999; August 21, 2000 (00-26); September 27, 2000 (00-23); December 28, 2000 (99-44); August 13, 2001 (01-31); November 19, 2001 (01-39).

Trading Halts and Suspensions

RULE 6.65.(a) Trading on the Exchange in any option contract shall be halted or suspended whenever the Exchange deems such action appropriate in the interests of a fair and orderly market and to protect investors. Among the factors that may be considered are that:

(1) trading in the underlying stock or Exchange-Traded Fund Share has been halted or suspended in the primary market;

(2) the opening of such underlying stock or Exchange-Traded Fund Share in the primary market has been delayed because of unusual circumstances;

(3) the Exchange has been advised that the issuer of the underlying stock or Exchange-Traded Fund Share is about to make all important announcement affecting such issuer; or

(4) other unusual conditions or circumstances are present.

Trading in option contracts of a class or series of options that has been the subject of a halt or suspension by the Exchange may be resumed upon a determination by the Exchange that the conditions which led to the halt or suspension are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading.

(b) [Options Floor Officials] The Exchange shall have the same authority to supervise trading of option contracts as [Floor Trading Committee Members have] it has with respect to other securities or Exchange-Traded Fund Shares, including the authority to delay the opening of a particular class or series of options or to halt, and reopen after a halt, trading in a particular class or series of options, whenever such action is deemed necessary in the interest of maintaining a fair and orderly market in such class or series of options and to protect investors.

(c) *Option Floor Trading Halt Guidelines.* Trading halts are, by definition, unusual market conditions. Accordingly, all of the precise circumstances of a trading halt cannot be anticipated. An evaluation of all the circumstances at the time a trading halt is under consideration is critical. Except as provided below, to ensure consistent application of the Exchange's trading halt guidelines, the concurrence of two [Floor] Trading Officials and a senior Exchange Official is required. Bearing in mind the need to exercise discretion in response to particular circumstances as they occur, the following are guidelines for trading halts at the Exchange under varying circumstances:

(1) *No last sale and/or quotation dissemination either by the Exchange or by OPRA.* At the outset, a time-critical review by two [Floor] Trading Officials and a senior Exchange Official (the "group") will be made of the circumstances causing the failure of dissemination. If it is believed by the group that the dissemination will resume in less than 15 minutes, trading ordinarily will continue and a message will be given to the news wire services announcing the dissemination difficulty. If it is believed by this group that the dissemination problem will extend beyond 15 minutes, the two [Floor] Trading Officials or the Exchange, in their discretion, may impose a halt on all trading in affected securities or Exchange-Traded Fund Shares. In any event, two [Floor] Trading Officials or the Exchange may permit trading to continue for more than 15 minutes after a failure of dissemination only with the concurrence of a senior Exchange Official. Trading may resume upon a determination by the group that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify [member firms] OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(2) *Primary market halts trading in one or more securities or Exchange-Traded Fund Shares for regulatory reasons.* Upon notification by the primary market of a regulatory trading halt of an individual equity security or Exchange-Traded Fund Share in the primary market, the Exchange may impose a trading halt in the individual stock option overlying the security or Exchange-Traded Fund Share so halted. Trading will resume upon a determination by two [Floor] Trading Officials or the Exchange that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading.

(3) *Primary market non-regulatory trading halt in one or more equity securities or Exchange-Traded Fund Shares.* Upon notification by the primary market of a non-regulatory trading halt of an individual equity security in the primary market, any two [Floor] Trading Officials or the Exchange, in their discretion, may impose a trading halt in the individual stock option overlying the security so halted. Trading may resume upon a determination by two [Floor] Trading Officials or the Exchange that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify [member firms] OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(4) *The primary market halts trading floor-wide.* If the primary market halts trading floor-wide, the Exchange will halt trading in all individual equity options overlying the securities so halted in the primary market and will assess the viability of markets in the underlying securities, as measured by transactions and by share volume. In the event that it is determined by two [Floor] Trading Officials, with the concurrence of a senior Exchange Official, that sufficient markets will support trading other than on the primary exchange, the Exchange will resume trading. Generally the Exchange will notify [member firms] OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(5) *Primary market is open but is unable to disseminate last sale or quotation information.* The Exchange's options trading ordinarily will remain open for trading unless, in the opinion of two [Floor] Trading Officials or the Exchange, the absence of disseminated information will impede the ability of market makers to maintain fair and orderly markets in the option. The concurrence of a senior Exchange Official is required if more than one option class is affected.

(6) *Over-the-counter quote dissemination halt.* Two [Floor] Trading Officials or the Exchange, in their discretion, may halt trading in options overlying over-the-counter securities or Exchange-Traded Fund Shares affected by such a quote dissemination halt upon first notification of the dissemination halt. Trading may resume upon a determination by two [Floor] Trading Officials or the Exchange that the conditions that led to the halt are no longer present or

that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify [member firms] OTP Holders and OTP Firms and the news wire services of the resumption of trading.

(7) *Expiration Friday trading in individual equity options.* In the event that any of the foregoing should occur on expiration Friday, it is the preference of the Exchange to allow trading to continue on that date. This will be a primary consideration in the assessments to be made by the [Floor] Trading Officials and the senior Exchange Official.

(8) *Dissemination of news after the close of trading in the primary market.* Any two [Floor] Trading Officials or the Exchange may halt trading in any security or Exchange-Traded Fund Share in the event of disseminated news that causes the [Floor] Trading Officials or the Exchange to believe that trading in options should be halted to allow market participants an opportunity to consider the effect of the news on pricing of trades. Two [Floor] Trading Officials and a senior Exchange Official will then decide whether and, if so, when to recommence trading. This may occur after the primary market of the underlying security has closed for the day, in which event, the decision may be to not resume trading until the next trading day or to have a closing rotation after appropriate notification to the public.

Commentary:

.01 In the event that trading in an underlying stock or Exchange-Traded Fund Share has not opened in the primary market for such stock or Exchange-Traded Fund Share within a reasonable time after the time set for the opening of trading on the Exchange, the Order Book Official shall report the delay to an Options [Floor] Trading Official assigned to his zone and appropriate steps shall be taken to determine the cause for the delay. The opening of trading in such options shall be delayed until the underlying stock or Exchange-Traded Fund Share has opened unless [the Chairman of the Options Floor Trading Committee (if he is an Options Floor Official), or in his absence or if he is not an Options Floor Official, at least two Options Floor Officials,] the Exchange shall determine that the interest of a fair and orderly market are best served by opening trading in such options.

.02 In the event that trading in any option is halted, it will be the responsibility of the Options [Floor] Trading Official who authorized the trading halt and of the Order Book Official assigned to the option with respect to which trading was halted, to file a report with the Exchange Operations setting forth the time and duration of such halt and the reasons therefor.

.03 For purposes of this Rule, a "regulatory halt" is a halt that is initiated by a regulatory authority in the primary market and a "non-regulatory halt" is a halt initiated by floor staff or at the request of a Market Maker or Trading Crowd in the primary

market. For example, regulatory halts may be initiated by Exchange Staff in the primary market if listing or maintenance requirements are not met if there is a need for dissemination of news regarding market developments or material information; or at the request of the issuer. Examples of non-regulatory halts in the primary market would be requests by [Floor Members] OTP Holder or OTP Firm due to an influx, or imbalance of orders, or by [Floor] Trading Officials or the Exchange due to volatility in market conditions; or natural disasters.

Amended: December 17, 1998; December 28, 2000 (99-44); February 28, 2001 (01-12).

Order Identification

RULE 6.66.(a) *Must Give Up Clearing Member*. For each transaction in which he participates, an [member] OTP Holder or OTP Firm must immediately give up the name of the clearing member through whom the transaction will be cleared. If there is a subsequent change in identity of the clearing member through whom a transaction will be cleared, the [member] OTP Holder or OTP Firm must, as promptly as possible, report such change to the clearing member on the other side of the transaction. This Subsection shall not apply to Market Maker transactions.

(b) *Market Maker Orders*. A Floor Broker holding an order for the account of a Market Maker shall verbally identify the order as such prior to consummating a transaction, and shall, after effecting the trade, supply the name of the Market Maker concerned, by public outcry, upon request of any [member or members] OTP Holders or OTP Firms in the trading crowd.

(c) *Broker-Dealer Orders*. Prior to executing an order in which a broker-dealer has an interest, an [member] OTP Holder or OTP Firm must indicate by public outcry that such order is for a broker-dealer. This rule applies regardless of whether such broker-dealer is an Exchange [member] OTP Holder or OTP Firm.

(d) *Floor Broker Identification*. A Floor Broker acting as an agent for another Floor Broker in effecting a transaction must give up his own name as executing [member] OTP Holder or OTP Firm. The practice of a Floor Broker acting as an agent for another Floor Broker and giving up the name of the latter as executing [member] OTP Holder or OTP Firm, as though the latter were on the Floor and had actually made the trade, will not be permitted. This procedure shall apply in particular to situations arising from the matching of customer orders by the OBO during a rotation, as well as all other appropriate situations. The basis for this Rule lies in Rule 6.77, which states that all bids or offers made and accepted in accordance with the Rules shall constitute binding contracts. Since these contracts are binding upon the [members] OTP Holders or OTP Firms who actually effected the transactions, their names must appear thereon.

Amended: December 28, 2000 (99-44).

Commentary:

.01 *Giving Up the Name of an [Member Organization] OTP Holder or OTP Firm at the Time of Requesting the Size of the Market and/or Executing an Order.* Floor Brokers are agents of [member organizations] OTP Holders or OTP Firms under Rule 6.43, and are obligated under Rule 6.49 to ascertain quoted prices and make all persons in the trading crowd aware of requests for quotation. The [Options Floor Trading Committee] Exchange believes that the purposes of these Rules are best served if all participants in a crowd are made aware insofar as it may be practicable, of the source of requests for the size of the market, as well as the source of purchases and sales. Accordingly, the [Options Floor Trading Committee] Exchange has interpreted these Rules as follows:

(1) A Floor Broker entering a crowd with a request for the market quotation in a given series of options may so request of the Market Makers without further comment. However, if he shall request the size of the market in addition to the best bid and offer he shall indicate with his request the name of the [member organization] OTP Holder or OTP Firm for whom he is acting.

(2) Whether or not he shall have previously indicated the name of the [member organization] OTP Holder or OTP Firm for whom he is acting in requesting a quotation, a Floor Broker executing an order shall upon request by any [Member or Members] OTP Holders or OTP Firms in the trading crowd indicate by public outcry the name of such [member organization] OTP Holder or OTP Firm immediately upon effecting any transaction on the Options Trading Floor.

Amended: July 22, 1994; June 17, 1998; December 28, 2000 (99-44).

Orders Required to Be in Written Form

RULE 6.67.(a) *Transmitted to the Floor.* Each order transmitted to the Floor must be recorded legibly in a written form that has been approved by the Exchange, and the [member] OTP Holder or OTP Firm receiving such order must record the time of its receipt on the Floor. Each such order must be in legible written form when taken to the post for attempted execution. Orders sent electronically through the Exchange's Member Firm Interface are deemed to be written orders for purposes of Rule 6.67.

(b) *Cancellations and changes.* Each cancellation of, or change to, an order that has been transmitted to the Floor must be recorded legibly in a written form that has been approved by the Exchange, and the [member] OTP Holder or OTP Firm receiving such cancellation or change must record the time of its receipt on the Floor.

(c) *Executions.* An [member] OTP Holder or OTP Firm transmitting from the Floor a report of the execution of an order must record the time at which a report of such execution is received by such [member] OTP Holder or OTP Firm.

(d) A Floor Broker may represent a telephonic order, with the ticket to follow, as provided in Rule 6.2(h)(4)(C).

(e) *Hand Signals.* The following regulations govern the proper use of hand signals on the Options Trading Floor:

(1) Hand signals may always be used to request and to relay information regarding current quotations and market size. Hand signals may also be used to increase or decrease the size of an order, to change the order's limit, to cancel an order or to activate a market order. Any cancellation of or change to an order relayed to a Floor Broker through the use of hand signals also must be relayed to the Floor Broker in a time stamped, written form immediately thereafter. All cancellations and changes of orders held by the Order Book Official must be in written form. Executing brokers who receive such communications must have a written order in their possession with all of the following information on the ticket:

- Underlying security ticker symbol
- Expiration month
- Striking price
- Volume
- Purchase or Sale Notation
- Whether Market or Limit Order

(2) Cancellation of orders held by the Floor Broker must be in written form in accordance with current practice. A Floor Broker may cancel an order through the use of hand signals if it is followed immediately by written cancellation.

(3) Any change to an order must be documented in writing outside of the crowd and the ticket time-stamped, before the revised order may be represented.

(f) Any [member] OTP Holder or OTP Firm desiring to use an order form in a format other than that provided by the Exchange must submit such form to the [Options Floor Trading Committee] Exchange and obtain its approval prior to using such form on the Floor.

Amended: May 7, 1998; May 23, 2000 (99-17); December 28, 2000 (99-44).

Record of Orders

RULE 6.68.(a) Every [member organization] OTP Holder or OTP Firm shall maintain and preserve for the period specified under SEC Rule 17a-4, a written record of every order and of any other instruction given or received for the purchase or sale of option contracts. Such record shall show the terms and conditions (market order, limit order, etc.) of the order or instruction and of any modification or cancellation thereof, and in addition shall include:

- (1) the account designation for which such order is to be executed;
- (2) the date and time stamp indicating the time the order was entered and executed or cancelled;
- (3) the type of option and the underlying stock;
- (4) the expiration month, the exercise price, the number of option contracts and the execution price (premium);
- (5) whether the order is a purchase or a sale (writing) and whether the order is an opening or a closing transaction;
- (6) whether the order is solicited or unsolicited; and
- (7) whether the order is discretionary.

(b) *Record Retention.* In addition to the white (control) copy, and/or hard copy, which must be kept for the entire amount of time specified in Securities Exchange Act Rule 17a-4, the green (commission) copy must also be retained for a minimum of 48 hours from the trade date. In the case of those orders executed by independent Floor Brokers, it is their responsibility to retain the green (commission) copy, and the executing [member firm] OTP Holder or OTP Firm must retain the white or hard copy. Also, all such records must be readily available for use on the trading floor for the resolution of any problems relating to the execution of these orders.

Amended: December 28, 2000 (99-44).

Reporting Duties

RULE 6.69.(a) All option transactions must be immediately reported to the Exchange, in a form and manner prescribed by the Exchange, for dissemination to the Options Price Reporting Authority ("OPRA"). This requirement applies to all [members and member organizations] OTP Holder or OTP Firm who are required to report trades either directly to OPRA or to another party who is responsible for reporting trades to OPRA. Transactions not reported to OPRA within 90 seconds after the execution will be designated as "late." An [member or member organization] OTP Holder or OTP Firm who is responsible for late reporting of an option transaction, without reasonable

justification or excuse, will be subject to a fine pursuant to Rule 10.13. Repeated or aggravated violations of this rule may result in formal disciplinary action.

(b) *Seller must report price.* For each transaction on the Exchange in which he participates as seller, an [member] OTP Holder or OTP Firm shall immediately report to the Exchange in a form and manner prescribed by the Exchange.

(c) *Reporting to [member] OTP Holders or OTP Firms.* For each transaction on the Exchange in which he participates, an [member] OTP Holder or OTP Firm shall report the transaction as promptly as possible to the [member organization] OTP Holder or OTP Firm for which such transaction was made and/or to the [member organization] OTP Holder or OTP Firm that will clear such transaction.

(d) *Reporting transactions made off an exchange.* For each transaction in which an [member organization] OTP Holder or OTP Firm participates off-board (off a participating Exchange) in any option pertaining to an underlying security which is currently approved for Exchange options transactions, such [member] OTP Holder or OTP Firm shall report the transaction to the Exchange in a form and manner prescribed by the Exchange. (With the identity of participants removed, such transaction may be made public by the Exchange.)

(e) *Filing of Trade Information.* Each business day (the exact hours to be fixed by the Exchange) each [member organization] OTP Holder or OTP Firm which is a clearing member may be required to file with the Exchange trade information in a form prescribed by the Exchange, covering each Exchange option transaction effected during said business day for which such clearing member is responsible. The trade information shall show for each transaction (i) the identity of the purchasing clearing member and the writing clearing member given up at the time of execution, (ii) the underlying stock, (iii) the exercise price, (iv) the expiration month, (v) the number of option contracts, (vi) the premium per share, (vii) whether a purchase or a writing transaction, (viii) the identity of the account of the clearing member in which the transaction was effected, (ix) if a closing writing transaction, whether a certificate will be surrendered, (x) whether a put or call, (xi) the identity of the executing broker representing the clearing member submitting the trade information, (xii) except for a transaction in a Market Maker's account, whether an opening or closing transaction, and (xiii) such other information as may be required by the Exchange. The form used for reporting trade information by each clearing member will be distinguishable (by pre-printed symbol or otherwise) from the form to be used by all other clearing members. Each [member organization] OTP Holder or OTP Firm which is a clearing member shall be responsible to the Options Clearing Corporation in respect of all trade information filed with the Exchange on such clearing member's form, whether or not such filing was authorized by the clearing member.

Commentary:

.01 The [Options Floor Trading Committee] Exchange has established the following procedure for reporting of transactions pursuant to Rule 6.69. For each transaction on the Exchange in which he participates as seller, an [floor member] shall immediately record on a card or ticket in a form acceptable to the Committee his assigned broker initial code, the symbol of the underlying security, the type, expiration month and exercise price of the option contract sold, the transaction price, the number of contract units comprising the transaction, the name of the contra clearing member, and the assigned broker initial code of the contra [member] OTP Holder or OTP Firm. [Members] OTP Holders or OTP Firms shall identify price reporting tickets which represent the partial execution of a larger order in the manner prescribed by the Exchange. The card or ticket for any agency order shall also include the account origin code, as set forth in Commentary .02 below. This reporting card or ticket shall immediately be time-stamped at the station where option contracts of the class involved are traded and attached to the appropriate "buy" ticket. The card or ticket shall then be placed in the price reporting card box provided at the station. Before placing the tickets in the box, the [member] OTP Holder or OTP Firm shall use his best efforts to make sure that the Order Book Official with respect to option contracts of the class involved, or the Order Book Official clerk, is aware of the transaction and its price. In transactions when the buyer accepts tickets from the seller(s), it shall be the buyer's responsibility to time-stamp the tickets, use best efforts at securing the Order Book Staff's attention to the transaction, and submit the tickets into the box. Any [floor member] OTP Holder or OTP Firm failing to immediately report a transaction in accordance with Rule 6.69 shall be subject to being fined by the [Options Floor Trading Committee] Exchange.

.02 *Reporting of Trade Information.* The responsibility for time-stamping and reporting of trades to the Order Book is as follows:

- (a) one buyer, multiple sellers - responsibility is with the buyer
- (b) one seller, multiple buyers - responsibility is with the seller
- (c) one buyer, one seller - responsibility is with the seller

.03 For purposes of Rule 6.69(d), trade information includes the proper account origin codes, which are as follows: "C" for non-broker-dealer customer accounts; "F" for firm proprietary accounts; "M" for [member] Market Maker accounts; and "B/D" for firm orders of non-[member]OTP Holder or OTP Firm broker-dealer accounts, stock specialist accounts, or customer account trades of the broker-dealer or non-[member]OTP Holder or OTP Firm broker-dealer. In addition, Market Maker clearing firms are directed to instruct their respective trading desks to identify Market Maker orders that are entered from off the floor and not entitled to Market Maker margin treatment by placing a "C" after the Market Maker's number in the "firm" box on the ticket. Floor Brokers, when accepting an order by phone from a Market Maker, are similarly directed to identify that order in the same manner.

.04 Time stamping on the back of the hard card does not meet the Exchange's time stamp requirements because the hard card is not submitted to the Exchange.

Amended: October 8, 1998; December 28, 2000 (99-44); February 16, 2001 (00-27).

Price Binding Despite Erroneous Report

RULE 6.70. The price at which an order is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report shall not be binding if an order was not actually executed but was in error reported to have been executed.

Commentary:

.01 Whenever the print of a transaction in an underlying security so differs from a previous print, or an opening sale differs from the previous close, or a bid or offer differs from a previous bid or offer, as to give rise to the probability that the print or market may have been erroneous, reasonable care should be exercised to verify the print or market prior to effecting transactions based thereon. Reference is made to Rule 6.65(a), which states that trading on the Exchange in any option contract shall be halted or suspended whenever the Exchange deems such action appropriate in the interests of a fair and orderly market and to protect investors.

In the event that transactions are made based on what is subsequently found to be an erroneous print or market, then all such transactions will be treated in accordance with Rule 6.46(b), which specifically refers to contingency orders and states that, unless mutually agreed to by the [members] OTP Holders or OTP Firms involved, the results of such a trade shall not be altered by the fact that a print or market is subsequently found to be erroneous. The above notwithstanding, every effort must be made by all [members] OTP Holders or OTP Firms involved to reach a mutual agreement in removing from the record any trades that are patently unfair in light of the actual price of the underlying security.

Amended: December 28, 2000 (99-44).

Meaning of Premium Bids and Offers

RULE 6.71.(a) *General.* Except as provided in paragraph (b), bids and offers shall be expressed in terms of dollars per unit of the underlying security or Exchange-Traded Fund Share (e.g., a bid of "7" shall represent a bid of \$700 for an option contract having a unit of trading consisting of 100 shares of an underlying security or Exchange-Traded Fund Share, or a bid of \$770 for an option contract having a unit of trading consisting of 110 shares of an underlying security or Exchange-Traded Fund Share.)

(b) *Special cases.* Bids and offers for an option contract for which the [Options Floor Trading Committee] Exchange has established an adjusted unit of trading in accordance with Rule 6.4 shall be expressed in terms of dollars per 1/100 part of the total securities and/or other property constituting such adjusted unit of trading. (e.g., an offer of "6" shall represent an offer of \$600 on an option contract having a unit of trading consisting of 100 shares of an underlying security or Exchange-Traded Fund Share plus 10 rights.)

Amended: February 28, 2001 (01-12).

Trading Differentials

RULE 6.72.(a) The Exchange has determined the minimum price variation ("MPV") for option contracts quoted on the Exchange. For those options issues that are quoted in decimals the MPV will be:

(1) For options issues that, prior to August 28, 2000, were quoted under \$3.00 .05 MPV per contract:

(2) For equity issues that, prior to August 28, 2000, were quoted at \$3.00 per contract or greater: .10 MPV

Commentary:

.01 The Exchange may only change the trading differentials for option contracts traded on the Exchange by filing a rule change proposal with the SEC, pursuant to Section 19(b)(3)(A) of the Securities Exchange Act of 1934 (effective upon filing).

Amended: March 9, 1998; September 27, 2000 (00-23) November 19, 2001 (01-39).

Manner of Bidding and Offering

RULE 6.73. To be effective, a bid or offer must either be represented electronically in the Consolidated Book or be made by public outcry at the trading post where the option is traded. All bids and offers shall be general ones and shall not be specified for acceptance by particular [members] OTP Holders or OTP Firms.

Commentary

.01 *Public Outcry/OBO Awareness.* The "public outcry" requirement means that vocalization of market quotes (Rule 6.73) and transactions (Rule 6.69(.01)) at the post where the option is traded to be effective, must be in a tone loud enough to be heard by the [members] OTP Holders or OTP Firms in the trading crowd. The OBO, under the provisions of Rule 6, has specific responsibilities and obligations for a fair, orderly and

competitive marketplace. In addition, the OBO, with the concurrence of two [Floor] Trading Officials or the Exchange and having solicited comments from the crowd, can require the revocalization of any transaction in dispute. Any transaction not meeting the "public outcry" definition will be deemed a "whisper trade" and in violation of the provisions of "just and equitable principles of trade."

Amended: December 28, 2000 (99-44).

Bids and Offers in Relation to Units of Trading

RULE 6.74. Unless otherwise specified, all bids or offers made on the floor shall be deemed to be for one option contract unless a specific number is expressed in the bid or offer. A bid or offer for more than one option contract shall be deemed to be for that amount or any lesser number of option contracts, unless specified otherwise.

Priority and Allocation Procedures

RULE 6.75. Except as provided by Rule 6.76 below, the following rules of priority shall be observed with respect to bids and offers:

(a) *Priority of bids.* The highest bid shall have priority but where two or more bids for the same option contract represent the highest price and one such bid is displayed by the Order Book Official in accordance with Rule 6.55, such bid shall have priority over any other bid at the post. If two or more bids represent the highest price and a bid displayed by an Order Book Official is not involved, priority shall be afforded to such bids in the sequence in which they are made.

(b) *Priority of offers.* The lowest offer shall have priority, but where two or more offers for the same option contract represent the lowest price, priority shall be determined in the same manner as specified in paragraph (a) in the case of bids.

Simultaneous Bids and Offers

(c) Except as otherwise provided, if the bids (or offers) of two or more [members] OTP Holders or OTP Firms are made simultaneously, or if it is impossible to determine clearly the order of time in which they were made, such bids (or offers) will be deemed to be on parity and priority will be afforded to them, insofar as practicable, on an equal basis.

(d) *Opening rotations.* The following priority rules will apply when a manual opening rotation is employed pursuant to Rule 6.64(b):

(1) In order to achieve a single price opening, the Order Book Official may give market orders, entitled to participate in the opening, priority over limit orders at the same opening price on the Order Book Official's Book. The [Options Floor Trading Committee] Exchange shall establish a cut-off time for orders entitled to participate in the opening.

(2) The Order Book Official, while conducting an opening rotation, will attempt to match all public customer orders (of which he has knowledge) at a single price. If there exists an imbalance of public customer orders the Order Book Official will seek market maker and firm participation to establish the opening price.

(3) Broker/dealer orders and/or Market Maker orders held by Floor Brokers with limit prices better than the opening price are not entitled to participate in the opening rotation unless the OBO has called for Market Maker and/or broker-dealer participation in response to an imbalance of customer orders.

(e) Notwithstanding anything in paragraphs (a) and (b) to the contrary, when an [member] OTP Holder or OTP Firm holding a spread order, a straddle order, or a combination order and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions with or within the bids and offers displayed by the Order Book Official or other [members] OTP Holders or OTP Firms, in procedures determined by the [Options Floor Trading Committee] Exchange, then the order may be executed as a spread, straddle, or combination at the total credit or debit with one or more [members] OTP Holders or OTP Firms without giving priority to bids or offers for the individual option series of the Order Book Official or of other [members] OTP Holders or OTP Firms at the post that are no better than the bids or offers comprising such total credit or debit. Under the circumstances described above, a stock/option order has priority over the bids and offers of [members] OTP Holders or OTP Firms in the trading crowd but not over the bids and offers of the Order Book Official.

Order Allocation Procedures

(f) Determination of Time Priority Sequence.

(1) *Floor Brokers.* A Floor Broker is responsible for determining the sequence in which bids or offers are vocalized on the Trading Floor in response to the Floor Broker's bid, offer or call for a market. Any disputes regarding a Floor Broker's determination of time priority sequence will be resolved by the Order Book Official, provided that such determinations of the Order Book Official are subject to further review by two [Floor] Trading Officials or the Exchange, pursuant to Rule 6.77.

(2) When a Floor Broker's bid or offer has been accepted by more than one [member] OTP Holder or OTP Firm, that Floor Broker must designate the [members] OTP Holders and OTP Firms who were first, second, third and so forth. Except as provided below, the [member] OTP Holder or OTP Firm with first priority is entitled to buy or sell as many contracts as the Floor Broker may have available to trade. If there are any contracts remaining, the [member] OTP Holder or OTP Firm with second priority will be entitled to buy or sell as many contracts as there are remaining in the Floor Broker's order, and so on, until the Floor Broker's order has been filled entirely.

(3) *Market Makers and Order Book Officials.* A Market Maker is responsible for determining the sequence in which bids and offers are vocalized on the Trading Floor in response to that Market Maker's bid, offer or call for a market. Likewise, an Order Book Official is responsible for determining the sequence in which bids and offers are vocalized on the Trading Floor in response to the Order Book Official's bid, offer or call for a market. The order allocation procedures for Market Makers and Order Book Officials, including the determination of time priority sequence, are the same as those for Floor Brokers as set forth in this Rule 6.75(f).

(4) LMM Guaranteed Participation.

(A) If the LMM establishes first priority during the vocalization process, the LMM will be entitled to buy or sell as many contracts as the Floor Broker may have available to trade. However, if the LMM does not establish first priority during the vocalization process, but does establish second, third or some other time priority sequence, the LMM will be entitled to buy or sell the number of contracts equal to the LMM's guaranteed participation level (pursuant to Rule 6.82(d)(2)) plus any contracts the Floor Broker has remaining after the bids or offers of other [members] OTP Holders or OTP Firms with higher time priority have been satisfied.

(B) If one or more orders in the limit order book have priority over an LMM's bid or offer, then the LMM's guaranteed participation level will apply only to the number of contracts remaining *after* all contracts in the limit order book that are at, or better than, the LMM's bid or offer have first been satisfied.

(C) LMMs may waive some or all of their guaranteed participation on particular trades, but only to the extent that doing so is permissible under Rule 6.86 ("Firm Quotes"). In such circumstances, if the LMM has waived the right to trade a certain number of option contracts, those option contracts will then become available for execution by the [member (or members)] OTP Holders or OTP Firms who are next in priority sequence.

For example, assume that there are 100 contracts available to sell, the LMM has guaranteed participation on 25 contracts, and the time priority sequence is as follows: the LMM is first, Market Maker #1 is second and Market Maker #2 is third. If the LMM buys 20 contracts, the remaining 80 contracts will then be available for execution by Market Maker #1. If Market Maker #1 buys 40 of those contracts, then the remaining 40 contracts will be available for execution by Market Maker #2.

(D) LMMs may direct some or all of their guaranteed participation to competing public orders in the trading crowd pursuant to Rule 6.82(d).

(E) Bid and offering prices that are disseminated by an automatic quotation system are presumed to be the bid and offering prices of the LMM for purposes of Rule 6.86 (“Firm Quotes”) and Rule 6.82(d)(2) (“Guaranteed Participation”). Nevertheless, LMMs must vocalize all of their bids and offers in response to a call for a market and in acceptance of another [member’s] OTP Holder or OTP Firm’s bid or offer. If a Floor Broker enters the trading crowd and vocalizes acceptance of a bid or offer that is then being disseminated, the LMM will be entitled to guaranteed participation on that transaction.

(5) Parity Due to Simultaneous Bidding or Offering.

(A) If the bids or offers of more than one [member] OTP Holder or OTP Firm are made simultaneously, such bids or offers will be deemed to be on parity and priority will be afforded to them, insofar as practicable, on an equal basis, pursuant to Rule 6.75(c). Accordingly, efforts will be made to assure that each [member] OTP Holder or OTP Firm on parity receives an equal number of contracts, to the extent mathematically possible. One or more [members] OTP Holders or OTP Firms on parity may waive their rights to some of their share (or shares) of contracts, but only to the extent that doing so is permissible under Rule 6.86 (“Firm Quotes”). In such circumstances the remaining number of contracts will be allocated, to the extent practicable, on an equal basis. However, an LMM who has received guaranteed participation on a transaction may not participate in the waived portion of the order unless there are contracts remaining to be allocated after all other [members] OTP Holders or OTP Firms have been satisfied.

(B) If the bids and offers of more than one [member] OTP Holder or OTP Firm, including the LMM, are on parity, then the LMM’s guaranteed participation will first be applied to the entire order and the remainder of the order will be allocated, to the extent practicable, on an equal basis among the [members] OTP Holders or OTP Firms other than the LMM who are on parity. The LMM may participate in such remainder

of the order only if there are contracts remaining after all [members] OTP Holders or OTP Firms other than the LMM have first been satisfied.

(C) If the LMM waives priority or guaranteed participation when the LMM and one or more other [members] OTP Holders or OTP Firms are on parity, then the portion of the order that the LMM has waived will be made available to the other [members] OTP Holders or OTP Firms who are on parity. For example, assume that there are 100 contracts available to trade, the LMM has guaranteed participation on 25 contracts, and two other [members] OTP Holders or OTP Firms are on parity with the LMM. If the LMM waives guaranteed participation (but claims priority), the order will be divided into three shares (consisting of 34 contracts, 33 contracts and 33 contracts). If the LMM waives all rights to participate in the trade, the order will be divided among the two other [members] OTP Holders or OTP Firms who are on parity, in equal shares, each comprising 50 contracts.

(6) Size Pro Rata Allocations

(A) If the [members] OTP Holders or OTP Firms of the trading crowd provide a collective response to an [member's] OTP Holder's or OTP Firm's request for a market in order to fill a large order, pursuant to Rule 6.37(f)(2), then:

(i) if the size of the trading crowd's market, in the aggregate, is less than or equal to the size of the order to be filled, the [members] OTP Holders or OTP Firms of the trading crowd will each receive a share of the order that is equal to the size of their respective bids or offers; and

(ii) if the size of the trading crowd's market exceeds the size of the order to be filled, that order will be allocated on a size pro rata basis, with the [members] OTP Holders or OTP Firms of the trading crowd each receiving, to the extent practicable, the percentage of the order that is the ratio of the size of their respective bids or offers to the total size of all bids or offers. Specifically, in such circumstances, the size of the order to be allocated is multiplied by the size of an individual market participant's quote divided by the aggregate size of all market participants' quotes. For example, assume there are 200 contracts to be allocated, Market Maker #1 is bidding for 100, Market Maker #2 is bidding for 200 and Market Maker #3 is bidding for 500. Under the "size pro rata" allocation formula, Market Maker #1 will be allocated 25 contracts ($200 \times 100 \div 800$); Market Maker #2 will

be allocated 50 contracts ($200 \times 200 \div 800$); and Market Maker #3 will be allocated 125 contracts ($200 \times 500 \div 800$).

(g) *Price Priority*. A bid or offer will have price priority over another bid or offer only if its price exceeds the price of the other bid or offer by the MPV.

(h) *Priority on Split Price Transactions*.

(1) Purchase priority. If an [member] OTP Holder or OTP Firm purchases one or more option contracts of a particular series at a particular price or prices, the [member] OTP Holder or OTP Firm must, at the next lower price at which another [member] OTP Holder or OTP Firm bids, have priority in purchasing up to the equivalent number of option contracts of the same series that the [member] OTP Holder or OTP Firm purchased at the higher price or prices, provided that the [member's] OTP Holder or OTP Firm's bid is made promptly and continuously and that the purchase so effected represents the opposite side of a transaction with the same order or offer as the earlier purchase or purchases.

(2) Sale priority. If an [member] OTP Holder or OTP Firm sells one or more option contracts of a particular series at a particular price or prices, he shall, at the next higher price at which another [member] OTP Holder or OTP Firm offers, have priority in selling up to the equivalent number of option contracts of the same series that he sold at the lower price or prices, provided that his offer is made promptly and that the sale so effected represents the opposite side of a transaction with the same order or bid as the earlier sale or sales.

(3) Two or more [members] OTP Holder or OTP Firms entitled to priority. If the bids or offers of two or more [members] OTP Holder or OTP Firms are both entitled to priority in accordance with subsections (1) or (2), it shall be afforded them, insofar as practicable, on an equal basis.

(4) The priority afforded by this rule is effective only insofar as it does not conflict with orders on the book of the Order Book Official as provided in Rule 6.75. Such orders on the book of the Order Book Official have precedence over [members'] OTP Holders and OTP Firms' orders at a particular price; orders on the book also have precedence over [members'] OTP Holder or OTP Firm's orders that are not superior in price by at least the MPV.

Commentary

.01 Such priority of bids not in the book may be pre-empted, however, by a new "Buy" order being accepted by the Order Book Official, if such order is at a price equal to or higher than the highest bid then existing in the crowd at the post. The priority of offers will be similarly affected by new "Sell" orders accepted by the Order Book Official, if such order is at a price equal to or lower than the lowest offer then existing in the crowd

at the post. The Order Book Official must announce at the time of accepting the order, that the existing bid or offer in the crowd has been preempted by the new order in the book.

.02 The [Options Floor Trading Committee] Exchange has adopted the following guideline regarding orders to sell at a price of .10 or 1/16:

When an Order Book Official is displaying, pursuant to Rule 6.55, limited orders to sell at .10 or 1/16 which have priority pursuant to Rule 6.75, no Floor Broker or Order Book Official shall hold a market order to sell that series. Whenever this condition occurs, Floor Brokers and Order Book Officials shall immediately return any held orders to the [member organization's] OTP Holders and OTP Firms' floor communication station clearly marked "Market Order Unacceptable-- .10 or 1/16 limit in book." The [member organization] OTP Holder or OTP Firm initiating the order on the Floor shall immediately transmit a request for a cancellation of the market order or a change to a limit order back to the office originating the order.

.03 *Procedure for Entering Orders in the Book Under Certain Circumstances.* Rule 6.75 provides that priority as between two or more bids representing the highest price or two or more offers representing the lowest price shall be determined in accordance with the sequence in which the bids or offers are made, except that any such bids or offers displayed by the Order Book Official shall have priority. A condition may arise in which a Floor Broker holding a public order has been actively bidding or offering at a price better than that existing in the Book; and, subsequently, a new public order which would include a cancel/replace order ("CFO") enters the crowd to be placed on the Book at a price equal to said bid or offer held by the Floor Broker. In the best interest of all public orders competing at the same price, under such circumstances, the earlier order should be afforded the opportunity to be entered on the Book prior to the new order provided, however, that a CFO that merely reduces the size of an existing order on the Book will not be considered to be a new order.

This procedure is applicable only to such an earlier order that has been actively represented in the crowd. This will be interpreted to mean that it has been bid or offered at a specific price by public outcry for a period of time, and will not apply to any orders represented in the crowd whose existence has not been clearly evident to other participants. Additionally, this procedure will apply only when a single Floor Broker is making the best bid or offer in the crowd. If two or more Floor Brokers are competing at the same price, and a new equal order is entered in the Book, neither of the original competing Brokers will be entitled to precede the new order since they had, in effect, waived their rights to priority by competing with each other.

.04 *Combination, Spread and Straddle Orders.* Following are the proper trading procedures for combination, spread and straddle orders:

(a) *Announcing the Order.* Any [member] OTP Holder or OTP Firm holding a combination, spread, or straddle order must write it on one ticket and must bid or offer for each series in the order. The [member] OTP Holder or OTP Firm may express the order as it applies to each separate series or may express the order at its total or net debit/credit alone, so long as it is clear that the [member] OTP Holder or OTP Firm is attempting to execute both series as a combination, spread, or straddle. The executing [member] OTP Holder or OTP Firm must ensure that the trading crowd is aware of the request for a market and has an opportunity to participate in the transaction.

(b) *If [T]he Book's Market is on Both Sides of the Order.* First, an [member] OTP Holder or OTP Firm entering a crowd must always check to see if the Book has the best market in either series and if the order can be executed against any bids and/or offers at the [member's] OTP Holder or OTP Firm's limit in both series in the Book. If the order may be executed by a combination of transactions with the Book in both series on a one-for-one basis, the [member] OTP Holder or OTP Firm must trade the lesser number of contracts shown by the Book in both series.

(c) *If the Book's Market is on One Side of the Order.* If the Book is on just one side of the order, the executing [member] OTP Holder or OTP Firm must determine who responds first to the request for a market and how that response is vocalized. If a bid or offer for one series in the order is vocalized first, the executing [member] OTP Holder or OTP Firm must trade with the responding member, and the Book in the other series, for the same number of contracts as remain in the Book. If a response at the total or net debit/credit is vocalized first, then the responding [member] OTP Holder or OTP Firm has priority over the Book and the existing markets on a one-for-one basis.

(d) *If the Book Has No Markets for the Order.* The following rule of priority applies when there are no markets in the Book against which the order can be executed. After the executing broker requests a market, the broker must trade with the first response vocalized at or within the broker's limits. If this response is in the form of a bid or offer for the net debit/credit, then that member has priority on a one-for-one basis. If the first response is for one series only, the executing broker must trade the other side of the order against the existing market in the crowd. If the executing broker cannot trade the other side of the order in the crowd, priority reverts to the member willing to trade both sides of the order on a one-for-one basis.

(e) *Partial Executions.* Partial execution of an order with more than one [member] OTP Holder or OTP Firm may occur so long as each [member] OTP Holder or OTP Firm with whom that order is executed participates on a one-for-one basis with respect to each series involved in the order.

(f) *If there is a Locked Book Market.* The situation may occur when the only prices at which the order may be executed are equal to the Book's bids or offers for both series involved in the order. If those prices are the only prices at which the order may be executed, then the order will be given priority over the Book. For example, a Floor Broker enters the crowd with a spread order to sell the XYZ April 20/July 20 call spread for a credit of 1. The Book's bids and offers for these two series are:

XYZ April 20: .90 - 1.20

XYZ July 20: 2 - 2 1/6

Book's market for the April 20/July 20 spread is 15/16 - 1 1/16.

The spread cannot be executed by accepting the Book's bid of 2 for the XYZ July 20s and the Book's offer of the XYZ April 20s at 1 1/16. There are no other prices within the Book's bids and offers at which the spread may be done. The spread may be done, however, if the XYZ July 20s are sold at 2 1/16 and the XYZ April 20s are bought at 1 1/16 or the July 20s are sold at 2 and the April 20s are bought at 1. Although these prices are equal to both Book bids or both Book offers, this spread may be done in the crowd with one other member on a one-for-one basis at 1 and 2 or 1 1/16 and 2 1/16.

(g) *Limits on Pre-emptive Right.* This pre-emptive right pertains only to combinations, spreads, or straddles of equal quantities or to the lesser quantity when the quantities of contracts involved are unequal.

Amended: September 27, 2000 (00-23); December 28, 2000 (99-44); November 19, 2001 (01-39).

PCX Plus

Priority and Order Allocation Procedures

Rule 6.76. The rules of priority and order allocation procedures set forth in this Rule 6.76 will apply to option issues designated by the Exchange to be traded in PCX Plus. The maximum size of an inbound order that may be eligible for execution on PCX Plus pursuant to Rule 6.76(b) (the "Maximum Order Size") will be initially established by the LMM in the issue, subject to the approval of the [Options Floor Trading Committee] Exchange. Any request by the LMM for changes to the Maximum Order Size must be accompanied by a verified statement indicating the business reason for the change and the estimated duration of such change. Such requests must be approved by two [Floor] Trading Officials, whose approval must be further ratified by the [Options Floor Trading Committee] the Exchange. An LMM is prohibited from requesting

changes to the Maximum Order Size in order to manipulate the operation of PCX Plus or for any anti-competitive purposes.

(a) Priority and Allocation Procedures for Orders and Quotes with Size

(1) Price Priority. The highest bid has priority over all other bids; and the lowest offer has priority over all other offers.

(2) Multiple bids or offers at the same price are afforded priority based on account type and other principles, as set forth below.

(A) Public Customer Orders. Bids and offers in the Consolidated Book for Public Customer accounts have first priority over other bids or offers at the same price. If there is more than one highest bid for a Public Customer account or more than one lowest offer for a Public Customer account, then such bids or offers, respectively, will be ranked based on time priority.

(B) FIQ Status. Orders and Quotes with Size in the Consolidated Book with First Improved Quote (“FIQ”) status, as provided in subsection (a)(3), below, have second priority over either bids or offers at the same price, but only for up to 40% of the order against which the order or Quote with Size that has FIQ status will be executed.

(C) LMM Guaranteed Participation. Bids and offers in the Consolidated Book for the account of the LMM have third priority if the LMM is eligible to receive guaranteed participation on such bid or offer pursuant to Rule 6.82.

(i) LMMs will not receive any portion of an inbound order if their bids or offers are not at the trade price.

(ii) The LMM’s guaranteed participation is expressed as a percentage of the remaining quantity after all Public Customer orders and quotes with FIQ status (to the extent of their 40% participation), if any, have first been executed.

(iii) The LMM will be allocated a number of contracts equal to the greater of their guaranteed participation or their “size pro rata” allocation as provided in subsection (a)(4) below, but in either case, no greater than the size of the LMM’s disseminated size.

(D) Non-Customer Orders and Quotes with Size. Orders and Quotes with Size in the Consolidated Book for the accounts of non-

customers (including Firms (as defined in Rule 6.1(b)(36)) and Market Makers) have last priority. If there is more than one highest bid or more than one lowest offer in the Consolidated Book for the account of a non-customer, then such bids or offers will be afforded priority on a “size pro rata” basis.

(3) First Improved Quote (“FIQ”) Status

(A) A non-customer order or Quote with Size that improves the best bid or offer on the Exchange and that is disseminated via OPRA will have “FIQ status” with respect to other bids or offers at the same price, unless it has been matched or further improved within three seconds. If it is matched within three seconds, then no FIQ status will apply to that order or quote. If it is improved, then the order or Quote with Size that improved the previous price will have priority and will itself receive FIQ status. If an [Member] OTP Holder or OTP Firm increases the size of a quote with FIQ status, the additional quantity will not be afforded FIQ status. If an [Member] OTP Holder or OTP Firm decreases the size of a quote with FIQ status, that revised quote will retain FIQ status. For purposes of this Rule, orders and Quotes with Size may only be matched or improved through an electronic interface device.

(B) Order Allocation Process for Participants with FIQ Status.

(i) Once the available Public Customer interest in the Consolidated Book has been filled, an order or Quote with Size that has FIQ status will be entitled to trade against the greater of:

(a) 40% of the next inbound electronic order or orders to buy or sell the same series; or

(b) the total size to which the order or Quote with Size with FIQ status would receive pursuant to a size pro rata allocation.

The 40% allocation will be applied to the quantity remaining after all Public Customer orders have first been executed. In addition, an order or Quote with Size with FIQ status will not be allocated a number of contracts greater than the size of the bid or offer with FIQ status.

(ii) An order or Quote with Size will continue to maintain FIQ status until either:

(a) the entire commitment size has been filled by the execution of a single inbound order;

(b) a portion of the commitment size has been filled by the execution of a single inbound order and the number of contracts executed based on the applicable allocation method as set forth in subsection (B)(i) above is at least 20 contracts (e.g., FIQ status for 100 contracts will no longer apply once a Market Maker has been allocated 40 contracts based on an allocation of 40% of a single 100-contract order); or

(c) a portion of the commitment size has been filled by the execution of multiple inbound orders and the aggregate number of contracts allocated as a result of such executions equals or exceeds 20 contracts (e.g., FIQ status for 100 contracts will no longer apply once a Market Maker has been allocated a total of 24 contracts based on three subsequent allocations of 8 contracts, each of which are based on allocations of 40% of 20 contracts).

(C) An LMM's Quote with Size with FIQ status will receive an allocation representing the greater of:

(i) the number of contracts to which the LMM would be entitled as guaranteed participation pursuant to subsection (a)(2)(C) above; or

(ii) the number of contracts to which the LMM would be entitled for having FIQ status.

(D) If a non-customer order or Quote with Size has FIQ status but a Public Customer order on the same side of the market is then entered with a price matching that non-customer's order or Quote with Size, the Public Customer order will gain priority over the non-customer's order or Quote with Size. In such circumstances, inbound orders will be allocated as follows:

(i) the customer order will first be executed up to its designated size; and

(ii) the non-customer order or Quote with Size with FIQ status will then be eligible to participate in the balance of the order pursuant to subsection (B) above.

(4) Size Pro Rata Allocation

(A) Orders subject to allocation on a “size pro rata” basis will be allocated based on the following formula:

$$\frac{(\text{Size of Order to be Allocated}) \times (\text{Participant's Quote Size})}{(\text{Aggregated Quote Size})} = \text{Size Pro Rata Allocation}$$

For example:

200 contracts to be allocated among three Market Makers quoting with the following sizes:

MM1	100
MM2	200
MM3	500
Aggregated Quote Size	800

MM1 receives $(200/800) \times (100) = 25$ contracts

MM2 receives $(200/800) \times (200) = 50$ contracts

MM3 receives $(200/800) \times (500) = 125$ contracts

(B) The pro rata share allocated to each participant in the pool will be rounded down to a whole number, if applicable. If there are residual contracts to be filled after the pro rata calculation has been completed, such contracts will be allocated, with no more than one contract per participant, in the following sequence:

(i) The participant in the pool who has the largest fractional amount (based on the pro rata calculation) will receive the first contract, and each successive contract (if any) will be allocated to each subsequent participant who has the next largest fractional share.

(ii) If the last residual contracts are to be allocated between two or more participants having the same fractional amount, then the participant with the largest initial quote size in the pro rata pool will be allocated the next contract. Each successive contract (if any) will be allocated in the same manner.

(iii) If the last residual contracts are to be allocated between two or more participants with the same fractional amount and initial quote size, then the participant with the first time priority in the pro rata pool will be allocated the next contract. Each successive contract (if any) will be allocated in the same manner.

(b) PCX Plus Executions. This subsection (b) addresses situations in which orders or Quotes with Size are executed through PCX Plus.

(1) An inbound order that is marketable will be immediately executed against bids and offers in the Consolidated Book, unless one of the following conditions applies:

(A) the size of the inbound order exceeds the Maximum Order Size established pursuant to Rule 6.76; or

(B) the inbound order is for the account of a Firm or Non-[Member]OTP Holder or OTP Firm Market Maker and more than 50% of the aggregate trading interest in the Consolidated Book at the execution price is for the account (or accounts) of Public Customers.

If the conditions specified in subsections (A) or (B) above apply, the order will be represented in the trading crowd pursuant to Rule 6.76(d).

(2) An inbound order will be either fully or partially executed as follows:

(A) If more than 40% of the size in the Consolidated Book is comprised of a single Firm or Non-[Member] OTP Holder or OTP Firm Market Maker order at the price at which the inbound order would trade, and such Firm or Non-[Member]OTP Holder or OTP Firm Market Maker order was entered less than one minute before the inbound order, then:

(i) the inbound order will first be matched against all available Public Customer interest in the Consolidated Book;

(ii) the inbound order, if not entirely filled, will then satisfy any available interest based on FIQ status and LMM guaranteed participation pursuant to Rule 6.76(a);

(iii) the inbound order, if not entirely filled, will then match, on a size pro rata basis, with the interest of the Market Makers, Firms and Non-[Member]OTP Holder or OTP Firm Market Makers in the Consolidated Book; provided that the size pro rata share interest of each individual Firm and each Non-[Member]OTP Holder or OTP Firm Market Maker will be limited to 40% of the size of the remaining inbound order; and

(iv) the balance of the order, if any, will then be routed to a Floor Broker Hand Held Terminal.

(B) If the same conditions set forth in subsection (b)(2)(A) above apply but the Firm or Non-[Member]OTP Holder or OTP Firm Market Maker order was entered one minute or more before the inbound order, then:

(i) the inbound order will first be matched against all available Public Customer interest in the Consolidated Book;

(ii) the inbound order, if not entirely filled, will then satisfy any available interest based on FIQ status and LMM guaranteed participation pursuant to Rule 6.76(a);

(iii) the inbound order, if not entirely filled, will then match, on a size pro rata basis, with the interest of the Market Makers, Firms and Non-[Member]OTP Holder or OTP Firm Market Makers in the Consolidated Book; provided that the size pro rata share interest of each individual Firm and each Non-[Member]OTP Holder or OTP Firm Market Maker will be limited to 40% of the size of the remaining inbound order;

(iv) the inbound order, if not entirely filled, will then match, on a size pro rata basis, with all other remaining volume in the Consolidated Book of Firms and Non-[Member]OTP Holder or OTP Firm Market Makers who were previously limited to 40%;
and

(v) the balance of the order, if any, will then be either:

(a) routed to a Floor Broker Hand Held Terminal in the case where the order locks or crosses the NBBO; or

(b) executed at the next available price level based on split-price execution, as provided in subsection (b)(3), below.

If neither of the conditions specified in subsections (a) or (b) apply, and the order is no longer marketable, then such order will be represented in the Consolidated Book.

(3) Split-Price Executions. An inbound electronic order will receive an execution at multiple prices if there is some, but insufficient, trading interest at a price and the remainder of the order can be filled at one (or more) other prices based on available trading interest in the Consolidated Book. Orders will not be executed at a price that trades through another market. The balance of the order, if any, will be represented in the Consolidated Book, provided that if such order locks or crosses the NBBO, then the order will be routed to a Floor Broker Hand Held Terminal. This subsection (b)(3) will not apply to orders or Quotes with Size that are executed pursuant to Rules 6.76(b)(2)(A) and 6.76(b)(4).

(4) Electronic Book Execution. This subsection addresses situations in which Market Makers interact electronically with orders in the Consolidated

Book. When a Quote with Size from a Market Maker initiates a trade with the Consolidated Book (the “initiating Quote with Size”), an Electronic Book Execution will occur as follows.

(A) The initiating Quote with Size will immediately execute against the Consolidated Book if the percentage of the transaction involving Public Customer interest (as represented in the Consolidated Book) would comprise no more than 40% of the transaction (e.g., if the initiating Quote with Size is for 20 contracts and the size in the Consolidated Book at the execution price is 50 contracts, six contracts of which are the Public Customer interest ($6 \div 20 = 30\%$), then the initiating Quote with Size for 20 contracts will be executed in full).

(B) If the initiating Quote with Size would effect a transaction against the Consolidated Book and the percentage of the transaction involving Public Customer interest would comprise more than 40% of the transaction, then the initiating Quote with Size will be processed as follows:

(i) the Market Maker’s initiating Quote with Size will receive an execution comprising the greater of:

(a) 40% of the Public Customer interest in the Consolidated Book at that price; or

(b) the total size to which the inbound initiating Quote with Size would receive pursuant to a size pro rata allocation.

(ii) the balance of the Consolidated Book at that price will be displayed for three seconds (via a System Alert Message - SAM) to all “Crowd Participants” (as defined in Rule 6.1(b)(38)).

(a) A Floor Broker holding an order for an account in which such broker has an interest, the account of an associated person, or an account with respect to which the Floor Broker or an associated person thereof exercises investment discretion, shall not be eligible for participation in Electronic Book Executions.

(iii) the balance of the Public Customer interest in the Consolidated Book will then be allocated on size pro rata basis to all Crowd Participants, if any, who have entered bids or offers to trade at the execution price within the three seconds provided.

(iv) after the Public Customer interest has been allocated, the initiating Quote with Size will match against all remaining interest in the Consolidated Book. If the initiating Quote with Size does not fill the Consolidated Book, then all Crowd Participants will be matched on a size pro rata basis with the remaining interest in the Consolidated Book at that price.

(v) if the remaining Quotes with Size are executable at the next price level, they will be matched against the Consolidated Book on a size pro rata basis.

(5) NBBO Step-Up.

(A) The LMM in an issue may “Step-Up” and execute inbound orders at the NBBO price when the NBBO is better than the PCX’s disseminated quote. Subject to the approval of two [Floor] Trading Officials or the Exchange, the LMM will have sole discretion to determine whether the NBBO Step-Up feature:

(i) will be engaged or disengaged;

(ii) will be set to execute inbound orders when the NBBO is crossed or locked; and

(iii) will be set to execute inbound orders at prices that are one or more trading increments better than the LMM’s best bid or offer.

(B) LMMs using the NBBO Step-Up feature may, at their discretion, disseminate Quotes with Size at the NBBO price when the NBBO price is better than the LMM’s own disseminated price. If the LMM chooses to do so, then quotes at the NBBO will be disseminated via OPRA on the LMM’s behalf. Such quotes will include the aggregate quotation size of the LMM and any Supplemental Market Makers who choose to participate in the NBBO Step-Up feature. LMMs may not use the NBBO Step-Up feature to match quotations of other PCX participants who are quoting at the NBBO. Accordingly, if another PCX participant enters an order or Quote with Size at the NBBO, then the LMM’s original quote will prevail and the LMM’s NBBO Step-Up quote will be removed from the PCX Plus system.

(C) Inbound orders executed based on NBBO Step-Up will be allocated to Supplemental Market Makers who choose to participate in the NBBO Step-Up feature and the LMM on a size pro rata basis.

(c) Crossing Orders.

(1) Definitions. For purposes of this Rule 6.76(c), the following terms will have the meanings herein specified.

(A) “Cross Order” means two orders with instructions to match the identified buy-side with the identified sell-side at a specified price (the “Cross Price”).

(B) “Facilitation Order” means an order as defined in Rule 6.47(b).

(C) “PCX Broker” means an Member, Member Organization, OTP Holder or OTP Firm or Associated Person who enters orders as agent for accounts other than for Market Makers.

(D) “Exposed Order” means the buy or sell side of a Cross Order that has been designated by a PCX Broker as the side to be exposed to the market and that is eligible for execution against all trading interest. Public Customer orders will always be deemed to be the Exposed Order in a Cross Order. In the case of a Cross Order involving a non-customer on both the buy side and sell side, the PCX Broker must designate one side of the Cross Order as the Exposed Order.

(E) “Shadow Order” means an order that is submitted by a PCX Broker to buy or sell a stated number of contracts at a specified price and that is to be executed in whole or in part against an Exposed Order. Any unexecuted portion of a Shadow Order will be canceled.

(2) Crossing Mechanism. The Crossing Mechanism is a process by which a PCX Broker may facilitate orders or cross two orders. A Cross Order will be executed as follows:

(A) A PCX Broker must enter into PCX Plus (the “System”) the terms of each Cross Order to be executed electronically on the Exchange. The required terms include the terms of the order for a Public Customer or a broker dealer and the proposed Facilitation Order (or two orders to be crossed neither one of which is a Facilitation Order (“non-facilitation cross”)), the proposed crossing price, the quantity of the order that the PCX Broker is willing to facilitate (in case of a facilitation cross), and an indication of which order is the Exposed Order. If the proposed Cross Price is outside the BBO at the time of order entry, the System will reject the Cross Order.

(B) After accepting the Cross Order, the System will execute the Cross Order in the following sequence.

(i) If the Cross Price is between the BBO:

(a) The System will immediately display the Exposed Order's price and quantity for 30 seconds. During the 30-second exposure period, there will be no indication that the order is part of an impending cross. The System places the Shadow Order on hold and such order is not visible except to the PCX Broker that entered the Cross Order.

(b) As long as the Exposed Order is the highest priority order at the best price, other [Members and Member Organizations] OTP Holder or OTP Firm may trade against the Exposed Order during the exposure period. If at any time during the exposure period the Exposed Order is entirely filled, the System will cancel the remaining quantity of the Shadow Order and send the PCX Broker a message that the crossing transaction has been completed.

(c) At the end of the exposure period, if the Exposed Order has not been entirely filled, but it is at the best price and has the highest priority, then the System will execute the remainder of the order against the Shadow Order. The System will then cancel the remainder of the Shadow Order and send the crossing firm a message that the crossing transaction has been completed.

(d) At the end of the exposure period, if the Exposed Order has quantity remaining and it is not the highest priority order at the market, then the System will automatically cancel the remainder of the Exposed Order and the Shadow Order and will send the PCX Broker a message that the crossing transaction has been completed.

(ii) If the Cross Price is at the BBO:

(a) The Exposed Order will be matched at the displayed price against all pre-existing trading interest in the Consolidated Book with priority in accordance with Rule 6.76(a).

(b) The remainder of the Exposed Order, if any, will be exposed at the limit price for 30 seconds. As long as the Exposed Order has the highest priority at the best price,

other [Members and Member Organizations] OTP Holder or OTP Firm may trade against the Exposed Order during the 30-second exposure period. If at any time during the exposure period, the Exposed Order is entirely filled, the System will cancel the remaining quantity of the Shadow Order and send the PCX Broker a message that the crossing transaction has been completed.

(c) At the end of the exposure period, if the Exposed Order has not been entirely filled, but it is at the best price and has the highest priority, then the System will execute the remainder of the order against the Shadow Order. The System will then cancel the remainder of the Shadow Order and send the crossing firm a message that the crossing transaction has been completed.

(d) At the end of the exposure period, if the Exposed Order has quantity remaining and it is not the highest priority order at the market, then the System will automatically cancel the remainder of the Exposed Order and the Shadow Order and send the PCX Broker a message that the crossing transaction has been completed.

(3) Prohibited Conduct Related to Crossing Orders.

(A) It will be a violation of Rule 6.76(c) for a PCX Broker to be a party to any arrangement designed to circumvent this Rule by providing an opportunity for a customer or a broker-dealer to execute against agency orders handled by the PCX Broker immediately upon their entry into the System.

(B) PCX Brokers may not execute as principal orders they represent as agent unless:

(i) agency orders are first exposed on the Exchange for at least 30 seconds;

(ii) the PCX Broker utilizes the Crossing Mechanism pursuant to Rule 6.76(c)(2); or

(iii) the PCX Broker executes the orders pursuant to Rule 6.47.

(d) Orders Executed Manually.

(1) Floor Brokers manually representing orders in the trading crowd must comply with the order execution and priority principles set forth in Rule 6.75 and, in addition, with the following provisions establishing priority for bids and offers by account type:

(A) Public Customer orders in the Consolidated Book have first priority. Multiple customer orders at the same price are ranked based on time priority.

(B) Bids and offers of the [members] OTP Holders or OTP Firms of the trading crowd have second priority. These bids and offers include those made by Market Makers and Floor Brokers (on behalf of orders they are representing).

(C) Bids and Offers of broker-dealers (including Quotes with Size and orders of Market Makers) in the Consolidated Book have third priority. Multiple bids and offers of broker-dealers will be executed on a size pro rata basis pursuant to Rule 6.76(a).

(2) Market Makers and Floor Brokers may trade with orders and Quotes with Size in the Consolidated Book by vocalizing a bid or offer in a particular series and effecting a trade with the Order Book Official.

Commentary:

.01 The provisions of Rule 6.90 will apply to transactions automatically executed pursuant to Rule 6.76(b), above.

Contract Made on Acceptance of Bid or Offer

RULE 6.77. All bids or offers made and accepted in accordance with the Rules shall constitute binding contracts, subject to applicable requirements of the [Constitution] Bylaws and Rules of the Exchange and the Rules of the Options Clearing Corporation.

Commentary:

.01 Two Options [Floor] Trading Officials or the Exchange may nullify a transaction or adjust its terms if they determine the transaction to have been in violation of any of the following:

- (a) Rule 6.73 (Manner of Bidding and Offering);
- (b) Rule 6.75 (Priority of Bids and Offers);

(c) Rule 6.56 (Transactions Outside Order Book Official's Last Quoted Range);

(d) Rule 6.76 (Priority on Split Price Transactions);

(e) Rule 6.86 (Trading Crowd Firm Disseminated Market Quotes).

(f) Rule 6.66(c) (Order Identification Broker-Dealer Orders: Failure to identify a broker-dealer order, provided that the transaction may be nullified or its terms may be adjusted only if the transaction is for 20 contracts or less).

Amended: June 17, 1998.

Transactions Off the Exchange

RULE 6.78.(a) *Transactions for the account of an [member organization] OTP Holder or OTP Firm*. No [member organization] OTP Holder or OTP Firm shall effect an off-board transaction (off a participating exchange) for an account in which it has an interest, involving any purchase or sale of an option for a premium in excess of \$1.00 covering the same underlying security and having the same exercise price and expiration date as a series of options currently open for trading on the Exchange unless the [member organization] OTP Holder or OTP Firm has attempted to execute the transaction on the Floor of the Exchange and has reasonably ascertained that it may be executed at a better net price off-board.

(b) *Transactions as agent*. No [member organization] OTP Holder or OTP Firm shall effect an off-board transaction (off a participating exchange) as agent, involving any purchase or sale of an option for a premium in excess of \$1.00 covering the same underlying security and having the same exercise price and expiration date as a series of options currently open for trading on the Exchange unless the [member organization] OTP Holder or OTP Firm insures that, either immediately before, simultaneously with or immediately after execution of such transaction off a participating exchange, bids or offers entered on the Order Book Official's book, for options covering the same underlying security and having the same exercise price and expiration date as the option that was the subject of such transaction off a participating exchange, as limited price orders at prices equal to or better than the price of such transaction off a participating exchange are satisfied at the limit prices bid or offered.

(c) *Record must be kept*. For each transaction in which an [member organization] OTP Holder or OTP Firm executes off-board any purchase or sale of an option covering the same underlying security and having the same or substantially the same exercise price and expiration date as a series of options currently open for trading on the Exchange, a

record of such transaction shall be maintained by such [member organization] OTP Holder or OTP Firm and shall be available for inspection by the Exchange for a period of one year. Such record shall indicate the reason why the transaction was executed off-board.

(d) *Transfer of Positions off the Floor.* “Transfer of positions off the floor” is defined as moving an [member’s] OTP Holder or OTP Firm’s ownership interest in securities from its account to an account of another [member] OTP Holder or OTP Firm or person in a manner other than trading on the floor of a securities exchange.

(1) *Transfers off the Floor.* Notwithstanding the prohibition set forth in subsection (a), an Exchange [member] OTP Holder or OTP Firm may transfer positions off the floor if the transfer involves one or more of the following events: (i) the dissolution of a joint account in which the remaining [member] OTP Holder or OTP Firm assumes the positions of the joint account; (ii) the dissolution of a corporation or partnership in which a former nominee of that corporation or partnership assumes the positions; (iii) positions transferred as part of an [member’s] OTP Holder or OTP Firm’s capital contribution to a new joint account, partnership, or corporation; (iv) the donation of positions to a not-for-profit corporation; (v) the transfer of positions to a minor under the Uniform Gifts to Minors Act; (vi) a merger or acquisition resulting in a continuity of ownership or management; or (vii) consolidation of accounts within an [member organization] OTP Holder or OTP Firm.

(2) *Written Request.* No [member or member organization] OTP Holder or OTP Firm may effect a transfer of positions off the floor in any security listed on the Exchange without the prior submission of a completed written request to the Exchange. This requirement applies regardless of whether the transfer is permitted under subsection (d)(1) or (f).

(e) *Transfer of Positions Offered on the Floor.* “Transfer of positions offered on the floor” is defined as moving an [member’s] OTP Holder or OTP Firm ownership interest in securities from its account to an account of another [member] OTP Holder or OTP Firm or person in circumstances other than those set forth in subsection (d)(1).

(1) *Transfer Procedure for Positions Offered on the Floor.* An [member] OTP Holder or OTP Firm seeking a transfer must offer the positions on the floor in the following manner:

(A) An [member or member organization] OTP Holder or OTP Firm seeking to transfer positions on the floor (“Transferor”) must specify the securities positions to be transferred that are traded on the Exchange or at another securities exchange (“Transfer Positions”). In offering Transfer Positions to the floor, the Transferor must offer a set of options or other financial products being offered by the Transferor as a package (“Transfer

Package”), to be bid upon at a net debit or credit for the entire Transfer Package. A single Transfer Package must include no more than one option issue listed on the Exchange, but may also include stock or other securities. A Transferor may offer multiple Transfer Packages on the floor at the same time or on the same day. These offers must be made in a form and manner prescribed by the Exchange.

(B) A Transfer Package consisting solely of positions in one option issue and no other securities will be offered by the Transferor at the post at which that option issue is traded (“Post-Specific Transfer Packages”). Post-Specific Transfer Packages must be individually priced and reported. Post Specific Transfer Packages are subject to the ordinary procedures for trading options, and not those set forth in subsection (e), unless a bid or offer is made for a combination of Transfer Packages pursuant to subsection (e)(1)(I).

(C) A Transfer Package consisting of positions in an option issue and other financial instruments must be offered at the FLEX post. In addition, notice must be given to the OBO of each post (or the LMM for the particular issue, as appropriate) where a component of the Transfer Package trades. The OBO will announce the pending transfer of positions prior to the offer being made at the FLEX post.

(D) An [member] OTP Holder or OTP Firm submitting a Transfer Package must designate an [member] OTP Holder or OTP Firm of the Exchange (“Transferor Designee”) to represent the order on the floor. The Transferor Designee must be available to answer questions regarding the Transfer Package during the entire Request Response Time (as defined in subsection (e)(1)(G)).

(E) To the extent applicable and as modified by subsection (e), Transfer Packages offered at the FLEX post will be subject to the procedures set forth in Rule 8.103 (FLEX Trading Procedures and Principles), subsections (a) through (c).

(F) Acceptance of the best bid or offer (“BBO”) creates a binding contract under Rule 6.77. The Transferor is not obligated to accept the BBO. If the Transferor does not accept the BBO, the Transferor may request an exemption pursuant to paragraph (f) of this Rule, or may offer the Transfer Package(s) (or the Transfer Positions in any other allowable combination) on the floor the next day pursuant to the procedures in this Rule. If the Transferor decides not to accept a BBO on a second day, the Transferor must request permission of two [Floor] Trading Officials or the Exchange to offer the Transfer Positions on any subsequent day(s).

(G) The "Request Response Time" for a "Request for Quotes" for Transfer Packages is two hours. The transferor may apply to two [Floor] Trading Officials or the Exchange to have a Request Response Time for a transfer procedure that is less than two hours, where the Transfer Package is not complicated, or that is greater than two hours, where the complexity of the particular Transfer Package warrants the additional time.

(H) A Request for Quotes that is to be submitted later than 11:00 a.m. Pacific Time must have the approval of two [Floor] Trading Officials or the Exchange. In no event may a Request for Quotes be submitted to the floor later than 12:30 p.m. Pacific Time.

(I) The Transferor may accept a bid or offer for one or more of the Transfer Packages he/she has offered on the floor, if the accepted bid or offer for the combination of the Transfer Packages is equal to or better than the total of the individual BBOs for the particular Transfer Package combination and equal to or greater than any bid or offer for the same combination of Transfer Packages.

(J) All transactions (including stock positions or other positions that must be transacted on another exchange) required to be completed in order to effectuate the transfer of the Transfer Package must be completed in time for the option portion to be transacted by the end of the trading day.

(K) If equal bids or offers are received for a Transfer Package at a price accepted by the Transferor, the Transfer Package will be divided equally among all [members] OTP Holders and OTP Firms submitting the bids or offers to the extent possible unless the parties submitting the bids or offers agree to a division in another manner. Two [Floor] Trading Officials or the Exchange will resolve Transfer Package division disputes.

(f) *Exemptions.* The Exchange's Chief Executive Officer or designee thereof may grant an exemption from the requirements of subsection (e), upon that person's own motion or upon application of a Transferor, when, in the judgment of the Chief Executive Officer or designee, the market value of the Transferor's business will be compromised by having to comply with subsection (e) or when, in the judgment of the Chief Executive Officer or designee market conditions make position transfer offers on the floor impractical. The Chief Executive Officer or designee will consider effects on open interest and other factors deemed necessary to ensure fair and orderly market conditions.

Commentary:

.01 Paragraphs (a) and (b) above shall not apply to option transactions executed (i) on the Exchange, (ii) on another exchange, or (iii) through the facilities of NASDAQ,

if the security underlying the option class was a National Market System ("NMS") Tier 1 security under Securities and Exchange Commission Rule 11Aa2-1(b)(1) at the time the Exchange commenced trading in that option class.

.02 Acquisitions and dissolutions in which all or substantially all of the assets of one [member or member organization] OTP Holder or OTP Firm are acquired by another or, where there remains no continuity of ownership or management are examples of situations that normally would be required to be subjected to the transfer process set forth in subsections (e) and (f). This list is not meant to be exhaustive, however, and there may be other situations in which there is a discontinuation of ownership or management of the positions that may require that the positions be brought to the floor for transfer. Questions on whether a transfer should be brought to the floor may be directed to the Exchange's Options Surveillance Department.

.03 To the extent applicable, all other Exchange rules, including Rule 6.49, Solicited Transactions, will apply to the transfer procedure set forth in subsections (d) through (f). The following Rules do not apply to transfer procedures: 6.71 (Meaning of Premium Bids and Offers); 6.74 (Bids and Offers in Relation to Units of Trading); 6.75 (Priority of Bids and Offers); 6.76 (Priority of Split Price Transactions); 6.47 ("Crossing" Orders and Stock/Option Orders); and 7.9 (Meaning of Premium Bids and Offers, Index Options).

.04 The procedure established by subsections (d) through (f) may also be used by Market Makers who, for reasons other than a forced liquidation, such as an extended vacation, wish to liquidate their entire, or nearly their entire, position in a single set of transactions. However, this procedure is not to be used repeatedly or routinely in circumvention of the normal auction market process.

Amended: February 5, 2002 (01-33).

Submission for Clearance

RULE 6.79. All transactions made on the Exchange shall be submitted for clearance to the Options Clearing Corporation, and all such transactions shall be subject to the Rules of the Options Clearing Corporation.

Every clearing member shall be responsible for the clearance of the Exchange transactions of such clearing member and of each [member] OTP Holder or OTP Firm who gives up such clearing member's name pursuant to either a Letter of Authorization filed under Rule 6.45, a Letter of Guarantee filed under Rule 6.36, or other authorization given by such clearing member to such [member] OTP Holder or OTP Firm. Each clearing member shall file with, or at the direction of, the Exchange trade information in accordance with Rule 6.69 for each Exchange transaction for which such clearing member is responsible.

Accommodation Transactions (Cabinet Trades)

RULE 6.80. (a) Applicability. The Exchange will designate option issues that are eligible for cabinet trading pursuant to this Rule. If an option issue has not been designated as eligible for cabinet trading on PCX Plus, the provisions of Rule 6.80(b) will apply. If an option issue has been designated as eligible for cabinet trading on PCX Plus, then the provisions of subsection (c), below, will apply.

(b) Except as provided by subsection (c) below, the following provisions will apply to cabinet trading on the Exchange:

- (1) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.
- (2) Limit orders labeled at a price of \$1 per option contract must be placed with the Order Book Official.
- (3) Orders may be placed for customer, firm and Market Maker accounts, with priority based upon the sequence in which such orders are placed with the Order Book Official. The split-price priority provisions of Rule 6.75(h) shall not apply.
- (4) Market Makers shall not be subject to the requirements of Rule 6.37 for orders placed pursuant to this Rule.
- (5) The Order Book Official appointed to each class of option contracts shall be responsible for \$1 per contract orders for that class. All bids and offers must be submitted to the Order Book Official in writing, and displayed as such in accordance with Rule 6.55, and the Order Book Official shall effect all such transactions during the day by matching such orders placed with him. Bids or offers on orders to open for the accounts of customers or firms may be made at \$1 per option contract, but such orders must yield to all closing orders in the cabinet.
- (6) All transactions at a price of \$1 per option contract shall be reported to the Exchange following the close of each business day.
- (7) An Order Book Official who receives a closing buy order for \$1 per option contract shall attempt to execute the order against any \$1 closing sell orders in his possession. If any part of the buy order cannot be immediately executed the Order Book Official shall display the \$1 bid.

The Order Book Official shall effect all cabinet transactions by matching closing purchase or sale orders which have been placed in the cabinet or, provided there is no

matching closing purchase or sale order in the cabinet by matching an opening purchase or sale order.

Upon receiving a closing sell order for \$1 per option contract the Order Book Official shall attempt to execute the order at the best price available. If any part of the sell order cannot be immediately executed the Order Book Official shall display the order as a \$1 per option contract offering. However, since the market or a .10 buy order may come to the market next, the \$1 per contract closing sell order should be filed in time sequence with any order to sell at .10. This provides the ability to execute the closing sell order at \$1 per contract if a \$1 per contract buy order arrives next, or at .10 if a market or .10 buy order arrives next.

(c) The following provisions of this subsection (c) will apply to option issues designated for cabinet trading on PCX Plus:

(1) Cabinet trading under the following terms and conditions will be available in each series of option contracts open for trading on the Exchange.

(2) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein.

(3) Limit orders at a price of \$1 per option contract must be placed on the Exchange in such form and manner as may be prescribed by the Exchange.

(4) Orders for cabinet trading may be placed for the accounts of Public Customers, Firms, and Market Makers, with priority based upon the sequence in which such orders are placed on the Exchange.

(5) Market Makers shall not be subject to the requirements of Rule 6.37 for orders placed pursuant to this Rule.

(6) [Members] OTP Holder or OTP Firm submitting opening orders priced at \$1 per option contract must comply with the order entry procedures and format requirements as may be prescribed by the Exchange. Opening orders priced at \$1 per option contract may be placed on the Exchange for execution only to the extent that the order book in Cabinet Trades contains unexecuted contract closing orders with which the opening orders immediately may be matched.

Amended: September 27, 2000 (00-23); November 19, 2001 (01-39).

Stock Transfer Tax

RULE 6.81. Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the sale, transfer or delivery of securities pursuant to the exercise of an option contract shall be the responsibility of the seller (writer) to whom the exercise notice is assigned, except where the incidents of

the tax are attributable solely to the exercising holder, the [member organization] OTP Holder or OTP Firm representing such holder or another [member organization] OTP Holder or OTP Firm which acts on its behalf as a clearing member of the Options Clearing Corporation, in which case the tax shall be the responsibility of the exercising holder. Each delivery of securities subject to such tax must be accompanied by a sales ticket stamped in accordance with the regulations of the State imposing such tax or, if required by applicable law, such tax shall be remitted by the clearing member having responsibility therefor to the clearing corporation through which it customarily pays stock transfer taxes, in accordance with the applicable rules of such clearing corporation.

Lead Market Makers

RULE 6.82.(a) General Provisions:

(1) *Lead Market Maker Defined.* A Lead Market Maker ("LMM") is an individual or entity that has been deemed qualified by the Options Allocation Committee for the purpose of making transactions on the Options Floor of the Exchange in accordance with the provisions of Rule 6.82. Each LMM or nominee thereof must be registered with the Exchange as a Market Maker. Any [member or member organization] OTP Holder or OTP Firm registered as a Market Maker with the Exchange is eligible to be qualified as an LMM. Remote Market Makers are not eligible to act as LMMs from a location off the trading floor.

(2) *Eligible Issues.* An LMM may be allocated any one or more of the option issues opened for trading at the Exchange subject to the concentration limits set forth in Subsection (e).

(3) *Market Maker Cooperatives.* The Options Allocation Committee may designate a cooperative of Market Makers to act as an LMM provided that such Market Makers collectively maintain a cash or liquid asset position in the amount required under Subsection (c)(11) of this Rule. Violations of the Exchange [Constitution] Bylaws and Rules committed by a Market Maker cooperative that is not registered as a broker-dealer may render each Market Maker thereof personally liable for disciplinary sanctions for such violations.

(b) Qualification of Lead Market Makers:

(1) *Qualification of LMMs.* The qualification of LMMs shall be conducted by the Options Allocation Committee. The LMM Qualification Process is as follows:

(A) Applications for qualification as an LMM shall be general and shall not specify a particular option issue or issues. Applicants for

qualification as an LMM may present any matter they wish the Options Allocation Committee to consider in conjunction with its decision. The Options Allocation Committee may require that presentation to be solely or partially in writing, and may require the submission of additional information from an applicant, [member] OTP Holder or OTP Firm, or any person associated with an [member] OTP Holder or OTP Firm.

(B) The [Options Allocation Committee] Exchange may also specify one or more conditions on the applicant in respect to any representations made in the application process, including but not limited to representations regarding capital operations, personnel or technical resources.

(2) *Disqualification of LMMs*. The [Options Allocation Committee] Exchange may disqualify any LMM due to a material financial, operational or personnel change warranting immediate action.

(3) *Resignation of LMMs*. An LMM, interim LMM or back-up LMM who fails to give a ten-day written notice of resignation to the Exchange may be subject to formal disciplinary action pursuant to Rule 11.2(a) [Article XI, Section 2(a) of the Exchange Constitution].

(4) *Interim LMMs*. If an LMM has been relieved of an appointment or resigns or if the allocation otherwise becomes vacant, the [Options Allocation Committee] Exchange may designate an interim LMM or a Market Maker trading crowd pending the conclusion of a new LMM selection process. The designation of an interim LMM is not a prejudgment of the new LMM selection process.

(c) *Obligations of Lead Market Makers*:

Each LMM must meet the following obligations:

- (1) Assure that disseminated market quotations are accurate;
- (2) Honor guaranteed markets, including markets required by Rule 6.86 and any better markets pledged during the allocation process;
- (3) Generate and automatically update two-sided market quotations with size in all appointed series either through the Exchange's auto-quoting system or through the LMM's own proprietary autoquoting system;
- (4) Fulfill general Market Maker obligations under Rule 6.37;

(5) Be present at the trading post throughout every business day and, in addition, designate an approved LMM to act as a back-up LMM and notify Book Staff of such designation;

(6) With respect to trading as a Market Maker, effect trades that have a high degree of correlation with the overall pattern of trading for each series in the option issues involved;

(7) Participate at all times in any automated execution system that is in effect in designated option issues;

(8) LMMs are responsible for establishing the variables in the formula used to generate automatically updated quotations in each option issue or series. The LMM may disclose to the members of the trading crowd the following variables of the formula used to generate automatically updated market quotations in each option issue: (A) options pricing calculation model; (B) volatility; (C) interest rate; and (D) dividends (both declared and anticipated).

(9) Promote the Exchange as a marketplace by assisting in meeting and educating market participants and taking the time for travel related thereto;

(10) Maintain communications with member firms in order to respond to suggestions and complaints;

(11) Respond to competition by offering competitive markets and competitively-priced services.

(12) Maintain a cash or liquid asset position of at least \$350,000, plus \$25,000 for each issue over 8 issues that has been allocated to the LMM. In the event that two or more LMMs are associated with each other and deal for the same LMM account, this requirement will apply to such LMMs collectively, rather than to each LMM individually;

(13) Fully satisfy conditions of appointments pursuant to Subsection (b)(1)(B) of this Rule; and

(14) Promptly inform the Exchange of any material change in financial or operational condition or in personnel.

(d) Rights of Lead Market Makers:

(1) An [member, member organization] OTP Holder or OTP Firm or cooperative of Market Makers assigned LMM status in an issue is entitled to all rights and privileges normally associated with the assumption of the LMM obligations in that issue during the allocation period. However, LMM status in a

particular option issue is not attached in any way to the [membership] status of the [member or member organization] OTP Holder or OTP Firm LMM. In addition, when an [member organization] OTP Holder or OTP Firm or cooperative of Market Makers is allocated an issue, any individual who represents the LMM organization waives all rights to such allocation in the event that such individual separates from the [member organization] OTP Holder or OTP Firm LMM or designated cooperative of Market Makers.

(2) *Guaranteed Participation.* LMMs shall be allocated 40% participation (or such lesser percentage as the [Options Allocations Committee] Exchange may establish as a condition in allocating an issue to an LMM) in transactions occurring at their disseminated bids and/or offers in their allocated issue(s). LMM participation may be greater than 40% as a result of successful competition by means of "public outcry." LMMs at their own discretion may direct their participation to competing public orders in the crowd. Public orders placed in the book shall take priority pursuant to Exchange rules. Oversight and enforcement shall be the responsibility of the OBO.

(e) *Allocation:*

(1) *Allocation.* The allocation of option issues to LMMs will be effected by the [Options Allocation Committee] Exchange. The [Options Allocation Committee] Exchange will select that candidate who appears best able to perform the functions of an LMM in the designated option issue. Factors to be considered for selection include, but are not limited to the following experience with trading the option issue; adequacy of capital; willingness to promote the Exchange as a marketplace; operational capacity; support personnel; history of adherence to Exchange rules and securities laws; trading crowd evaluations made pursuant to Rule 6[/],100; and any other criteria specified in this Rule. The [Options Allocation Committee] Exchange will also consider the number and quality of issues that have been allocated, reallocated or transferred to a Lead Market Maker.

(2) *Transfer of Issues.* Issues allocated to an LMM may not be transferred to another firm or between nominees without the express approval of the [Options Allocation Committee] Exchange.

(3) *Evaluation of LMMs.* The [Options Allocation Committee] Exchange shall monitor and evaluate the performance of LMMs with regard to quality of markets and shall do so at least semiannually. In reviewing and evaluating an LMM's performance, the [Committee] Exchange will consider, among other things, the LMM's evaluation conducted pursuant Rule 6.100, the LMM's compliance with Exchange Rules, including, but not limited to, Rules 6.32 through 6.40 and Rule 11.2 [Article XI, Section 2 of the Exchange Constitution].

(f) *Reallocation:*

(1) *Reallocation in General.* The [Options Allocation Committee] Exchange may, at its discretion, reassign an option issue or issues to a new or existing LMM or a Market Maker trading crowd under any of the following circumstances:

(A) If upon review, the [Options Allocation Committee] Exchange determines, in its discretion, that an LMM has not performed satisfactorily or has not met any condition of such LMM's appointment under Subsections (b)(1)(B) or (c) hereof; or

(B) If an LMM incurs a material financial, operational or personnel change. In addition, the [Options Allocation Committee] Exchange may open an option issue or issues to new LMM selection process if an LMM [member organization] OTP Holder or OTP Firm changes its specified nominee and the former nominee so requests; or

(C) If for any reason the LMM is no longer eligible for appointment, resigns or fails to perform any duties required to be performed under this Rule. The incumbent LMM shall remain eligible to apply for the subject allocation in the new selection process.

(2) *Continued Quality and Service.* Upon discontinuance of the LMM in a particular option issue and assignment of the issue to the Market Maker system, the market quality and service provided by the Market Makers in the issue must equal or better that previously provided by the LMM, as guaranteed by the LMM pursuant to Subsection (c)(2), above, or such quality and service as determined by the [Options Allocation Committee] Exchange. A failure by the Market Makers to provide such markets and service may result in the reversion of the issue to the LMM system, as determined by the [Options Allocation Committee] OTP Holder or OTP Firm.

(3) *LMM Compensation.* If the [Options Allocation Committee] OTP Holder or OTP Firm decides to reallocate an issue under Subsection (f)(1) of this Section, the [Options Allocation Committee] OTP Holder or OTP Firm may award compensation to the LMM based upon the time of LMM service, capital commitment, trading volume in the subject option issue and performance during the allocation period.

(g) *Review of [Committee] Exchange Decisions:*

(1) Any decision of the [Options Allocation Committee] Exchange with respect to the qualification or disqualification of an LMM pursuant to Subsection (b) or with respect to the allocation or reallocation of an issue may be appealed

pursuant to Rule [11] 10. If a decision has been appealed, then an interim LMM or trading crowd may be appointed until such appeal has been resolved.

(h) *LMM Performance of Order Book Official, Market Maker and Floor Broker Functions.*

(1) LMM Performance of Order Book Official Functions.

(a) The LMM may, subject to the approval of the Exchange, perform all functions of the Order Book Official ("OBO") in designated option issues pursuant to Rules 6.51 through 6.59.

(b) The Exchange shall make personnel available to assist the LMM as the LMM shall reasonably require in performing the OBO function. The Exchange may charge the LMM a reasonable fee for such use of Exchange personnel.

(c) Subject to the review of two [Floor] Trading Officials or the Exchange, the LMM shall resolve trading disputes upon request of any party to such dispute.

(d) The LMM shall disclose Book information to [Members] OTP Holders or OTP Firms upon request, pursuant to Rule 6.57.

(e) If the [Options Allocation Committee] Exchange decides to reallocate an issue to the Market Maker system pursuant to Section (f)(2) of this Rule, the terminated LMM may receive a share of the net Book revenues, not to exceed one-half, for any period specified by the [Options Allocation Committee] Exchange up to a maximum of five years. Such award shall take into account the length of time of LMM service, the LMM's capital commitment, efforts expended as LMM and any other relevant factors.

(2) LMM Performance of Market Maker Function.

(a) LMMs must perform all obligations provided in Rules 6.35 through 6.40 and 6.82(c). In addition, in executing transactions for their own accounts as Market Makers, LMMs have a right to participate with the trading crowd in trades that take place at the LMM's principal bid or offer, pursuant to the priority rules set forth in Rule 6.75.

(3) LMM Performance of Floor Broker Function.

(a) LMMs may function in designated option issues as both Market Maker and Floor Broker, and as such, will be exempt from Rule 6.38. In

acting as Floor Brokers, LMMs must fulfill their obligation to use due diligence and all other obligations of Floor Brokers pursuant to Rules 6.43 through 6.48.

(b) LMMs may (but are not obligated to) accept non-discretionary orders that are not eligible to be placed in the Public Order Book, and LMMs may represent such orders as Floor Brokers. An LMM may not represent discretionary orders, whether as a Floor Broker or otherwise. All orders in the LMM's possession that are eligible to be booked must be booked.

Commentary:

.01 It shall be the duty of the [Options Floor Trading Committee] Exchange to promulgate and recommend to the Board of [Governors] [Managers] Directors rules and policies with regard to the Options Floor activities of the LMM.

[.02 Any member of the Options Allocation Committee who has a business affiliation with an LMM applicant or who is subject to deliberation with regard to the allocation or reallocation of an issue may not participate in related proceedings.
Renumber remainder?]

[.03] .02 LMMs who perform the function of an Order Book Official pursuant to Rule 6.82(h) shall maintain "minimum net capital" as provided in SEC Rule 15c3-1, and shall also maintain a cash or liquid asset position of at least \$500,000, plus \$25,000 for each issue over 5 issues for which they perform the function of an Order Book Official.

Amended: December 22, 1992; September 23, 1994; August 10, 1995; September 28, 1995; September 30, 1996; October 3, 1996; September 22, 1997; September 3, 1998; December 30, 1999; March 28, 2000; December 5, 2000 (00-08); March 15, 2002 (01-50).

Limitations on Dealings of Lead Market Makers

RULE 6.83.(a) No [member] OTP Holder or OTP Firm, other than a Lead Market Maker ("LMM") acting pursuant to Rule 6.82, limited partner, officer, employee, approved person or party approved, who is affiliated with an LMM or [member organization] OTP Holder or OTP Firm, shall, during the period of such affiliation, purchase or sell any option in which such LMM is appointed for any account in which such person or party has a direct or indirect interest. Any such person or party may, however, reduce or liquidate an existing position in an option in which such LMM is appointed provided that such orders are (i) identified as being for an account in which such person or party has a direct or indirect interest; (ii) approved for execution by a [Floor] Trading Official; and (iii) executed by the LMM in a manner reasonably calculated to contribute to the maintenance of price continuity with reasonable depth. No

order entered pursuant to this Subsection (a) shall be given priority over, or parity with, any order represented in the market at the same price.

(b) Notwithstanding the provisions of Rule 6.82, an approved person or [member organization] OTP Holder or OTP Firm that is affiliated with an LMM shall not be subject to Rule 6.83(a), provided it has obtained Exchange approval of procedures restricting the flow of material non-public corporate or market information between itself and the LMM and any [member] OTP Holder or OTP Firm, officer, or employee associated therewith.

(c) For such [member organization] OTP Holder or OTP Firm that controls, is controlled by, or is under common control with another organization, the exemption provided in Subsection (b) of Rule 6.83 shall be available to it only where the Exchange has determined that the relationship between the LMM, each person associated therewith, and such other organization satisfies all the conditions specified in the Exemption Guidelines.

(d) The procedures referred to in Subsection (b) of Rule 6.83 shall comply with such guidelines as are promulgated by the Exchange.

Exemption Guidelines

(e) The following restrictions apply to an [member or member organization] OTP Holder or OTP Firm that is affiliated with an LMM:

It may not purchase or sell for any account in which it has a direct or indirect interest in any security in which its affiliate is an LMM.

It may not engage in any business transaction with the issuer of a security or its insiders in which its affiliate is an LMM.

The [member firm] OTP Holder or OTP Firm may not accept orders directly from the issuer, its insiders or certain designated parties in securities in which its affiliate is an LMM.

This Subsection provides a means by which an affiliated firm doing business with the public as defined in Rule 9.27 (hereafter ["member organization"] "OTP Holder or OTP Firm") may obtain an exemption from the restrictions discussed above. This exemption is only available to an [member firm] OTP Holder or OTP Firm that obtains prior Exchange approval for procedures restricting the flow of material non-public information between it and its affiliated LMM, (i.e., so-called "Chinese Wall" procedures). This Subsection sets forth the steps an [member firm] OTP Holder or OTP Firm must undertake, at a minimum, to seek to qualify for exemptive relief. Any firm that does not obtain Exchange approval for its procedures in accordance with these Guidelines shall remain subject to the restrictions set forth above.

(f) These Guidelines require that an affiliated [member firm] OTP Holder or OTP Firm establish procedures that are sufficient to restrict the flow of information between itself and the LMM. Generally, an affiliated [member firm] OTP Holder or OTP Firm seeking an exemption from the rules discussed in Subsection (a) above should establish its operational structure along the lines discussed below.

(i) The affiliated [member firm] OTP Holder or OTP Firm and the LMM must be established as separate and distinct organizations. At a minimum, the two organizations must maintain separate and distinct books, records and accounts, and satisfy separately all applicable financial and capital requirements. While the Exchange will permit the affiliated [member firm] OTP Holder or OTP Firm and the LMM to be under common management, in no instance may persons associated with an [member firm] OTP Holder or OTP Firm exercise influence over or control the LMMs conduct with respect to particular securities or vice versa. Any general managerial oversight must not conflict with or compromise in any way the LMMs market making responsibilities pursuant to the Rules of the Exchange.

(ii) The affiliated [member firm] OTP Holder or OTP Firm and the LMM must establish procedures designed to prevent the use of material non-public corporate or market information in the possession of the affiliated [member firm] OTP Holder or OTP Firm to influence the LMM's conduct and avoid the misuse of LMM market information to influence the affiliated [member firm's] OTP Holder or OTP Firm conduct. Specifically, the affiliated [member firm] OTP Holder or OTP Firm and the LMM organization must ensure that material non-public corporate information relating to trading positions taken by the affiliated [member firm] OTP Holder or OTP Firm in an LMM security are not made available to the LMM, or to any [member] OTP Holder or OTP Firm, partner, director or employee thereof, by an LMM while in possession of non-public corporate information derived by the affiliated [member firm] OTP Holder or OTP Firm from any transaction or relationship with the issuer or any other person in possession of such information; that advantage is not taken of knowledge of pending transactions or the [member firm's] OTP Holder or OTP Firm's recommendations; and that all information pertaining to positions taken or to be taken by the LMM in an LMM security is kept confidential and is not made available to the affiliated [member firm] OTP Holder or OTP Firm.

(g) An affiliated [member firm] OTP Holder or OTP Firm seeking exemption shall submit to the Exchange a written statement that shall set forth the following:

(i) The manner in which it intends to satisfy each of the conditions stated in Subsections (f)(i) and (f)(ii) of these Guidelines, and the compliance and audit procedures it proposes to implement to ensure that the functional separation is maintained;

- (ii) The designation and identification of the individual(s) within the affiliated [member firm] OTP Holder or OTP Firm responsible for maintenance and surveillance of such procedures;
- (iii) That the LMM may make available to a broker affiliated with it only the sort of market information that it would make available in the normal course of its LMM activity to any other broker and in the same manner that it would make information available to any other broker; and that the LMM may only make such information available to a broker affiliated with the [member firm] OTP Holder or OTP Firm pursuant to a request by such broker for such information and may not, on its own initiative, provide such broker with such information;
- (iv) That where it issues a recommendation in a security in which it acts as LMM it must disclose that an associated LMM makes a market in the security, may have a position in the security, and may be on the opposite side of public orders executed on the Floor of the Exchange in the security, and the firm will notify the Exchange immediately after the issuance of a research report or written recommendation;
- (v) That it will file with the Exchange such information and reports as the Exchange may, from time to time, require relating to its transactions in a specialty security;
- (vi) That it will take appropriate remedial action against any person violating these Guidelines and/or its internal compliance and audit procedures adopted pursuant to Subsection (g)(i) of these Guidelines, and that it and its associated LMM each recognizes that the Exchange may take appropriate remedial action, including (without limitation) reallocation of securities in which it serves as LMM and/or revocation of the exemption, in the event of such a violation;
- (vii) Whether the firm intends to clear proprietary trades of the LMM and, if so, the procedures established to ensure that information with respect to such clearing activities will not be used to compromise the firm's Chinese Wall procedures (the procedures followed shall, at a minimum, be the same as those used by the firm to clear for unaffiliated third parties); and
- (viii) That no individual associated with it may trade as a market maker in any security in which the associated LMM has an appointment.
- (h) Subsection (f) of these Exemption Guidelines requires the establishment of procedures designed to prohibit the flow of certain market sensitive information from an [member firm] OTP Holder or OTP Firm to its affiliate LMM or to any [member] OTP

Holder or OTP Firm, partner, director or employee thereof. In the event that, notwithstanding these procedures, any LMM becomes aware of the fact that he has received any such information relating to any of his LMM securities from his organization's affiliated [member firm] OTP Holder or OTP Firm, the LMM shall promptly communicate that fact and disclose the information so received to the person in the affiliated member firm responsible for compliance with securities laws and regulations (the compliance officer) and shall seek a determination from the compliance officer as to whether he should, as a consequence of his receipt of such information, give up the appointment in the option class involved. If the compliance officer determines that the LMM should give up the LMM appointment, the LMM shall, at a minimum, give it up to another [member] OTP Holder or OTP Firm who is registered as LMM in the security and who is not in possession of the information so received. In any such event, the compliance officer shall determine when it is appropriate for the LMM to recover the LMM security and recommence acting as LMM in the LMM security involved. Procedures shall be established by the affiliated member firm to assure that in any instance when the compliance officer determines that an LMM should give up the appointment, such transfer is effected in a manner which will prevent the market sensitive information from being disclosed to the temporary LMM.

The compliance officer shall keep a written record of each request received from an LMM for a determination as referred to above. Such record shall be adequate to record the pertinent facts and shall include, at a minimum, the identification of the security, the date, a description of the information received by the LMM, the determination made by the compliance officer and the basis therefor. If the appointment is given up, the record shall also set forth the time at which the LMM reacquired the appointment and the basis upon which the compliance officer determined that such reacquisition was appropriate. The Exchange shall be given prompt notice of any instance when the compliance officer determines that the LMM should give up the appointment and also of the determination that such LMM should be permitted to reacquire the appointment. In accordance with such schedules as the Exchange shall from time to time prescribe (at least monthly), the written record of all requests received by the compliance officer from the affiliated LMM for a determination as referred to above shall be furnished to the Exchange for its review. [Members and member organizations] OTP Holders and OTP Firms are cautioned that any trading by any person while in possession of material, non-public information received as a result of any breach of the internal controls required by the Guidelines may have violated Rule 10b-5, Rule 14e-3, just and equitable principles of trade or one or more other provisions of the Exchange Act, or regulations thereunder or rules of the Exchange. The Exchange shall review any such trading of which it becomes aware to determine whether any such violation has occurred.

(i) Subsection (g)(vii) of these Guidelines permits an [member firm] OTP Holder or OTP Firm to clear the LMM transactions of its affiliated LMM provided it establishes procedures to ensure that information with respect to such clearing activities will not be used to compromise the firm's Chinese Wall procedures. Such procedures should provide that any information pertaining to security positions and trading activities of the LMM,

and information derived from any clearing and margin financing arrangements between the affiliated [member firm] OTP Holder or OTP Firm and the LMM, may be made available only to those (other than employees actually performing clearing and margin financing functions) in senior management positions in the affiliated [member firm] OTP Holder or OTP Firms who are involved in exercising general managerial oversight over the LMM. Generally, such information may be made available only to the affiliated [member firm's] OTP Holder or OTP Firm's chief executive officer, chief operations officer, chief financial officer, and senior officer responsible for managerial oversight of the LMM, and only for the purpose of exercising permitted managerial oversight. Such information may not be made available to anyone actually engaged in making day-to-day trading decisions for the affiliated member firm, or in making recommendations to the customers or potential customers of the affiliated member firm. Any margin financing arrangements must be sufficiently flexible so as not to limit the ability of any LMM to meet market making or other obligations under Exchange Rules.

(j) The written statement required by Subsection (g) of these Exemption Guidelines shall detail the internal controls that both the affiliated [member firm] OTP Holder or OTP Firm and the LMM intend to adopt to satisfy each of the conditions stated in Subsections (g)(i) through (g)(viii) of these Guidelines, and the compliance and the audit procedures they propose to implement to ensure that the internal controls are maintained. If the Exchange determines that the organizational structure and the compliance and audit procedures proposed by the [member firm] OTP Holder or OTP Firm and its affiliated LMM are acceptable under the Guidelines, the Exchange shall so inform the [member firm] OTP Holder or OTP Firm and its affiliated LMM, in writing, at which point an exemption shall be granted. Absent such prior written approval, an exemption shall not be made available. The written statement should identify the individuals in senior management positions (and their titles/levels of responsibility) of the affiliated [member firm] OTP Holder or OTP Firm to whom information concerning the LMM trading activities and security positions, and information concerning clearing and margin financing arrangements, is to be made available, the purpose for which it is to be made available, the frequency with which the information is to be made available, and the format in which the information is to be made available. If any partner, director, officer, or employee of the affiliated [member firm] OTP Holder or OTP Firm intends to serve in any such capacity with the LMM, or vice versa, the written statement must include a statement of the duties of the particular individual, at both entities, and why it is necessary for such individual to be a partner, director, officer or employee of both entities. The Exchange may grant approval for service at both entities only if the dual affiliation is for overall management control purposes or for administrative and support purposes. Dual affiliation will not be permitted for an individual who intends to be active in the day-to-day business operations of both entities. Nothing in the foregoing, however, shall preclude an employee of one entity who performs strictly administrative or support functions (such as facilities, accounting, data processing, personnel and similar types of services) from performing similar functions on behalf of the other entity, provided that such individual is clearly identified, and the functions performed on behalf of each entity

are specified, in the written statement described above, and all requirements in Subsection (f) above as to maintaining the confidentiality of information are met.

Joint Accounts

RULE 6.84.(a) No Market Maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any option contract or related security unless

(1) each participant in such joint account is an [member or member organization] OTP Holder or OTP Firm of the Exchange, and

(2) such joint account agreement is filed with (in a form approved by the Exchange) and approved by the Exchange.

(b) Each participant in a joint account and each [member organization] OTP Holder or OTP Firm with which a participant is associated shall be jointly and severally responsible for assuring that the account complies with all applicable provisions of the Exchange [Constitution] Bylaws, Rules, Commentaries, and Procedures. Each joint account which acts in the capacity of Market Maker shall be required to meet all the obligations of a Market Maker with such exceptions as provided by this Section and Commentaries thereunder.

(c) A participant in a joint account must be either: (i) a Market Maker having an appointment under Rule 6.37(b); or (ii) a clearing member which carries the joint account. A Market Maker may participate on behalf of an [member organization] OTP Holder or OTP Firm with which he is associated. Market Makers participating in a joint account may be associated with the same [member organization] OTP Holder or OTP Firm.

(d) Each participant in a joint account must file with the Exchange and thereafter keep current a completed application on a form prescribed by the Exchange.

(e) Each joint account acting in the capacity of a Market Maker shall have a letter of guarantee executed on its behalf, pursuant to Rule 6.36. Each joint account acting in the capacity of Floor Broker shall have a letter of authorization executed on its behalf, pursuant to Rule 6.45.

(f) Joint account participants may not enter: (1) opening option transactions from off the Floor for the joint account in option contracts listed on the Exchange (unless otherwise permitted by Exchange Rules); (2) transactions for option contracts not listed on the Exchange; and (3) transactions for any other security. This prohibition does not apply to transactions entered for securities underlying Exchange option contracts in the joint account.

(g) Individual Market Makers trading for a joint account must have a primary appointment, but the joint account itself is not required to have a primary appointment.

(h) The following trading restrictions apply to [Members] OTP Holders and OTP Firms who are registered with the Exchange to trade on behalf of the same joint account:

(1) A joint account may be simultaneously represented in a trading crowd only by participants who are trading in-person. Orders for a joint account may not be entered in a trading crowd in which a participant of the joint account is trading in-person for the joint account. If no participant is trading in-person in the trading crowd for the joint account, then a Floor Broker may represent orders in the trading crowd on behalf of the joint account as long as the same option series is not concurrently represented for the same joint account by more than one Floor Broker.

(2) Market Makers may alternate trading in-person between their individual and joint accounts while in the trading crowd. Market Makers who alternate trading between accounts must ensure that while trading the joint account another participant does not enter orders through a floor broker for the joint account in the same trading crowd.

(3) Before beginning trading on behalf of a joint account, participants in the joint account are responsible for determining whether any Floor Brokers are representing orders in the same trading crowd on behalf of the same joint account.

(4) Floor Brokers may not represent a joint account of which they are a participant.

(5) Market Makers who are trading in-person in a trading crowd may not enter orders with a Floor Broker either for joint accounts in which they are participants or for their individual accounts.

(6) The following trades are prohibited:

(A) Trades between a joint account participant's individual account and a joint account in which that person is a participant.

(B) Trades between two joint accounts having common participants.

(C) Trades in which the buyer and seller are representing the same joint account and are on opposite sides of the transaction.

Commentary

.01 Adjustments among the participants and the joint account are subject to the provisions of Rule 6.14.

.02 While on the Floor, participants in joint accounts shall wear badges identifying themselves as [members] OTP Holder or OTP Firm of the same joint account, as prescribed by Exchange procedures.

.03 Transactions on the Floor will be presumed to be for the proprietary account of the individual [members] OTP Holder or OTP Firm unless the joint account symbol is given up and used on the trade ticket to represent the joint account as the executing [member] OTP Holder or OTP Firm.

.04 Any order of a joint account participant that is executed by a Floor Broker must be in accordance with the procedures set forth in Rule 6.85, except that the joint account trading number with its alpha identification must appear in the "executing firm" area. Additionally, a joint account participant may not bid, offer, purchase, sell, or enter orders in an option series in which a Floor Broker holds an order on behalf of the joint account or for the proprietary account of another participant in the joint account. Orders of joint account participants in a particular option series may not be concurrently represented by one or more Floor Brokers.

.05 For purposes of evaluating Market Maker performance in accordance with Rule 6.35, Commentary .03, contract volume in the joint account will be assigned to the participant who effected the transactions for the joint account, under the same guidelines as if they effected the transactions for their own account.

.06 For the purposes of determining compliance with Rule 6.8 (Position Limits) and Rule 6.9 (Exercise Limits) by the joint account and each participant in the joint account, the Exchange shall compute the positions or exercises attributable to each participant and to the joint account by aggregating all the positions or exercises of the joint account with all the related positions or exercises which any participant or member organization associated with a participant holds or controls or is obligated in respect thereof.

.07 The restriction Rule 6.38 places on Market Makers acting as such and as Floor Brokers shall apply to joint accounts. Thus, should a participant act as a Floor Broker in options overlying a particular security, no transactions for the joint account in option contracts overlying that particular security may be effected by any participant in the joint account on the same business day. This prohibition also restricts any participant in a joint account from acting as a Floor Broker for an option contract if there have been proprietary transactions for the joint account in option contracts overlying the same security on that day.

Amended: June 19, 1990; August 30, 1993; September 23, 1996; May 25, 2001 (00-21).

Market Maker Orders Executed By Floor Brokers

RULE 6.85.(a) A Market Maker and any orders represented by a Floor Broker on behalf of the Market Maker may not be concurrently represented at a trading post.

(b) Orders on behalf of a Market Maker in a particular option series may not be concurrently represented by more than one Floor Broker. A Floor Broker may not concurrently represent, on behalf of a Market Maker, both buy and sell orders in a particular option series which are designated as "not held."

(c) A Floor Broker representing an order on behalf of a Market Maker order must verbally identify the order as such prior to consummating a transaction. Upon consummation of the transaction, the Floor Broker must, by public outcry, inform the trading crowd of the identity of the Market Maker on whose behalf the order was executed, upon request by any [member or members] OTP Holder or OTP Firms present in the trading crowd.

Commentary:

.01 Prior to vocalizing a bid or offer in any class of option contracts designated for trading at a particular trading post, a Market Maker must establish that no orders are concurrently represented by a Floor Broker at the trading post on the Market Maker's behalf.

.02 A Market Maker, having effected a transaction in a particular option class through the services of a Floor Broker, whether in an assigned option class or otherwise, is obligated, for the balance of the trading session, to make a market in the particular option class, upon a call by the Order Book Official, pursuant to Rule 6.37.

.03 Market Maker order tickets should be prepared by the Market Maker, when possible. All orders shall be recorded and time-stamped, pursuant to Rule 6.67. Order tickets shall include the acronym of the Market Maker entering the order in the area marked "buying firm/selling firm," with the Market Maker's name printed at the bottom of the ticket. Order tickets must be marked to indicate whether the order is "GTC" or day only. The acronym of the executing Floor Broker shall be written in the area marked "executing member." When utilizing a "partial order" ticket to facilitate the completion of an order, the control number of the original order ticket must be written on the partial order ticket.

Except as provided in Rule 6.2(h)(4)(C) (Ticket to Follow Rule), when a Floor Broker receives a verbal order from a Market Maker, or when a Floor Broker is requested by a Market Maker to alter an order in his possession in any way, the Floor Broker shall immediately prepare an order ticket from outside the trading crowd and timestamp it.

Amended: June 19, 1990; May 23, 2000 (99-17).

Firm Quotes

(2) *Broker-Dealer Orders*. Except as provided in subsection (d), below each Responsible Broker or Dealer is obligated to be firm for all incoming orders in a listed option for the account of a broker or dealer in an amount up to the disseminated size.

RULE 6.86.(a) Applicability and Definitions

(1) For purposes of this Rule the terms "bid and offer," "quotation size," "quotation vendor," "reported security," "listed option," "option series" and "trading rotation" will have the meanings set forth in SEC Rule 11Ac1-1.

(2) For purposes of this Rule and SEC Rule 11Ac1-1 as applied to the Exchange and its [members] OTP Holders and OTP Firms, the term "Responsible Broker or Dealer" means that with respect to any bid or offer for any listed option made available by the Exchange to quotation vendors:

(A) in the case of option issues designated for trading on PCX Plus, the Lead Market Maker and any registered Market Makers who are quoting at the disseminated bid or offering price and who are constituting the trading crowd in such option series will collectively be the Responsible Broker or Dealer to the extent of the sizes of their respective bids and offers; or

(B) for option issues not designated for trading on PCX Plus, the Lead Market Maker and any registered Market Makers constituting the trading crowd in such option series will collectively be the Responsible Broker or Dealer to the extent of the aggregate quotation size specified.

(3) For purposes of this Rule, the term "broker-dealer order" and the term "order," when used with respect to an order for the account of a broker-dealer, will include orders for "foreign broker-dealers" as defined in Rule 6.1(b)(31).

(b) Dissemination Requirements

(1) *Price*. The Exchange will, at all times that it is open for trading, collect, process and make available to quotation vendors the best bid and best

offer for each option series that is a reported security. The Exchange may collect, process and make available to quotation vendors a best bid and best offer determined by an automated quotation system.

(2) *Size.* The Exchange will for each listed option, establish by rule and periodically publish the quotation size for which the Responsible Broker or Dealer is obligated to execute an order to buy or sell an option series that is a reported security at its published bid or offer as set forth in subsection (c) below.

(3) The Exchange's obligation to collect, process and make available data as set forth above will not include:

(A) collecting, processing or making available any such bid or offer that is executed immediately after being made in the trading crowd and any such bid or offer that is cancelled or withdrawn if not executed immediately after being made; or

(B) data communicated during any period when trading in such reported security: (i) has been suspended or halted; (ii) prior to the commencement of trading in such reported security on any trading day; or (iii) during a trading rotation.

(c) Obligations of Responsible Brokers or Dealers

(1) *Customer Orders.* Except as provided in subsection (d), below, each Responsible Broker or Dealer is obligated to be firm for all incoming orders in a listed option series in an amount up to the full disseminated.

(A) *Dissemination of the Size of Orders in the Limit Order Book.* If one or more orders in the limit order book represent the best bid or offer on the Exchange, then the Exchange will disseminate via OPRA the aggregate size of such order or orders as the firm quote size for which the Responsible Broker or Dealer will be firm. In such circumstances:

(i) If one or more additional limit orders at the same price to buy or sell the same series of option contracts are entered into the limit order book for representation on the Exchange, then the firm quote size then being disseminated in that series will be automatically increased to reflect the adjusted size of such orders in the limit order book at that price; and

(ii) If the number of contacts in the limit order book at the same price to buy or sell the same series of option contracts has been reduced because of an execution or cancellation of one or

more orders in the limit order book, then the firm quote size then being disseminated in that series will be automatically decreased to reflect the adjusted size of such orders in the limit order book at that price.

(2) *Broker-Dealer Orders*. Except as provided in subsection (d), below each Responsible Broker or Dealer is obligated to be firm for all incoming orders in a listed option for the account of a broker or dealer in an amount up to the disseminated size.

(3) Each Responsible Broker or Dealer, within thirty seconds of receiving an order to buy or sell a listed option in an amount greater than the quotation size required pursuant to subsections (c)(1) or (c)(2), above, must either:

(A) execute the entire order; or

(B) execute the portion of the order that is equal to the size required pursuant to this subsection (c) and revise its bid or offer.

(d) Exception for Unusual Market Conditions

(1) If the Exchange determines, in accordance with the procedures set forth below, that the level of trading activity or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing and making available to quotation vendors quotation data in a manner that accurately reflects the current state of the market at the Exchange, the Exchange will immediately notify the persons specified in SEC Rule 11Ac1-1(b)(3) and, upon such notification, the obligation imposed upon Exchange [members] OTP Holders and OTP Firms under SEC Rule 11Ac1-1(c)(2) and the Exchange under subsection (b), above, will be suspended, until the Exchange determines that the unusual market activity or condition has terminated and the specified persons have been notified that the unusual market activity or condition has terminated.

(A) If a Responsible Broker or Dealer is unable to update its quotations on a timely basis due to the high level of trading activity or the existence of unusual market conditions, the Responsible Broker or Dealer will promptly notify a [Floor] Trading Official.

(B) Upon notification by a Responsible Broker or Dealer, the [Floor] Trading Official will promptly verify the existence of the unusual market activity or condition and if, in the [Floor] Trading Official's judgment, the Responsible Broker or Dealer is unable to update its quotations on a timely basis, the [Floor] Trading Official will promptly notify the Exchange. If a [Floor] Trading Official, independent of

notification by a responsible broker or dealer, becomes aware of any unusual market activity or condition that adversely affects a Responsible Broker or Dealer's ability to promptly communicate quotation data, the [Floor] Trading Official will likewise promptly advise the Exchange.

(C) If the Exchange is unable to accurately collect, process, or disseminate quotation data owing to a high level of trading activity or the existence of unusual market conditions, the Exchange, after consultation with a [Floor] Trading Official, will make a determination that this is the case.

(D) The Exchange, after receiving notification from a [Floor] Trading Official pursuant to either subsection (A) or (B), above, will notify the persons specified in SEC Rule 11Ac1-1(b)(3) regarding the Exchange's inability to accurately collect, process, and make available the quotation data required by SEC Rule 11Ac1-1. The Exchange will append to each quotation made available to a quotation vendor an identifier that will indicate that the obligation that is imposed upon Exchange [members] OTP Holders and OTP Firms and the Exchange by SEC Rule 11Ac1-1 has been suspended.

(E) The [Floor] Trading Official or Exchange staff (as the case may be) will monitor the unusual market activity or condition until it has terminated. Thereupon, the Exchange will immediately notify the persons specified in SEC Rule 11Ac1-1(b)(3) that the Exchange is once again capable of disseminating the quotation data required by SEC Rule 11Ac1-1 and Responsible Brokers or Dealers will be once again obligated under SEC Rule 11Ac1-1.

Commentary:

.01 As of April 1, 2001, the compliance date for the application of SEC Rule 11Ac1-1 to the trading of options, the Exchange will collect, process and disseminate the best bid and best offer in each option series, and establish by rule and periodically publish the quotation size for which the responsible broker or dealer is obligated to execute an order to buy or sell an option in that series.

.02 No Lead Market Maker or Market Maker will be deemed to be a Responsible Broker or Dealer with respect to a published bid or offer that is erroneous as a result of an error or omission made by the Exchange or any quotation vendor. If a published bid or offer is accurate but the published quotation size associated with it is erroneous as a result of an error or omission made by the Exchange or any quotation vendor, then the Lead Market Maker or Market Maker who is responsible for the published bid or published offer will be obligated to the extent set forth in SEC Rule 11Ac1-1(c), but only to the extent of one unit of trading in the option series in question.

Adopted: June 1, 2001 (01-18).

Automatic Execution System

RULE 6.87(a) *Definitions.* For purposes of Rule 6:

(1) The term "Auto-Ex" means the automated execution system feature of POETS that is owned and operated by the Exchange and that provides automated order execution and reporting services for options.

(2) The term "User" means any person or firm that obtains electronic access to Auto-Ex through an Order Entry Firm.

(3) The term "Order Entry Firm" means an [member organization] OTP Holder or OTP Firm of the Exchange that is registered as an Order Entry Firm for purposes of sending orders to the Exchange for execution by Auto-Ex.

(b) *Eligible Orders.* The Exchange will designate options issues that are eligible for execution on the Auto-Ex system pursuant to this Rule. Option issues that are not eligible for execution pursuant to Rule 6.87 will be eligible for execution pursuant to Rule 6.90. The following types of orders are eligible for execution on the Auto-Ex system:

(1) Only non-broker/dealer customer orders are eligible for execution on the Exchange's Auto-Ex System, except that two [Floor] Trading Officials or the Exchange may determine, on an issue-by-issue basis, to allow the following types of orders to be executed on Auto-Ex:

(A) Broker-dealer orders; or

(B) Broker-dealer orders that are not for the accounts of Market Makers or Specialists on an exchange who are exempt from the provisions of Regulation T of the Federal Reserve Board pursuant to Section 7(c)(2) of the Securities Exchange Act of 1934.

Broker-dealer orders entered through the Exchange's Member Firm Interface (MFI) will not be automatically executed against orders in the limit order book. Broker-dealer orders may interact with orders in the limit order book only after being re-routed to a floor broker for representation in the trading crowd. Broker-dealer orders are not eligible to be placed in the limit order book pursuant to Rule 6.52.

(2) Notwithstanding subsection (1), above, broker-dealer orders for the lesser of five contracts or the Exchange's disseminated size are eligible for

automatic execution on the Exchange's Auto-Ex System in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month.

(3) If two [Floor] Trading Officials or the Exchange permit broker-dealer orders to be automatically executed in an issue pursuant to this Rule, then they may also permit the following with respect to such orders:

(A) The maximum order size eligibility for the broker-dealer orders may be less than the applicable order size eligibility for non-broker-dealer customer orders.

(B) Non-broker-dealer customer orders may be eligible for automatic execution at the NBBO pursuant to Rule 6.87(i) while broker-dealer orders are not so eligible.

(C) Broker-dealer orders may be re-routed for manual representation when the NBBO is crossed or locked pursuant to Rule 6.87(j) while non-broker-dealer customer orders would not be re-routed for manual handling in such circumstances.

(4) PCX Market Makers must assure that orders for their own accounts are not entered on the PCX and represented or executed in violation of the following provisions: Rule 6.84(h) (concurrent representation of a joint account), Rule 6.85(a) (concurrent representation of a market maker account), and Section 9 of the Securities Exchange Act of 1934 (wash sales).

(5) For purposes of this Rule, the term "broker/dealer" includes foreign broker/dealers.

(6) The [Options Floor Trading Committee ("OFTC")] Exchange or its delegate consisting of two [Floor] Trading Officials or the Exchange shall determine the size of orders that are eligible to be executed on Auto-Ex. Although the order size parameter may be changed on an issue-by-issue basis by the OFTC or its delegate, two [Floor] Trading Officials or the Exchange, the maximum order size for execution through Auto-Ex is as follows:

(A) *Equity Options*: the maximum order size for execution through Auto-Ex for equity options is 100 contracts;

(B) *Index Options*: the maximum order size for execution through Auto-Ex is 100 contracts.

(7) The OFTC or its delegate consisting of two [Floor] Trading Officials or the Exchange may increase the size of Auto-Ex eligible orders in one or more classes of multiply traded equity options to the extent that other options exchanges permit such larger-size orders in multiply traded equity options of the same class or classes to be entered into their own automated execution systems. If the OFTC or its delegate, two [Floor] Trading Officials or the Exchange intend to increase the Auto-Ex order size eligibility pursuant to this subsection, the Exchange will notify the Securities and Exchange Commission pursuant to Section 19(b)(3)(A) of the Exchange Act.

(c) *Order Entry Firm Registration*. Participation in Auto-Ex as an Order Entry Firm requires registration with the Exchange. Continued registration depends upon the Order Entry Firm's initial and continuing compliance with the following requirements:

(1) execution of an Auto-Ex Order Entry Firm Application Agreement with the Exchange;

(2) compliance with all applicable PCX options trading rules and procedures;

(3) written notice must be provided to all Users regarding the proper use of Auto-Ex; and

(4) maintenance of adequate procedures and controls that will permit the Order Entry Firm to effectively monitor and supervise the entry of electronic orders by all Users. Order Entry Firms must monitor and supervise the entry of orders by Users to prevent the prohibited practices set forth in subsection (d).

(d) *Prohibited Practices*. Prohibited practices include, but are not limited to, the following:

(1) Entering an order for an account that is ineligible for execution on Auto-Ex pursuant to subsection (b), above.

(2) Dividing an order involving a single investment decision into multiple smaller lots for the purpose of meeting the order size requirements for Auto-Ex eligibility.

(A) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered *within* any 15-second period for the

account of the same beneficial owner will be presumed to be based on a single investment decision.

(B) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered *outside* of any 15-second period for the account of the same beneficial owner will be deemed to be separate investment decisions; provided, however, that no Order Entry Firm may divide up or permit an existing order to be divided up to make its parts eligible for entry into Auto-Ex.

(3) Entering orders via POETS to perform a market making function as provided in Rule 6.88(c).

(4) Effecting transactions that constitute manipulation as provided in PCX Rule 4.6(a) and SEC Rule 10b-5.

(e) *Market Maker Requirements and Eligibility.* Any Exchange [Member] OTP Holder or OTP Firm who is registered as a Market Maker and who has obtained written authorization from a clearing member is eligible to participate on the Auto-Ex system, subject to the following conditions and requirements:

(1) A Market Maker is only eligible for Auto-Ex at one trading post that is within that Market Maker's primary appointment zone. However, participants in a joint account may log onto Auto-Ex in a trading crowd outside of their primary appointment zones, but only if they are substituting for another participant in the same joint account and they have obtained the approval of two [Floor] Trading Officials or the Exchange. Market Makers who have not been assigned a primary appointment zone may not participate on the Auto-Ex system. All Auto-Ex transactions made on behalf of a Market Maker will count toward that Market Maker's in-person requirement. If an option issue is included in a Market Maker's primary appointment zone, then Auto-Ex transactions in that issue that are made on behalf of that Market Maker will count towards that Market Maker's primary appointment zone requirement.

(2) All Auto-Ex trades to which a Market Maker is a party will be assigned to and clear into that Market Maker's designated account. Market Makers may designate that their Auto-Ex trades be assigned to and clear into either an individual account or a joint account in which that Market Maker is a participant. Unless exempted by two [Floor] Trading Officials or the Exchange, only one participant in a joint account may use the account for trading in a particular option issue at one time.

(3) Unless exempted by two [Floor] Trading Officials or the Exchange, Market Makers may log onto Auto-Ex only in person and may continue on the

system only so long as they are present in that trading crowd. Accordingly, absent an exemption from the foregoing limitation. Market Makers may not remain on Auto-Ex, and must log off Auto-Ex, when they have left the trading crowd, unless the departure is for a brief interval. (Under normal circumstances, a brief interval is deemed to be 15 minutes.) A Market Maker who fails to comply with the foregoing log-off requirement will be subject to the following fines pursuant to Rules 10.13 and 10.14:

Number of Failures in a

Twelve-Month Period Amount of Fine Per Violation

1-2	\$100
3-5	\$250
6+	\$500

Market Makers who have logged onto Auto-Ex but who have left the trading crowd or the Floor will be responsible for trades executed through the system during their absence. The Exchange may log a Market Maker off the system if that Market Maker has left the trading crowd or the Floor for longer than a brief interval.

(4) Reserved.

(5) Market Makers may not log off the Auto-Ex wheel during the first ten minutes of a "fast market" declared pursuant to Rule 6.28 in an issue traded on that wheel, in the absence of an exemption from two [Floor] Trading Officials or the Exchange.

(6) If there is inadequate Auto-Ex participation in a particular option issue, two [Floor] Trading Officials or the Exchange may require Market Makers who are [members] participants of the trading crowd to log onto Auto-Ex while present in the crowd, absent reasonable justification or excuse for non-participation. A Market Maker is considered to be a [member] participant of a trading crowd if that Market Maker is present in the trading crowd and either (a) holds an appointment in the option issues at the trading post where such crowd is located or (b) regularly effects market maker transactions in person at that trading post.

(7) A Market Maker who fails to abide by the foregoing requirements may be subject to disciplinary action and may also be subject to remedial action by the [Options Floor Trading Committee] Exchange, including but not limited to suspension of the Market Maker's eligibility to participate on Auto-Ex.
Rule 6.87(a) – (d)– No change.

(8) *Auto-Ex Tick Better Requirement in Certain Issues.*

(A) Except as provided in subsection (B), below, Lead Market Makers who are participating on Auto-Ex must assure that Exchange staff (i.e., the Order Book Official or Control Room staff) has set the Auto-Ex System either:

(i) to execute incoming electronic orders at prices that are one trading increment better than the Exchange's disseminated bid or offering price when another options exchange is disseminating the national best bid or offer at a price that is one trading increment better than the price being disseminated by the Exchange. The order will default for manual representation in the trading crowd when another options exchange is disseminating a price that is more than one trading increment better than the price being disseminated by the Exchange, or

(ii) to execute incoming electronic orders at the NBBO pursuant to Rule 6.87(i).

(B) *Applicability.* The requirements of subsection (A), above, will apply only to non-broker-dealer orders for ten contracts or less in option issues that are ranked in the 120 most actively traded equity options based on the total number of contracts traded nationally for a specified month based on volume as reported by the Options Clearing Corporation. For each current month, the Exchange's determination of whether an equity option ranks in the top 120 most active issues will be based on volume statistics for the three calendar months of trading activity beginning four months prior to the current month. In addition, the requirements of Subsection (A), above, will only apply to orders in option series that are not designated as LEAPS pursuant to Rule 6.4(e)

(f) Market Makers who receive an execution through Auto-Ex may not re-direct the option contracts from that trade to another Market Maker without first giving the other [Members] OTP Holders or OTP Firms in the trading crowd an opportunity to participate.

(g) *Price Adjustments.* Trade Nullification and Price Adjustment Procedures

(1) Mutual Agreement: The determination as to whether an Auto-Ex trade was executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree. In the absence of mutual agreement by the parties, a particular trade may only be nullified or adjusted when the transaction results from an Obvious Error as provided in this Rule.

(2) Obvious Error Subject to Trade Nullification or Price Adjustment: Absent mutual agreement as provided in Rule 6.87(g)(1), parties to a trade may have a trade nullified or its price adjusted if: (i) any such party makes a documented request within the time specified in Rule 6.87(g)(3); and (ii) one of the conditions below is met:

A. The trade resulted from a verifiable disruption or malfunction of an Exchange execution, dissemination, or communication system that caused a quote/order to trade in excess of its disseminated size (e.g. a quote/order that is frozen, because of an Exchange system error, and repeatedly traded) in which case trades in excess of the disseminated size may be nullified; or

B. The trade resulted from a verifiable disruption or malfunction of an Exchange dissemination or communication system that prevented a member from updating or canceling a quote/order for which the OTP Holder [member] is responsible where there is Exchange documentation providing that the OTP Holder [member] sought to update or cancel the quote/order; or

C. The trade resulted from an erroneous print disseminated by the underlying market which is later cancelled or corrected by the underlying market where such erroneous print resulted in a trade higher or lower than the average trade in the underlying security during the time period encompassing two minutes before and after the erroneous print, by an amount at least five times greater than the average quote width for such underlying security during the time period encompassing two minutes before and after the erroneous print. For purposes of this Rule, the average trade in the underlying security shall be determined by adding the prices of each trade during the four minute time period referenced above (excluding the trade in question) and dividing by the number of trades during such time period (excluding the trade in question); or

D. The trade resulted from an erroneous quote in the Primary Market (as defined in Rule 6.1(b)(27)) for the underlying security that has a width of at least \$1.00 and that width is at least five times greater than

the average quote width for such underlying security during the time period encompassing two minutes before and after the dissemination of such quote. For the purposes of this rule, the average quote width shall be determined by adding the quote widths of each separate quote during the four minute time period referenced above (excluding the quote in question) and dividing by the number of quotes during such time period (excluding the quote in question); or

E. The execution price of the trade is higher or lower than the mid-point of the Best Bid and Offer (among all of the exchanges other than the PCX) by an amount equal to at least the bid/ask spread provided in Rule 6.37(b)(1). The bid/ask spread set forth in Rule 6.37(b)(1) will also apply to LEAPS and options subject to unusual market conditions. In the event the bid/ask spread in the underlying is greater than the bid/ask spread set forth in Rule 6.37(b)(1), the Exchange will apply the bid/ask spread differential set forth in Rule 6.37 (b)(3).

F. The trade resulted in an execution price in a series quoted no bid and at least one strike price below (for calls) or above (for puts) in the same class were quoted no bid at the time of the erroneous execution.

G. The trade is automatically executed at a price where the OTP Holder [Market Maker] sells \$0.10 or more below parity. Parity describes an option contract's total premium when that premium is equal to its intrinsic value. Parity for calls is measured by reference to the offer price of the underlying security in the Primary Market at the time of the transaction minus the strike price for the call. Parity for puts is measured by reference to the strike price for the put minus the bid price of the underlying security in the Primary Market at the time of the transaction.

(3) Obvious Error Procedure. Two Trading [Floor] Officials will administer the application of this Rule as follows:

A. Notification. If an OTP Holder [Member on the Exchange] believes that it participated in a transaction that was the result of an Obvious Error, it must notify two Trading [Floor] Officials within five (5) minutes of the execution. If an Order Entry Firm representing a public customer believes an order it executed on the Exchange was the result of an Obvious Error, it must notify the Exchange within twenty (20) minutes of the execution. Absent unusual circumstances, two Trading [Floor] Officials will not grant relief under this Rule unless notification is made within the prescribed time periods.

B. Adjust or Nullify. Two Trading [Floor] Officials will determine whether the execution is subject to a trade nullification or price

adjustment. If two [Floor Officials] determine that one of the conditions of Rule 6.87(g)(2) has been met and that the complaining party has timely documented a request for relief, then a trade will be adjusted or nullified as follows:

(1) Where each party to the transaction is a Market Maker on the Exchange, or the trade involves a limit order that may be adjusted to its limit, the Exchange will adjust the execution price of the transaction within ten (10) minutes of two Trading [Floor] Officials making such determination. In such case, the adjusted price will be the last bid (offer) price, just prior to the trade, from the exchange providing the highest total contract volume in the option for the previous sixty (60) days with respect to an erroneous bid (offer) entered on the Exchange. If there is no quote for comparison purposes, then the adjusted price of an option will be determined by two Trading [Floor] Officials; or

(2) Where at least one party to the transaction is not a Market Maker on the Exchange or where the trade does not involve a limit order that may be adjusted to its limit, the Exchange will nullify the transaction within ten (10) minutes of two Trading [Floor] Officials making such determination.

(3) Upon taking final action, the two Trading [Floor] Officials will promptly notify both parties to the trade.

Commentary:

.01 In no case will the two Trading [Floor] Officials involved in an obvious error determination include a person related to a party to the trade in question.

.02 All determinations made by the two Trading [Floor] Officials under subsection (g)(2) will be rendered without prejudice as to the rights of the parties to the transaction to submit a dispute to arbitration.

.03 Nothing in this rule prevents a potentially aggrieved party from appealing the decision of two Trading [Floor] Officials pursuant to Rule 11 of the Exchange rules.

(h) *Suspension and Unusual Use of Auto-Ex.*

(1) *Floor-Wide POETS System Malfunction.* If there is a POETS system or vendor quote feed malfunction that affects the Exchange's ability to disseminate

or update market quotes, the senior person then in charge of the Exchange's Control Room will halt Auto-Ex floor-wide once two [Floor] Trading Officials or the Exchange declares a floor-wide "fast market." Once the floor-wide system malfunction has been corrected and the market quotes have been updated, either the senior person then in charge of the Control Room or two [Floor] Trading Officials may re-start Auto-Ex.

(2) *Non-Floor-Wide POETS System Malfunction.* If POETS is inoperable and Market Makers are physically unable to update their quotations in an issue or issues at the same trading post or trading quad, two [Floor] Trading Officials or the Exchange may declare a "fast market" and direct the OBO to turn off the Auto-Ex system in the affected issue or issues. Once the system malfunction has been corrected, two [Floor] Trading Officials or the Exchange may re-start Auto-ex. If a POETS malfunction occurs but the Exchange is able to process and disseminate quotes accurately, two [Floor] Trading Officials or the Exchange may decrease the guaranteed Auto-Ex size in one or more option issues pursuant to the procedures set forth in subsection (h)(3)(B).

(3) *Other Unusual Conditions.* If there are other unusual market conditions not involving a POETS System malfunction, two [Floor] Trading Officials or the Exchange may suspend Auto-Ex In accordance with Rule 6.28(b).

(A) *Unusual Market Conditions.* The unusual market conditions that may permit increasing or decreasing the size of orders that may be automatically executed over the Auto-Ex or suspending Auto-Ex pursuant to subsections (B) and (C) are caused by news announcements (e.g. announcements relating to earnings speculation, economic news, reports of mergers or takeovers, disasters, etc.). Unusual market conditions that would permit unusual use of Auto-Ex under this Rule include:

(i) *High Volatility.* High volatility occurs generally when a stock or the entire market is experiencing rapid and extreme price fluctuations usually accompanied by doublewide spreads.

(ii) *Large Influx of Orders.* A large influx of orders occurs when volume is two or more times the average daily volume in an issue. It may also occur when an extraordinarily large options order is executed on the PCX and reported.

(iii) *Unreliable Quote Feed.* The underlying quote feed is unreliable when the Exchange is unable to accurately collect, process and/or disseminate quotation data.

(B) *Suspension of Auto-Ex.* If there are other unusual market conditions not involving a POETS System malfunction, two [Floor] Trading Officials or the Exchange may suspend Auto-Ex for a period of time not to exceed five minutes if, because of unusual market conditions or circumstances, the [Floor] Trading Officials or the Exchange determines that such action is appropriate in maintaining a fair and orderly market. Whenever such action is taken, [Floor] Trading Officials or senior Exchange Staff must immediately notify a Floor Governor. Thereafter, the suspension of Auto-Ex may be ended, or may be continued for more than five minutes, based on a determination of two [Floor] Trading Officials and one Floor Governor (or a senior operations officer if no Floor Governor is available), with a 2/3 majority prevailing.

(C) *Unusual use of Auto Ex.* Two [Floor] Trading Officials or the Exchange may increase the size of orders that may be automatically executed over the Auto-Ex system up to 100 contracts or decrease the size of orders eligible for automatic execution in one or more option issues when they believe that unusual market conditions exist, provided that the decision is made for no more than one trading day. To the extent the conditions exist on the following trading day, two [Floor] Trading Officials or the Exchange must review the situation again and make an independent decision of whether to increase or decrease the Auto-Ex eligible order size for that subsequent day. Any decisions made by two [Floor] Trading Officials or the Exchange to increase or decrease the Auto-Ex eligible order size for a particular option issue for two or more consecutive days will be reviewed by the [Options Floor Trading Committee] Exchange at its next regularly scheduled meeting. Whenever two [Floor] Trading Officials or the Exchange decreases the size of orders eligible for automatic execution, the lowest number of contracts that may be established is five.

(D) Any suspension or unusual use of Auto-Ex must be documented pursuant to Rule 6.87(n).

(4) *Declaring Away Markets Unreliable.* When [a Floor Official] the Exchange determines that quotes from one or more particular markets in one or more options series are not reliable, the [Floor Official] Exchange may direct the senior person in charge of the Exchange's control room to exclude the unreliable quotes from the Auto-Ex determination of the NBBO in the particular options series.

(A) *Determining Unreliability.* [A Floor Official] The Exchange may determine that quotes in one or more particular options classes in a market are not reliable only under the following circumstances:

(i) A market's quotes in a particular options class are not firm based upon direct communication to the Exchange from the market or the dissemination through OPRA of a message indicating that disseminated quotes are not firm; or

(ii) A market has directly communicated to the Exchange or otherwise confirmed that the market is experiencing systems or other problems affecting the reliability of its disseminated quotes.

(B) *Procedures to Follow.* If one of the factors set forth in subsection (4)(A) occurs, then the following procedures must be followed.

(i) First, an LMM contacts an Order Book Official (“OBO”) and requests that the away market be declared unreliable.

(ii) Second, the OBO contacts the control room and requests that the control room confirm with the away market that it is unreliable pursuant to subsection (4)(A).

(iii) Third, if the control room has confirmed that an away market is unreliable, then the OBO will contact [a Floor Official] the Exchange and request a declaration that the away market is unreliable.

(iv) Fourth, the [Floor Official] Exchange reviews and verifies the circumstances and determines whether away market should be declared unreliable. The OBO notifies the control room that the away market is unreliable and should be removed from the NBBO calculation.

(v) Fifth, the Floor Surveillance Unit (“FSU”) contacts the away exchange, and notifies the away market that one or more of its quotes have been removed from the NBBO calculation.

(vi) Sixth, the [Floor Official] Exchange will continue to monitor the away market that has been declared unreliable and notify the control room to return to firm mode when appropriate.

(C) *Documentation Required.* The following documentation is required when an away market is declared unreliable.

(i) The OBO must log the issues(s) and time of the LMM’s request for a declaration that the away market was unreliable.

(ii) The OBO must prepare an Unusual Activity Report (“UAR”) documenting the facts giving rise to the LMM’s request, the date, time, and duration of the exclusion and the reasons for placing the away market back into the NBBO calculation.

(iii) The [Floor] Exchange Official must sign the UAR.

(iv) The control room will maintain a log of the time the away market was taken out of the NBBO calculation and the time that the away market was placed back into the NBBO calculation.

(D) *Duration of the Declaration.* Any determination to exclude a market or any of its quotes from the Auto-Ex determination of the NBBO pursuant to subsections (4)(A)(i) or (ii) will expire at the end of the trading day, or at the time that the quotes are confirmed by the market to be reliable again, whichever occurs first. Exclusion of a market or its quotes from the Auto-Ex determination of the NBBO will be reported to Exchange member firms.

(i) *Auto-Ex NBBO.* The [Options Floor Trading Committee ("OFTC")] Exchange or [or its delegate,] two [Floor] Trading Officials may approve an LMM's request to designate electronic orders in an option issue to receive automatic executions at prices reflecting the national best bid or offer ("NBBO"), provided that the [OFTC or its delegate,] two [Floor] Trading Officials or the Exchange may also designate, for an option issue, that an order will default for manual representation in the trading crowd if the order would be executed at a price that is more than one trading increment away from the PCX market price. LMMs may determine the maximum size of orders that are eligible to receive executions at the national bid or offering price, provided that this determination is subject to the approval of [the OFTC or its delegate,] two [Floor] Trading Officials or the Exchange.

(j) *Crossed or locked Markets.* Except as provided herein, two Trading [Floor] Officials may approve an LMM's request to designate, for an option issue, that an order will default for manual representation in the trading crowd if the NBBO is crossed or locked. Notwithstanding the forgoing, Linkage Orders subject to PCX Rule 6.93(e) will not default for manual representation if the NBBO is locked.

(k) *Allocation of Auto-Ex Trades to Individual Market Makers.* The [OFTC] Exchange will determine the manner in which orders entered through the Auto-Ex system will be assigned to individual Market Makers for execution, on an issue-by-issue basis, as follows:

Auto-Ex Incentive Program

(1) Auto-Ex orders are assigned to Market Makers who are logged-on Auto-Ex according to the percentage of their in-person agency contracts traded in that issue (excluding Auto-Ex contracts traded) compared to all of the Market Maker in-person agency contracts traded (excluding Auto-Ex contracts) during the review period. The review period will be determined by the [Options Floor Trading Committee ("OFTC")] Exchange and may be for any period of time not in excess of two weeks. The percentage distribution determined for a review period will be effective for the succeeding review period.

(A) *Participation Percentage Calculation.* Each Auto-Ex order in an issue will be allocated to Market Makers on Auto-Ex on a rotating basis. On each rotation (subject to the exceptions described below) each participating Market Maker logged onto Auto-Ex will be assigned the number of Auto-Ex contracts that reflects the percentage of agency contracts that the Market Maker traded in-person in that issue during the review period. A participation percentage will be calculated for each Market Maker for each issue that the Market Maker trades. For this purpose, all transactions on behalf of the same LMM will be aggregated into a single percentage for the LMM.

(B) *Assignment of Contracts.* Once a Market Maker has logged onto Auto-Ex, the Market Maker will be assigned contracts during the Auto-Ex rotation until that Market Maker's participation percentage has been met. This may mean that multiple orders (or an order and a part of the succeeding order) will be assigned to the same Market Maker during the rotation.

(C) *Joint Accounts.* A joint account participant may substitute on the Auto-Ex wheel for another participant who is registered to trade the same joint account and may receive the same participation percentage that has been established for the participant for which the replacement is substituting, provided that the following conditions are met:

(i) the substitute must notify the OBO of the substitution;

(ii) the substitute must log on to the same option issues that the original trader was logged-on to; and

(iii) the agency trades of the substitute will count toward the calculation of the participation percentage of the original participant for the subsequent review period.

(D) *Minimum Participation.* The Exchange will determine the number of contracts that make up one percent of the rotation. Market Makers logged onto Auto-Ex in an issue, regardless of their participation percentage, will be entitled to at least one percent of the rotation on every rotation.

(E) *Rotation.* Generally, one rotation consists of the number of contracts replicating the cumulative percentage of all Market Makers logged onto Auto-Ex who have a participation percentage plus one percentage for each Market Maker that does not have a specific participation percentage.

(F) *Maximum assignment.* The maximum number of contracts that a Market Maker may be consecutively assigned at any one time during a rotation will be variable and may be different for different issues or the same for all issues. Because the maximum number of contracts permitted may be smaller than the number of contracts to which a particular Market Maker is entitled during one rotation, that Market Maker will receive more than one turn during one rotation.

(I) *Auto-Ex Book Function.*

(1) The Auto-Ex Book function of POETS will permit orders in the Limit Order Book to be executed via the Auto-Ex system when those orders become marketable, subject to the following procedures:

(A) When one or more orders in the Limit Order Book become marketable, as indicated by a locked or crossed market being displayed on the trading floor, the LMM may direct the OBO to initiate the Auto-Ex Book function, which will cause marketable orders in the Limit Order Book to be automatically executed against the accounts of market makers who are participating on the Auto-Ex system at the time.

(2) The Auto-Ex Book function is subject to a pilot program, which is set to expire on June 30, 2004.

(m) *Auto-Ex-Between-the Quotes.* Lead Market Makers may, at their discretion, employ the Auto-Ex-Between-the-Quotes feature of POETS. This feature will permit the automatic execution of limit orders entered into POETS that are: (i) to buy or sell five option contracts or less; and (ii) have limit prices that are between, but not equal to, the best bid or offering price then being disseminated on the PCX. Lead Market Makers must provide the members of the trading crowd with at least five minutes notice before activating this feature. If the feature is on, Market Makers are exempt from the mandatory log-on requirements of Rule 6.87(e)(4). This feature does not allow the execution of orders at prices that trade-through other markets.

(n) *Documentation of Auto-Ex Use.* The Exchange will document any action taken to suspend Auto-Ex, increase or decrease the size of Auto-Ex eligible orders or to operate Auto-Ex in a manner other than the usual manner with an Unusual Activity Report (UAR). The UAR will be signed by two [Floor] Trading Officials or the Exchange and will state the system problem or market activity that led to the [Floor Officials'] ruling. The UAR information will be recorded in the Floor Surveillance log, which will document the option issues affected by the action, the time the action was taken, the Exchange officials who undertook the action, and the reasons why the action was taken.

(o) - Reserved

(p) *Auto-Ex Split-Price Executions*. When the best bid or offer on the Exchange's book constitutes the best bid or offer on the Exchange, contra-side incoming Auto-Ex orders will be executed as follows:

(1) When the best bid or offer on the Exchange's book constitutes the best bid or offer on the Exchange and is for a size less than the Auto-Ex guaranteed size for the issue, that best bid or offer will be denoted in the Exchange's disseminated quote by a "Book Indicator". An incoming Auto-Ex order will be executed against the order in the book. In the event the order in the book is for a smaller number of contracts than the Auto-Ex order, the balance of the Auto-Ex order up to the firm quote size for the issue will be assigned to Market-Makers on the Auto-Ex wheel at the same price at which the initial portion of the order was executed. Any remaining balance thereafter will be:

(A) Assigned to Market Makers on the Auto-Ex wheel at the Auto-Quote price if Auto-Quote constitutes the new prevailing market bid or offer that is equal to or better than the NBBO; or

(B) Executed against any order in the book that constitutes the new prevailing market bid or offer with the balance of the Auto-Ex order being assigned to Market Makers on the Auto-Ex wheel at that price up to the firm quote size. Any additional remaining balance of an Auto-Ex order shall be handled in accordance with (A) or (B) of this paragraph.

(2) Notwithstanding paragraph (1) above, if the bid or offer generated by the Exchange's Auto-Quote system (or any Exchange approved proprietary quote generation system used in lieu of the Exchange's Auto-Quote system) crosses or locks the Exchange's best bid or offer established by an order in the Exchange's customer limit order book, or is outside the NBBO, then Auto-Ex orders for options of that series will not be automatically executed but instead will be rerouted to Floor Broker Hand-Held Terminals or to another location in the event of system problems or contrary firm routing instructions. These rerouted orders will be executed in accordance with Rule 6.86.

Commentary:

.01 For purposes of this rule, the firm quote size is the minimum quotation size established by Rule 6.86.

.02 - .07 – Reserved.

.08 *Pilot Program*. The Auto-Ex Incentive program set forth in Rule 6.87(k)(1) is subject to a pilot program, which is set to expire on June 30, 2004.

Amended: January 26, 1999; September 1, 1999; November 3, 2000 (00-32); August 14, 2000 (00-20); January 11, 2001 (00-18); February 15, 2001 (00-05); April 24, 2001 (00-48); June 22, 2001 (00-03); September 25, 2001 (01-05); October 15, 2001 (01-35); November 6, 2001 (00-05); Amended March 25, 2002 (01-48); Amended June 25, 2002 (02-34); Amended December 18, 2002 (02-78).

Pacific Options Exchange Trading System

RULE 6.88.(a) POETS is the Exchange's automated trading system comprised of the options order routing system, the automatic execution system (Auto-Ex), the on-line limit order book system (Auto-Book), and the automatic market quote update system (Auto-Quote). Orders may be sent to POETS via the Exchange's Member Firm Interface (MFI).

(b) Except as provided in subsection (b)(1), [Member Firms] OTP Holders and OTP Firms may not enter orders via the MFI or permit the entry of orders via the MFI if those orders are created and communicated electronically without manual input ("computer generated orders"). Except as provided in subsection (b)(1), order entry by public customers or associated persons of [Member Firms] OTP Holders and OTP Firms must involve manual input such as entering the terms of an order into an order-entry screen or manually selecting a displayed order so that the order will be sent. Nothing in this Rule prohibits [Member Firms] OTP Holders or OTP Firms from electronically sending to the Exchange orders manually entered by customers into front-end communications systems (e.g., Internet gateways, online networks, etc).

(1) Computer generated orders may be sent to the Exchange via the MFI only if they are properly designated in a form and manner as prescribed by the Exchange. Orders so designated will be re-routed for representation by a Floor Broker. Computer generated orders are not eligible for automatic execution via the Auto-Ex System.

(c) Entering orders via POETS to perform a market making function is prohibited. No [member] OTP Holder or OTP Firm or person associated with an [member] OTP Holder or OTP Firm may use POETS on a regular and continuous basis to simultaneously execute orders to buy and sell series for the account of the same beneficial holder. In making the determination of whether an [member] OTP Holder or OTP Firm or person associated with an [member] OTP Holder or OTP Firm is using the POETS system to perform a market making function, the Exchange will consider the following factors: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same option; and the entry of multiple limit orders at different prices in the same option series.

Amended: February 15, 2001 (00-05); September 22, 2000 (00-13); February 1, 2002 (02-02)

Floor Broker Hand-Held Terminals

RULE 6.89. (a) Exchange-Sponsored Hand-Held Terminals for Floor Brokers.

(1) [Members and Member Organizations] OTP Holders and OTP Firms may send orders electronically through the Exchange's Member Firm Interface and route them directly to POETS, to an OTP Holder or OTP Firm's [Member Firm] booth on the Options Floor, to a Floor Broker Hand-Held Terminal located on the Options Floor, or to any other location designated by the Exchange, provided that the [Member or Member Organization] OTP Holder or OTP Firm has been approved by the Exchange to do so.

(2) *Market Making Function Prohibited.* No Floor Broker may knowingly use a Floor Broker Hand-Held Terminal, on a regular and continuous basis, to simultaneously represent orders to buy and sell option contracts in the same series for the account of the same beneficial holder. If the Exchange determines that a person or entity has been sending, on a regular and continuous basis, orders to simultaneously buy and sell option contracts in the same series for the account of the same beneficial holder, the Exchange may prohibit orders for the account of such person or entity from being sent through the Exchange's Member Firm Interface for such period of time as the Exchange deems appropriate.

(b) Proprietary Brokerage Order Routing Terminals.

(1) [Members and Member Organizations ("Members")] OTP Holders and OTP Firms must obtain prior Exchange approval to use any brokerage order routing terminals ("Terminals") on the Options Floor of the Exchange. To request such approval, [Members] OTP Holders and OTP Firms must submit a letter of application to the Exchange specifying the make, model number, functions and intended use of the equipment, and must also provide additional information upon the request of the Exchange. The format of any orders to be transmitted over the Terminals must also be pre-approved by the Exchange.

(2) In considering the approval of an application, as well as whether a previously issued approval should be withdrawn, the Exchange will take into account such factor as the physical size of the Terminal; space available at the post where the Terminal is to be used; telecommunication, electrical and radio frequency requirements; Terminal characteristics and capacity; and any factors that the Exchange considers relevant in the interest of maintaining fair and orderly markets, the orderly and efficient conduct of Exchange business, the maintenance and enhancement of competition, the ability of the Exchange to conduct surveillance of the use of the Terminal and the business transmitted through it, the adequacy of applicable audit trails, and the ability of the Terminal to interface with other Exchange facilities.

(3) [Members] OTP Holders or OTP Firms must report to the Exchange every proposed material change in functionality of a Terminal and every proposed change in the use of a Terminal. [Members] OTP Holders and OTP Firms must not implement any such proposed changes unless and until they have been approved by the Exchange. [Members] OTP Holders and OTP Firms must also promptly file with the Exchange supplements to their applications whenever the information currently on file becomes inaccurate or incomplete for any reason.

(4) The following restrictions apply to [Members'] OTP Holders and OTP Firms' use of Terminals on the Options Floor:

(A) [Members] OTP Holders and OTP Firms may receive brokerage orders in the trading crowd via Terminals, but must represent such orders in the trading crowd by open outcry in a manner that is consistent with Exchange rules.

(B) When an [Member] OTP Holder or OTP Firm executes an order that was received over a Terminal, the [Member] OTP Holders or OTP Firms must fill out and time stamp a trading ticket within one minute of the execution. Exchange rules on record keeping and trade reporting are unchanged.

(C) Terminals may be used to receive brokerage orders only. Terminals may not be used to perform a market making function. No [Member] OTP Holder or OTP Firm may knowingly use a Terminal on a regular and continuous basis to simultaneously represent orders to buy and sell option contracts in the same series for the account of the same beneficial holder. If the Exchange determines that a person or entity has been sending, on a regular and continuous basis, orders to simultaneously buy and sell option contracts in the same series for the account of the same beneficial holder, the Exchange may prohibit orders for the account of such person or entity from being sent through the Exchange's Member Firm Interface for such period of time as the Exchange deems appropriate. Any system used by an [Member] OTP Holder or OTP Firm to operate a Terminal must be separate and distinct from any system that may be used by an [Member] OTP Holder or OTP Firm or any person associated with an [Member] OTP Holder or OTP Firm in connection with market making functions.

(D) No [Member] OTP Holder or OTP Firm or any person associated with an [Member] OTP Holder or OTP Firm may use for the benefit of such [Member] OTP Holder or OTP Firm or any person associated with such [Member] OTP Holder or OTP Firm any information contained in any brokerage order in the Terminal system until that information has been disclosed to the trading crowd. Such use includes, without limitation, placing an order or making or changing a bid or offer on the Exchange or in any other securities or futures market.

(5) The operation and use of all aspects of the Terminal and all orders entered through the Terminal are subject to inspection and audit by the Exchange at any time upon reasonable notice. [Members] OTP Holders and OTP Firms must furnish to the Exchange such information concerning the Terminal as the Exchange may from time to time request upon reasonable notice, including without limitation an audit trail identifying transmission, receipt, entry, execution and reporting of all orders. For the purpose of this paragraph, a notice of at least twenty-four hours shall be deemed to be reasonable (however, shorter periods may be provided in appropriate circumstances).

(6) Neither the Exchange nor its directors, officers, employees or agents will be liable to an [Member] OTP Holder or OTP Firm, [a Member's] their employees, [a Member's] customers or any other person for any loss, damage, cost, expense or liability arising from the installation, operation, relocation, use of, or inability to use a Terminal on the floor of the Exchange (including any failure, malfunction, delay, suspension, interruption or termination in connection therewith).

(7) The Exchange may at any time determine to terminate all approvals for the installation and use by [Members] OTP Holders or OTP Firms of Terminals on the floor of the Exchange or at particular trading posts, in which event such approvals will be deemed terminated on the 30th calendar day following the day on which the Exchange gives notice to such [Member(s)] OTP Holders or OTP Firms of such termination of approval. Any Exchange decision to terminate its approval of the installation or use of Terminals on the Floor will be based on the factors set forth in subsection (2), above, and on whether the installation or use of Terminals violates any provisions set forth in this Rule. [Members] OTP Holders or OTP Firms who incur costs in developing or implementing proprietary systems do so at their own risk. An [Member's] OTP Holder or OTP Firm's approval to use a Terminal may also be summarily terminated by the Exchange, once notice has been provided to the affected [Member] OTP Holder or OTP Firm, if any statement by such [Member] OTP Holder or OTP Firm in its application or any supplement thereto is inaccurate or incomplete, or if such [Member] OTP Holder or OTP Firm has failed to comply with any provision of this Policy, or if the operation of the Terminal is causing operational difficulties on the floor of the Exchange, and the [Member] OTP Holder or OTP Firm has failed to cure the same within seven calendar days following the giving of notice (or such shorter period of time as the Exchange may deem appropriate if it determines the circumstances have created a situation requiring a shortened cure period). [Members] OTP Holders or OTP Firms must immediately stop using their Terminals and must remove such Terminals from the floor of the Exchange upon the termination of approval pursuant to this paragraph. Nothing in this paragraph will be construed as a waiver of or limitation upon whatever right an [Member] OTP Holder or OTP Firm may otherwise have to seek appropriate relief pursuant

to PSE Rule 11 in the event the Exchange terminates approval of an [Member's] OTP Holder or OTP Firm's Terminal pursuant to this paragraph.

Amended: May 7, 1998.

PCX Plus

RULE 6.90. (a) Generally, PCX Plus is the Exchange's electronic order delivery, execution and reporting system for designated option issues through which orders and Quotes with Size of members are consolidated for execution and/or display. This trading system includes the electronic communications network that enables registered Market Makers to enter orders/Quotes with Size and execute transactions from remote locations or the Trading Floor.

(b) System Phase-In and Applicability of Rules. The PCX estimates that the rules applicable to PCX Plus will be implemented gradually on an issue-by-issue basis beginning December 15, 2003, and will become completely operative and applicable to all options issues by June 30, 2004. At that time, the rules relating to PCX Plus will supercede existing rules that are inapplicable to the new trading environment.

(c) Definitions.

(1) The term "User" means any person or broker-dealer that obtains electronic access to PCX Plus through an Order Entry Firm.

(2) The term "Order Entry Firm" means an [member organization] OTP Holder or OTP Firm of the Exchange that is able to route orders to the Exchange.

(d) Obligations of Order Entry Firms. Order Entry Firms must:

(1) comply with all applicable PCX options trading rules and procedures;

(2) provide written notice to all Users regarding the proper use of PCX Plus; and

(3) maintain adequate procedures and controls that will permit the Order Entry Firm to effectively monitor and supervise the entry of electronic orders by all Users. Order Entry Firms must monitor and supervise the entry of orders by Users to prevent the prohibited practices set forth in subsection (e).

(e) Prohibited Practices. Prohibited practices include, but are not limited to, the following:

(1) Dividing an order involving a single investment decision into multiple smaller lots so as not to exceed the Maximum Order Size established pursuant to Rule 6.76.

(A) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered within any 15-second period for the account of the same beneficial owner will be presumed to be based on a single investment decision.

(B) Multiple orders to trade the same option issue that are on the same side of the market (whether short or long) and multiple orders to trade the same option series entered outside of any 15-second period for the account of the same beneficial owner will be deemed to be separate investment decisions; provided, however, that no Order Entry Firm may divide up or permit an existing order to be divided up to make its parts eligible for execution pursuant to Rule 6.76(b).

(2) Entering orders via PCX Plus to perform a market making function. No [member] OTP Holder or OTP Firm or person associated with an [member] OTP Holder or OTP Firm may use PCX Plus on a regular and continuous basis to simultaneously execute orders to buy and sell series for the account of the same beneficial holder. In making the determination of whether an [member] OTP Holder or OTP Firm or person associated with an [member] OTP Holder or OTP Firm is using PCX Plus to perform a market making function, the Exchange will consider the following factors: the simultaneous or near-simultaneous entry of limit orders to buy and sell the same option; and the entry of multiple limit orders at different prices in the same option series.

(3) Effecting transactions that constitute manipulation as provided in PCX Rule 4.6(a) and SEC Rule 10b-5.

(f) – Reserved.

(g) Suspension of the PCX Plus System.

(1) System Disruption and Malfunctions. In the event of any disruption or a malfunction in the use or operation of PCX Plus with respect to an option issue or issues, two [Floor] Trading Officials or the Exchange may disengage the PCX Plus system for that option issue or issues. If a PCX Plus system disruption or malfunction occurs but the Exchange is able to process and disseminate quotes accurately, then any orders received by the Exchange will be routed to Floor Broker Hand Held Terminals for representation in the trading crowd pursuant to Rule 6.76(d). Regular trading procedures will be resumed by the Exchange when two [Floor] Trading Officials or the Exchange determine that the disruption or malfunction is corrected.

(h) Crossed or Locked Markets. The OFTC may designate, for an option issue, that an order will default for manual representation in the trading crowd if the NBBO is crossed or locked.

Interim Intermarket Linkage Program

RULE 6.91 *Pilot Program for Away Market Maker Access.*

(a) *Definitions.* Solely for the purpose of this Rule:

(1) “*Corresponding Rule*” means a rule of a Participating Exchange that is substantially identical to this Rule 6.91.

(2) “*Customer Size*” means the lesser of (i) the number of option contracts that the Participating Exchange sending the order guarantees it will automatically execute at its disseminated quotation in an Eligible Option Class for Public Customer Orders and (ii) the number of option contracts that the Participating Exchange receiving the order guarantees it will automatically execute at its disseminated quotation in an Eligible Option Class for Public Customer Orders. This number will be no fewer than 10.

(3) “*Eligible Away Market Maker*” (“EAMM”) means, with respect to an Eligible Option Class, a market maker, as that term is defined in Section 3(a)(22) of the Exchange Act, on a Participating Exchange that:

(i) is assigned to, and is providing two-sided quotations in the Eligible Option Class; and

(ii) that is participating in its market’s automatic execution system in such Eligible Option Class.

(4) “*Eligible Away Principal Market Maker*” (“EAPMM”) means: with respect to the American Stock Exchange and the Philadelphia Stock Exchange, a Specialist in an Eligible Option Class; with respect to the Chicago Board Options Exchange, a Designated Primary Market Maker in an Eligible Option Class; and with respect to the International Securities Exchange, a Primary Market Maker in an Eligible Option Class.

(5) “*Eligible Option Class*” means all option series overlying a security, including both put and call options, which class is traded by the Exchange and at least one other Participating Exchange, to the extent that such Participating Exchanges have mutually agreed to include the option class in the Pilot Program.

(6) “*Eligible Order*” means an order for the account of a Lead Market Maker, an EAMM or an EAPMM that can be sent to a Participating Exchange

marked as a Public Customer Order pursuant to subsections (b), (c) and (d) of this Rule.

(7) “*Participating Exchange*” means (i) the Exchange and (ii) one or more of the American Stock Exchange, the Chicago Board Options Exchange, the International Securities Exchange, and the Philadelphia Stock Exchange, as the Chairman of the Exchange, or his designee, has designated from time to time as having adopted a Corresponding Rule.

(8) “*Pilot Program*” means the program established by this Rule and the Corresponding Rules of the other Participating Exchanges.

(9) “*Principal Size*” means the number of option contracts that two or more Participating Exchanges mutually agree that they will automatically execute during the Pilot Program at their disseminated quotation for orders sent for the principal account of a market maker, an EAMM or an EAPMM that does not correspond to an Underlying Customer Order. This number will be no fewer than 10.

(10) “*Underlying Customer Order*” means an unexecuted Public Customer Order for which a Lead Market Maker or EAPMM is acting as agent and which underlies an Eligible Order.

(b) *Access to Other Participating Exchanges by Market Makers.* Pursuant to the Pilot Program, a market maker participating in the program may send an order to another Participating Exchange for execution as a Public Customer Order only if the market maker complies with the following conditions:

- (1) the order is an immediate-or-cancel order;
- (2) the price of the order is equal to the bid (offer) disseminated by the Participating Exchange at the time the market maker sends an order to sell (buy), and such bid (offer) is equal to the national highest bid (offer) in that series of an Eligible Option Class, as calculated by the Exchange;
- (3) the Exchange’s bid (offer) at the time the market maker sends the order to sell (buy) is not then equal to the national highest bid (offer) in that series of an Eligible Option Class, as calculated by the Exchange;
- (4) the order is no larger than the Principal Size; and
- (5) except with respect to orders a Lead Market Maker is sending pursuant to paragraph (c), below, the market maker has not received an execution of another such order in the same series of an Eligible Option Class on the same

Participating Exchange pursuant to the Pilot Program in the previous one minute period.

(c) *Additional Access to Other Participating Exchanges by Lead Market Makers.* In addition to the access to other Participating Exchanges provided in paragraph (b), above, a Lead Market Maker participating in the Pilot Program may send an order to another Participating Exchange for execution as a Public Customer if:

(1) the Lead Market Maker complies with subparagraphs (1) through (3) of paragraph (b), above;

(2) the order reflects the same terms as an Underlying Customer Order the Lead Market Maker is holding; and

(3) the order is no larger than the Customer Size.

(d) *Access to the Exchange by Eligible Market Makers on Other Participating Exchanges.* Notwithstanding any other Rule of the Exchange, an [Member] OTP Holder or OTP Firm may send to the Exchange for execution as a Public Customer Order an order for the account of an EAMM or an EAPMM that complies with the Corresponding Rule of the EAMM's or EAPMM's Participating Exchange.

(e) *Implementation of the Pilot Program.* The Chairman, or his designee, may implement the Pilot Program, in whole or in part, with respect to specific Participating Exchanges, to the extent that any such Participating Exchange has agreed to implement corresponding aspects of the Pilot Program. Lead Market Maker participation in the Pilot Program will be voluntary.

INTERMARKET LINKAGE

Definitions

Rule 6.92(a). The following terms have the meaning specified in this Rule solely for the purposes of Rules 6.92 – 6.95.

(1) "Aggrieved Party" means a Member of a Participant Exchange whose bid or offer was traded-through.

(2) "Block Trade" means a trade on a Participant Exchange that:

(i) involves 500 or more contracts and has a premium value of at least \$150,000;

(ii) is effected at a price outside of the NBBO; and

(iii) involves either:

(A) a cross (where a Member of the Participant Exchange represents all or a portion of both sides of the trade), or

(B) any other transaction (i.e., in which such Member represents an order of block size on one side of the transaction only) that is not the result of an execution at the current bid or offer on the Participant Exchange.

Contemporaneous transactions at the same price on a Participant Exchange will be considered a single transaction for the purpose of this definition.

(3) "Broker/Dealer" means an individual or organization registered with the United States Securities and Exchange Commission in accordance with Section 15(b)(1) of the Exchange Act or a foreign broker or dealer exempt from such registration pursuant to Rule 15a-6 under the Exchange Act.

(4) "Complex Trade" means the execution of an order in an option series in conjunction with the execution of one or more related orders in different option series in the same underlying security occurring at or near the same time for the equivalent number of contracts and for the purpose of executing a particular investment strategy.

(5) "Crossed Market" means a quotation in which the Exchange disseminates a bid (or offer) in a series of an Eligible Option Class at a price that is greater than (or less than) the price of the offer (or bid) for the series then being displayed by another Participant Exchange.

(6) "Customer" means an individual or organization that is not a Broker/Dealer. Used with reference to a Linkage Order, it means an order which, if executed, would result in the purchase or sale for an account in which no Broker/Dealer has an interest.

(7) "Eligible Market Maker," with respect to an Eligible Option Class, means a market maker that:

(i) is assigned to, and is providing two-sided quotations in, the Eligible Option Class;

(ii) is logged on to participate in Auto-Ex or PCX Plus in such Eligible Option Class; and

(iii) is in compliance with the requirements of Rule 6.95 (relating to limitation on principal order access).

(8) "Eligible Option Class" means all option series overlying a security (as that term is defined in Section 3(a)(10) of the Exchange Act) or group of securities, including both put options and call options, which class is traded on the Exchange and at least one other Participant Exchange.

(9) "Firm Customer Quote Size" with respect to a P/A Order means the lesser of (a) the number of option contracts that the Participant Exchange sending a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Customer orders entered directly for execution in that market; or (b) the number of option contracts that the Participant Exchange receiving a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Customer orders entered directly for execution in that market. This number will be at least 10.

(10) "Firm Principal Quote Size" means the number of option contracts that a Participant Exchange guarantees it will execute at its disseminated quotation for incoming Principal Orders in an Eligible Option Class. This number will be at least 10.

(11) "Linkage" means the systems and data communications network that link electronically the Participant Exchanges for the purposes specified in the Plan.

(12) "Linkage Order" means an order routed through the Linkage as permitted under the Plan. There are three types of Linkage Orders:

(i) "Principal Acting as Agent ("P/A") Order," which is an order for the principal account of a Lead Market Maker (or equivalent entity on another Participant Exchange that is authorized to represent Customer orders), reflecting the terms of a related unexecuted Customer order for which the Lead Market Maker is acting as agent;

(ii) "Principal Order," which is an order for the principal account of an Eligible Market Maker (or equivalent entity on another Participant Exchange) and is not a P/A Order; and

(iii) "Satisfaction Order," which is an order sent through the Linkage to notify a Participant Exchange of a Trade-Through and to seek satisfaction of the liability arising from that Trade-Through.

(13) "Locked Market" means a quotation in which the Exchange disseminates a bid (or offer) in a series of an Eligible Option Class at a price that equals the price of the offer (or bid) for the series then being displayed from another Participant Exchange.

(13A) "Member" has the meaning as set forth in Section (3)(a)(3)(A) of the Exchange Act.

(14) "NBBO" means the national best bid and offer in an option series as calculated by a Participant Exchange.

(15) "Non-Firm" means, with respect to quotations, that Members of a Participant Exchange are relieved of their obligation to be firm for their quotations pursuant to Rule 11Ac1-1 under the Exchange Act.

(16) "Participant Exchange" means a registered national securities exchange that is a party to the Plan.

(17) "Plan" means the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage, as such plan may be amended from time to time.

(18) "Reference Price" means the limit price attached to a Linkage Order by the sending Participant Exchange. Except with respect to a Satisfaction Order, the Reference Price is equal to the bid disseminated by the receiving Participant Exchange at the time that the Linkage Order is transmitted in the case of a Linkage Order to sell and the offer disseminated by the receiving Participant Exchange at the time that the Linkage Order is transmitted in the case of a Linkage Order to buy. With respect to a Satisfaction Order, the Reference Price is the bid or offering price disseminated by the sending Participant Exchange that was traded-through, except in the case of a Trade-Through that is a Block Trade, in which case the Reference Price will be the price of the Block Trade that caused the Trade-Through.

(19) "Trade-Through" means a transaction in an option series at a price that is inferior to the NBBO.

(20) "Third Participating Market Center Trade-Through" means a Trade-Through in a series of an Eligible Option Class that is effected by executing a Linkage Order, and such execution results in a sale (or purchase) at a price that is inferior to the best bid (or offer) being disseminated by another Participant Exchange.

(21) "Verifiable Number of Customer Contracts" means the number of Customer contracts in the book of a Participant Exchange.

Operation of the Linkage

Rule 6.93 By subscribing to the Plan, the Exchange has agreed to comply with, and enforce compliance by its Members with, the Plan. In this regard, the following will apply:

(a) *Pricing.* Members may send P/A Orders and Principal Orders through the Linkage only if such orders are priced at the NBBO.

(b) *P/A Orders.*

(1) *Sending of P/A Orders for Sizes No Larger than the Firm Customer Quote Size.* A Lead Market Maker may send through the Linkage a P/A Order for execution in the automatic execution system of a Participant Exchange if the size of such P/A Order is no larger than the Firm Customer Quote Size. Except as provided in subparagraph (b)(2)(ii) below, an LMM may not break up an order of a Customer that is larger than the Firm Customer Quote Size into multiple P/A Orders, one or more of which is equal to or smaller than the Firm Customer Quote Size, so that such orders could be represented as multiple P/A Orders through the Linkage.

(2) *Sending of P/A Orders for Sizes Larger than the Firm Customer Quote Size.* If the size of a P/A Order is larger than the Firm Customer Quote Size, a Lead Market Maker may send through the Linkage such P/A Order in one of two ways:

(i) The Lead Market Maker may send a P/A Order representing the entire Customer Order. If the receiving Participant Exchange's disseminated quotation is equal to or better than the Reference Price when the P/A Order arrives at that market, that exchange will execute the P/A Order at its disseminated quotation for at least the Firm Customer Quote Size. Within 15 seconds of receipt of such order, the receiving Participant

Exchange will inform the Lead Market Maker of the amount of the order executed and the amount, if any, that was canceled.

(ii) Alternatively, the Lead Market Maker may send an initial P/A Order for the Firm Customer Quote Size pursuant to subparagraph (b)(1) above. If the Participant Exchange executes the P/A Order and continues to disseminate the same quotation at the NBBO 15 seconds after reporting the execution of the initial P/A Order, the Lead Market Maker may send an additional P/A Order to the same Participant Exchange. If sent, such additional P/A Order must be for at least the lesser of 100 contracts or the entire remainder of the Customer order.

In any situation where a receiving Participant Exchange does not execute a P/A Order in full, such exchange will be required to move its quotation to a price inferior to the Reference Price of the P/A Order.

(c) *Principal Orders.*

(1) *Sending of an Initial Principal Order.* An Eligible Market Maker may send a Principal Order through the Linkage at a price equal to the NBBO. If the Principal Order is not larger than the Firm Principal Quote Size, the receiving Participant Exchange will execute the order in its automatic execution system, if available, if its disseminated quotation is equal to or better than the price specified in the Principal Order when that order arrives at the receiving Participant Exchange. If the Principal Order is larger than the Firm Principal Quote Size, the receiving Participant Exchange will (a) execute the Principal Order at its disseminated quotation for at least the Firm Principal Quote Size and (b) within 15 seconds of receipt of such order, reply to the sending Participant Exchange, informing such Participant Exchange of the amount of the order that was executed and the amount, if any, that was canceled. If the receiving Participant Exchange does not execute the Principal Order in full, it will move its quote to a price inferior to the Reference Price of the Principal Order.

(2) *Receipt of Multiple Principal Orders* Once the Exchange provides an automatic execution of a Principal Order in a series of an Eligible Option Class (the “initial execution”), the Exchange may reject any Principal Order(s) in the same Eligible Option Class sent by the same Participant Exchange for 15 seconds after the initial execution unless: (a) there is a change of price in the Exchange’s disseminated offer (bid) in the series of the Eligible Option Class in which there was the initial execution; and (b) such price continues to be the NBBO. After this 15 second period, and until the sooner of (y) one minute after the initial execution or (z) a change in the Exchange’s disseminated bid (offer), the Exchange is not obligated to provide an automatic execution for any Principal Orders in the same Eligible Option Class received from the Participant Exchange that sent the order resulting in the initial execution, and thus may treat any such Principal Orders as being greater than the Firm Principal Quote Size.

(d) *Responses to Linkage Orders.*

(1) *Failure to Receive a Timely Response.* A Member who does not receive a response to a P Order or a P/A Order within 20 seconds of sending the order may reject any response received thereafter purporting to report an

execution of all or part of that order. The Member so rejecting the response will inform the Exchange Participant sending that response of the rejection within 15 seconds of receipt of the response.

(2) *Failure to Send a Timely Response.* If a Member responds to a P Order or P/A Order more than 20 seconds after receipt of that order, and the Participant Exchange to whom the Member responded cancels such response, the Member will cancel any trade resulting from such order and will report the cancellation to OPRA.

(e) *Receipt of Linkage Orders.* The Exchange will provide for the execution of P/A Orders and Principal Orders if its disseminated quotation is (i) equal to or better than the Reference Price, and (ii) equal to the then-current NBBO. Subject to paragraph (c), above, if the size of a P/A Order or Principal Order is not larger than the Firm Customer Quote Size or Firm Principal Quote size, respectively, the Exchange will provide for the execution of the entire order, and will execute such order in its automatic execution system if that system is available. If the size of a P/A Order or Principal Order is larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, the Lead Market Maker must address the order within 15 seconds to provide an execution for at least the Firm Customer Quote Size or Firm Principal Quote Size, respectively. If the order is not executed in full, the Exchange will move its disseminated quotation to a price inferior to the Reference Price.

Order Protection

Rule 6.94 (a) *Avoidance and Satisfaction of Trade-Throughs.*

(1) *General Provisions.* Absent reasonable justification and during normal market conditions, Members should not effect Trade-Throughs. Except as provided in paragraph (b) below, if a Member effects a Trade-Through with respect to the bid or offer of a Participant Exchange in an Eligible Option Class and the Exchange receives a Satisfaction Order from an Aggrieved Party, either:

(i) the Member who initiated the Trade-Through must satisfy, or cause to be satisfied, the Aggrieved Party by filling the Satisfaction Order in accordance with subsection (a)(2) below; or

(ii) if the Member elects not to do so (and, in the case of Third Participating Market Center Trade-Through, the Member obtains the agreement of the contra party that received the Linkage Order that caused the Trade-Through), then the price of the transaction that constituted the Trade-Through will be corrected to a price at which a Trade-Through would not have occurred. If the price of the transaction is corrected, the Member correcting the price must report the corrected price to OPRA, notify the aggrieved party of the correction and cancel the Satisfaction Order.

(2) *Price and Size.* The price and size at which the Satisfaction Order will be filled are as follows:

(i) *Price.* A Satisfaction Order will be filled at the Reference Price. However, if the Reference Price is the price of an apparent Block Trade that caused the Trade-Through, and such trade was not, in fact, a Block Trade, then the Member may cancel the Satisfaction Order. In that case, the Member will inform the Aggrieved Party within three minutes of receipt of the Satisfaction Order of the reason for the cancellation. Within three minutes of receipt of such cancellation, the Aggrieved Party may resend the Satisfaction Order with a Reference Price of the bid or offer that was traded-through.

(ii) *Size.* An Aggrieved Party may send a Satisfaction Order up to the size of the Verifiable Number of Customer Contracts that were included in the disseminated bid or offer that was traded through. Subject to subparagraph (2)(i) above and paragraph (b) below, a Member will fill in full all Satisfaction Orders it receives following a Trade-Through, subject to the following limitations:

(A) If the number of contracts to be satisfied exceeds the size of the transaction that caused the Trade-Through, the size of the Satisfaction Order(s) that must be filled with respect to each Participant Exchange(s) will be limited to the size of the transaction that caused the Trade-Through, and the remainder of any Satisfaction Order(s) will be canceled;

(B) If the transaction that caused the Trade-Through was for a size larger than the Firm Customer Quote Size with respect to any of the Participant Exchange(s) traded through, the total number of contracts to be filled, with respect to all Satisfaction Orders received, will not exceed the size of the transaction that caused the Trade-Through. In that case, the Member will fill the Satisfaction Orders pro rata based on the Verifiable Number of Customer Contracts traded through on each Participant Exchange, and will cancel the remainder of such Satisfaction Order(s); and

(C) Notwithstanding paragraphs (A) and (B) above, if the transaction that caused the Trade-Through occurred during the five minutes prior to the regularly-scheduled close of trading in the principal market in which the underlying security is traded, the maximum number of contracts to be satisfied with respect to any one Participant Exchange is 10 contracts.

(3) *Rejection of Fills of Satisfaction Orders.* Within 30 seconds of receipt of notification that another Participant Exchange has filled a Member's Satisfaction Order, the Member that sent the Satisfaction Order may reject such fill, but only to the extent that either: (i) the order(s) for the customer contracts underlying the Satisfaction Order already have been filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order were canceled.

(4) *Protection of Customers.* Whenever subsection (a)(1) applies, if Customer orders (or P/A Orders representing Customer orders) constituted

either or both sides of the transaction involved in the Trade-Through, each such Customer order (or P/A Order) will receive:

- (i) the price that caused the Trade-Through; or
- (ii) the price at which the bid or offer traded through was satisfied, if it was satisfied pursuant to subsection (a)(1)(i), or the adjusted price, if there was an adjustment, pursuant to subsection (a)(1)(ii),

whichever price is most beneficial to the Customer order. Resulting differences in prices will be the responsibility of the Member who initiated the Trade-Through.

(b) *Exceptions to Trade-Through Liability.* The provisions of subsection (a) pertaining to the satisfaction of Trade-Throughs will not apply under the following circumstances:

(1) the Member who initiated the Trade-Through made every reasonable effort to avoid the Trade-Through, but was unable to do so because of a systems/equipment failure or malfunction;

(2) the Member traded through the market of a Participant Exchange to which such Member had sent a P/A Order or Principal Order, and within 20 seconds of sending such order the receiving Participant Exchange had neither executed the order in full nor adjusted the quotation traded through to a price inferior to the Reference Price of the P/A Order or Principal Order;

(3) the bid or offer traded through was being disseminated from a Participant Exchange whose quotes were Non-Firm with respect to such Eligible Option Class;

(4) the Trade-Through was other than a Third Participating Market Center Trade-Through and occurred during a period when, with respect to the Eligible Option Class, the Exchange's quotes were Non-Firm; provided, however, that unless one of the other conditions of this subsection (b) applies, during any such period: (i) Members must make every reasonable effort to avoid trading through the firm quotes of another Participant Exchange; and (ii) it will not be considered an exception to paragraph (a) if a Member regularly trades through the firm quotes of another Participant Exchange during such period;

(5) the bid or offer traded through was being disseminated by a Participant Exchange during a trading rotation in the Eligible Option Class;

(6) the transaction that caused the Trade-Through occurred during a trading rotation;

(7) the transaction that caused the Trade-Through was the execution of a Complex Trade;

(8) in the case of a Trade-Through other than a Third Participating Market Center Trade-Through, a Satisfaction Order with respect to the

Trade-Through was not received by the Exchange from the Aggrieved Party promptly following the Trade-Through and, in any event, (i) except in the final five minutes of trading, within three minutes from the time the report of the transaction(s) that constituted the Trade-Through was disseminated over OPRA, and (ii) in the final five minutes of trading, within one minute from the time the report of the transaction(s) that constituted the Trade-Through was disseminated over OPRA; or

(9) in the case of a Third Participating Market Center Trade-Through, a Satisfaction Order with respect to the Trade-Through was not received by the Exchange promptly following the Trade-Through. In applying this provision, the Aggrieved Party must send the Exchange a Satisfaction Order within three minutes from the time the report of the transaction that constituted the Trade-Through was disseminated over OPRA. To avoid liability for the Trade-Through, the Member receiving such Satisfaction Order must cancel the Satisfaction Order and inform the Aggrieved Party of the identity of the Participant Exchange that initiated the Trade-Through within three minutes of the receipt of such Satisfaction Order (within one minute in the final five minutes of trading). The Aggrieved Party then must send the Participant Exchange that initiated the Trade-Through a Satisfaction Order within three minutes of receipt of the cancellation of the initial Satisfaction Order (within one minute in the final five minutes of trading).

(c) Responsibilities and Rights Following Receipt of Satisfaction

Orders.

(1) When a Member receives a Satisfaction Order, that Member must respond as promptly as practicable pursuant to Exchange procedures by either:

(i) specifying that one of the exceptions to Trade-Through liability specified in paragraph (b) above is applicable and identifying that particular exception; or

(ii) taking the appropriate corrective action pursuant to paragraph (a) above.

(2) If the Member who initiated the Trade-Through fails to respond to a Satisfaction Order or otherwise fails to take the corrective action required under paragraph (a) within three minutes of receiving notice of a Satisfaction Order, and the Exchange determines that:

(i) there was a Trade-Through; and

(ii) none of the exceptions to Trade-Through liability specified in subsection (b) above were applicable;

then, subject to the next paragraph, the Member who initiated the Trade-Through will be liable to the Aggrieved Party for the amount of the actual loss resulting from non-compliance with paragraph (a) and caused by the Trade-Through.

If either (a) the Aggrieved Party does not establish the actual loss within 30 seconds from the time the Aggrieved Party received the response to its Satisfaction Order (or, in the event that it did not receive a response, within four minutes from the time the Aggrieved Party sent the Satisfaction Order) or (b) the Aggrieved Party does not notify the Exchange Participant that initiated the Trade-Through of the amount of such loss within one minute of establishing the loss, then the liability will be the lesser of the actual loss or the loss caused by the Trade-Through that the Aggrieved Party would have suffered had that party purchased or sold the option series subject to the Trade-Through at the "mitigation price."

The "mitigation price" is the highest reported bid (in the case where an offer was traded through) or the lowest reported offer (in the case where a bid was traded through), in the series in question 30 seconds from the time the Aggrieved Party received the response to its Satisfaction Order (or, in the event that it did not receive a response, four minutes from the time the Aggrieved Party sent the Satisfaction Order). If the Participant Exchange receives a Satisfaction Order within the final four minutes of trading (on any day except the last day of trading prior to the expiration of the series which is the subject of the Trade-Through), then the mitigation price will be the price established at the opening of trading in that series on the Aggrieved Party's Participant Exchange on the next trading day. However, if the price of the opening transaction is below the opening bid or above the opening offer as established during the opening rotation, then the mitigation price will be the opening bid (in the case where an offer was traded through) or opening offer (in the case where a bid was traded through). If the Trade-Through involves a series that expires on the day following the day of the Trade-Through and the Satisfaction Order is received within the four minutes of trading, the "mitigation price" will be the final bid (in the case where an offer was traded through) or offer (in the case where a bid was traded through) on the day of the trade that resulted in the Trade-Through.

(3) A Member that is an Aggrieved Party under the rules of another Participant Exchange governing Trade-Through liability must take steps to establish and mitigate any loss such Member might incur as a result of the Trade-Through of the Member's bid or offer. In addition, the Member must give prompt notice to the other Participant Exchange of any such action in accordance with subsection (c)(2) above.

(d) *Limitations on Trade-Throughs.* Members may not repeatedly trade through better prices available on other exchanges, whether or not the exchange

or exchanges whose quotations are traded through are Participant Exchanges, unless one or more of the provisions of paragraph (b) above are applicable. In applying this provision:

(1) The Exchange will consider there to have been a Trade-Through if a Member executes a trade at a price inferior to the NBBO even if the Exchange does not receive a Satisfaction Order from an Aggrieved Party pursuant to subparagraph (a)(1);

(2) The Exchange will not consider there to have been a Trade-Through if a Member executes a Block Trade at a price inferior to the NBBO if such Member satisfied all Aggrieved Parties pursuant to subsection (a)(2) following the execution of the Block Trade; and

(3) The Exchange will not consider there to have been a Trade-Through if a Member executes a trade at a price inferior to the quotation being disseminated by an exchange that is not a Participant Exchange if the Member made a good faith effort to trade against the superior quotation of the non-Participant Exchange prior to trading through that quotation. A “good faith effort” to reach a non-Participant Exchange’s quotation requires that a Member at least had sent an order that day to the non-Participant Exchange in the class of options in which there is a Trade-Through, at a time at which such non-Participant Exchange was not relieved of its obligation to be firm for its quotations pursuant to Rule 11Ac1-1 under the Exchange Act, and that the non-Participant Exchange neither executed that order nor moved its quotation to a price inferior to the price of the Member’s order within 20 seconds of receipt of that order.

Locked and Crossed Markets

Rule 6.95 (a) *Eligible Market Maker Locking or Crossing a Market.* An Eligible Market Maker that creates a Locked Market or a Crossed Market will unlock (uncross) that market or will direct a Principal Order through the Linkage to trade against the bid or offer that the Eligible Market Maker locked (crossed).

(b) *Members Other than an Eligible Market Maker Locking or Crossing a Market.* A Member other than an Eligible Market Maker that creates a Locked Market or a Crossed Market will unlock (uncross) the market.

Limitation on Principal Order Access

Rule 6.96 A Market Maker will not be permitted to send Principal Orders in an Eligible Option Class through the Linkage for a given calendar quarter if the Market Maker effected less than 80 percent of its volume in that Eligible Option Class on the Exchange in the previous calendar quarter (that is, the Market Maker effected 20 percent or more of its volume by sending Principal Orders through the Linkage). This “80/20” is represented as follows:

X

X+Y

"X" equals the total contract volume the Market Maker effects in an Eligible Option Class against orders of Customers on the Exchange during a calendar quarter (a) including contract volume effected by executing P/A Orders sent to the Exchange through the linkage, but (b) excluding contract volume effected by sending P/A Orders through the Linkage for execution on another Participant Exchange. "Y" equals the total contract volume the Market Maker effects in such Eligible Option Class by sending Principal Orders through the Linkage during that calendar quarter.

Amended: February 20, 2001 (01-10); January 31, 2002 (02-06); January 31, 2003 (02-64)

ALLOCATION OF OPTION ISSUES

Evaluation of Options Trading Crowd Performance

RULE 6.100. (a) The [Options Allocation Committee ("Committee")] Exchange shall periodically evaluate the options trading crowds and Lead Market Makers ("LMMs") to determine whether each has fulfilled performance standards relating to, among other things: 1) quality of markets, 2) competition among market makers, 3) observance of ethical standards, and 4) administrative factors. The [Committee] Exchange may consider any relevant information, including but not limited to the results of a trading crowd and LMM evaluation questionnaire ("Questionnaire"), trading data (including contract volume as related to characteristics of the underlying stock), reports filed with the Exchange, the regulatory history of the LMM or members in the crowd, and such other factors and data as may be pertinent. A finding by the [Committee] Exchange that a crowd or LMM has failed to meet minimum performance standards may result in one or more of the following actions: 1) moratorium on the allocation of new option issues, and 2) reallocation of existing options.

(b) The [Committee] Exchange shall presume that a trading crowd has failed to meet minimum performance standards if it is rated in the bottom 10% of all trading crowds in the aggregate results of overall evaluation scores from a periodic Questionnaire. The [Committee] Exchange shall also presume that an LMM has failed to meet minimum performance standards if it is rated in the bottom 10% of all LMMs in the aggregate results of overall evaluation scores from a periodic Questionnaire.

The [Committee] Exchange may also presume a failure to meet minimum standards by considering in conjunction with the Questionnaire, reports filed with the Exchange, the regulatory history of the members in the crowd and such other pertinent factors and data.

(c) The Questionnaire will be distributed on a six-month periodic basis. The Questionnaire will be approved by the [Committee] Exchange as to the questions and weighting of answers. The persons surveyed will also be approved by the [Committee] Exchange. The persons surveyed shall answer the questions by the date specified to the best of their ability and knowledge.

(d) The [Committee] Exchange or a designated panel of the [Committee] Exchange may elect to have an informal meeting with an LMM or a trading crowd or its representative chosen by the trading crowd to discuss the presumptive failure to meet minimum performance standards and to explore possible remedies. The [Committee] Exchange will provide notice of the meeting to all members of the crowd or to the LMM, as applicable. No verbatim record of proceedings shall be kept. Formal rules of evidence shall not apply. Prior to the close of the meeting, the [Committee] Exchange will inform the LMM or the crowd of possible consequences if the unsatisfactory performance continues. However, the [Committee] Exchange may not take the remedial actions set forth in subpart (a) of this Advice except in accordance with subpart (e) or (h) of this Advice.

(e) The [Committee] Exchange may elect to hold a hearing with an LMM or a trading crowd that has presumptively failed to meet minimum performance standards. In such an event, the LMM or crowd will be so notified in writing ("Notice of Hearing") with a statement of the reasons for and the potential consequences of the presumption, and afforded an opportunity to make a presentation of relevant information in rebuttal. The LMM, crowd, or crowd's designated representative, may question [members of] the [Committee and] Exchange [staff] with respect to the performance evaluation. A verbatim record of the proceedings shall be kept. [Members] OTP Holders and OTP Firms may be represented by counsel, however, formal rules of evidence shall not apply.

(f) The LMM or trading crowd and the [Committee] Exchange shall have the right to have present at the hearing one or more technical consultants for the purpose of answering questions about trading techniques and procedures, and the proper performance of the various responsibilities of the members in a crowd. Such technical consultants shall not otherwise participate in the [Committee's] Exchange's evaluation of the LMM or trading crowd.

(g) A presumption of failure to meet minimum performance standards by an LMM or trading crowd under subpart (b) of this Advice may form the basis for [Committee] Exchange action against the LMM or any and all members of the trading crowd. Any member or members affected by a decision of the [Committee] Exchange shall be informed in writing of the decision, which decision shall include the findings, conclusions, any remedial action to be taken under this Advice and the basis for such actions (hereinafter "written notification"). The decision shall also include a statement concerning the LMM's or trading crowd's right to appeal the [Committee's] Exchange's decision to the Board of Governors.

(h) If, after receiving the notice of meeting provided for in subpart (d) of this Advice, or the notice of hearing provided in subparagraph (e) of this Advice, the LMM, trading crowd, or the trading crowd's representative, refuses or otherwise fails without reasonable justification or excuse to meet with the [Committee] Exchange, the [Committee] Exchange may take such remedial action specified in subpart (a) of the Advice as it believes appropriate.

(i) If the [Committee] Exchange takes one or more of the actions specified in subpart (a) of this Advice, such action may be reviewed by the Board of Governors, pursuant to Rule 11.7 of the Rules of the Board of Governors, upon submission of a timely application for review. Such application must be submitted to the Exchange within twenty days of receipt of written notification. Unless the Board decides otherwise, the review shall be limited to matters raised at the [Options Allocation Committee] allocations meeting or contained in the written notification. The Board review panel or the Chairman of the Board has the authority to grant or deny a stay of the [Committee's] Exchange's action. Any decision of the [Committee] Exchange under this Advice may also be called for review by the Board on its own initiative.

Commentary:

.01 A market maker shall be considered to be a member of a trading crowd if that market maker holds an appointment in the options issue at the trading station where such crowd is located or if that market maker regularly effects transactions in person for his or her market maker account at that station.

Amended: May 23, 2001 (99-48).