



Angelo Evangelou  
Assistant General Counsel  
Legal Division

Phone: 312-786-7464  
Fax: 312-786-7919  
evangelou@cboe.com

December 4, 2009

**Via Federal Express**

Ms. Elizabeth King  
Associate Director, Division of Trading and Markets  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-0001

**Re: Amendment No. 1 to Form-1 Application**

Dear Ms. King:

Enclosed please find an original and two copies of the first Amendment to the Form-1 application for C2 Options Exchange, Incorporated ("C2"). The Amendment: (i) makes a handful of modifications to the proposed C2 Rules submitted pursuant to Exhibit B of the application (the attached Rules completely replace the Rules originally filed with the application), (ii) clarifies an inconsistency in Section 3.1 of the proposed Bylaws submitted pursuant to Exhibit A of the application (the attached Bylaws completely replace the Bylaws originally filed with the application), (iii) replaces Exhibits C and D to reflect removal of entities that do not qualify as affiliates and to provide more current financial information; and (iv) replaces Exhibit J to reflect more current information. Lastly, as discussed with SEC staff, we provide the following representations in connection with the application:

1. C2 will establish its own Appeals Committee (comprised of C2 participants) for reviewing matters pursuant to proposed Chapter 19 of the C2 Rules.
2. C2 intends to join the industry regulatory multiparty agreements established pursuant to Rule 17d-2 Under the Securities Exchange Act of 1934 that relate to options market surveillance and options market sales practice.
3. Any top-of-book feed (or comparable market data feed) that is made available to C2 members will also be made available to other market participants (however, the Exchange may adopt fees for non-member access to any such C2 data feed).
4. C2 will establish a Chief Regulatory Officer.

Please call me with any questions or comments. My phone number is (312) 786-7464.

Sincerely,

Angelo Evangelou

Enclosures

WARNING: Failure to keep this form current and to file accurate supplementary information on a timely basis, or the failure to keep accurate books and records or otherwise to comply with the provisions of law applying to the conduct of the applicant would violate the federal securities laws and may result in disciplinary, administrative, or criminal action.

INTENTIONAL MISSTATEMENTS OR OMISSIONS OF FACTS MAY CONSTITUTE CRIMINAL VIOLATIONS

APPLICATION  AMENDMENT

1. State the name of the applicant: C2 Options Exchange, Incorporated
  2. Provide the applicant's primary street address (Do not use a P.O. Box):  
400 S. LaSalle Street  
Chicago, IL 60605
  3. Provide the applicant's mailing address (if different):  


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  4. Provide the applicant's business telephone and facsimile number:  
312-786-5600 312-786-7919  
(Telephone) (Facsimile)
  5. Provide the name, title, and telephone number of a contact employee:  
Angelo Evangelou Assistant General Counsel 312-786-7464  
(Name) (Title) (Telephone Number)
  6. Provide the name and address of counsel for the applicant:  
Joanne Moffic-Silver  
400 S. LaSalle Street  
Chicago, IL 60605
  7. Provide the date applicant's fiscal year ends: December 31
  8. Indicate legal status of applicant:  Corporation  Sole Proprietorship  Partnership  
 Limited Liability Company  Other (specify): \_\_\_\_\_
- If other than a sole proprietor, indicate the date and place where applicant obtained its legal status (e.g. state where incorporated, place where partnership agreement was filed or where applicant entity was formed):
- (a) Date (MM/DD/YY): July 21, 2009 (b) State/Country of formation: Delaware/ United States
- (c) Statute under which applicant was organized: General Corporation Law of Delaware

**EXECUTION:** The applicant consents that service of any civil action brought by, or notice of any proceeding before, the Securities and Exchange Commission in connection with the applicant's activities may be given by registered or certified mail or confirmed telegram to the applicant's contact employee at the main address, or mailing address if different, given in Items 2 and 3. The undersigned, being first duly sworn, deposes and says that he/she has executed this form on behalf of, and with the authority of, said applicant. The undersigned and applicant represent that the information and statements contained herein, including exhibits, schedules, or other documents attached hereto, and other information filed herewith, all of which are made a part hereof, are current, true, and complete.

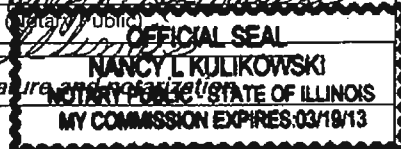
Date: 12/04/2009 C2 Options Exchange, Incorporated  
(MM/DD/YY) (Name of applicant)

By: Edward J. Joyce Edward J. Joyce, President  
(Signature) (Printed Name and Title)

Subscribed and sworn before me this 4<sup>th</sup> day of Dec, 2009 by Nancy L. Kulikowski  
(Month) (Year) (Notary Public)

My Commission expires 03/19/13 County of Cook State of Illinois

*This page must always be completed in full with original, manual signature and notarization.*  
*Affix notary stamp or seal where applicable.*





**FORM OF  
BYLAWS OF  
C2 OPTIONS EXCHANGE, INC.  
ARTICLE I Definitions**

**Section 1.1. Definitions.**

When used in these Bylaws, except as expressly otherwise provided or unless the context otherwise requires:

- (a) The term “Act” means the Securities Exchange Act of 1934, as amended.
- (b) The term “affiliate” of a Person or “affiliated with” another Person shall have the meaning given to such term in the Rules of the Exchange.
- (c) The term “Board” means the Board of Directors of the Corporation.
- (d) The term “Corporation” means C2 Options Exchange, Inc.
- (e) The term “Exchange” means the Corporation, its exchange market and any facilities thereof.
- (f) The term “Trading Permit Holder” means any individual, corporation, partnership, limited liability company or other entity authorized by the Rules that holds a Trading Permit. If a Trading Permit Holder is an individual, the Trading Permit Holder may also be referred to as an “individual Trading Permit Holder.” If a Trading Permit Holder is not an individual, the Trading Permit Holder may also be referred to as a “TPH organization.” A Trading Permit Holder is a “member” solely for purposes of the Act; however, one’s status as a Trading Permit Holder does not confer on that Person any ownership interest in the Exchange.
- (g) The term “Person” shall mean an individual, partnership (general or limited), joint stock company, corporation, limited liability company, trust or unincorporated organization, or any governmental entity or agency or political subdivision thereof;
- (h) The term “Rules” means the rules of the Exchange as adopted or amended from time to time.
- (i) The term “Trading Permit” shall have the meaning given to such term in the Rules of the Exchange.
- (j) The term “associated with an entity” means any partner, officer or director of such entity (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with such entity, or any employee of such entity.

**ARTICLE II Stockholders**

**Section 2.1. Place of Meetings.**

All meetings of stockholders shall be held at such place within or without the State of Delaware as may be designated from time to time by the Board or the Chairman of the Board (or,

if there is no Chairman of the Board, the Chief Executive Officer) or, if not so designated, at the principal place of business of the Corporation in Chicago, Illinois.

### **Section 2.2. Annual Meetings.**

If required by applicable law, an annual meeting of stockholders shall be held on the third Tuesday in May of each year or such other date as may be fixed by the Board, at such time as may be designated by the Secretary prior to the giving of notice of the meeting, for the purpose of electing directors to fill expiring terms and any vacancies in unexpired terms and for the transaction of business as may properly come before the meeting.

### **Section 2.3. Special Meetings.**

Special meetings of stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation of the Corporation, may be called by the Chairman of the Board or the Vice Chairman of the Board or by a majority of the Board.

### **Section 2.4. Notice of Stockholders' Meetings.**

Unless otherwise prescribed by statute or the Certificate of Incorporation, notice of each meeting of stockholders, stating the date, time and place thereof, and, in the case of special meetings, the purpose or purposes for which such meeting is called, shall be given to each stockholder of record entitled to vote thereat not more than 60 days and at least 10 days before the date of the meeting.

### **Section 2.5 Quorum and Adjournments.**

Except as otherwise provided by statute or the Certificate of Incorporation, a majority of the outstanding stock of the Corporation entitled to vote at the meeting, when present in person or represented by proxy, shall constitute a quorum at all meetings of stockholders for the transaction of business. If such quorum shall not be present or represented by proxy at any meeting of stockholders, holders of a majority of the stock present in person or represented by proxy at the meeting shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting unless otherwise required by statute, until a quorum shall be present or represented. At any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally notified. Nothing in these Bylaws shall affect the right to adjourn a meeting from time to time where a quorum is present.

### **Section 2.6. Voting by Stockholders.**

With respect to any question brought before a meeting, when a quorum is present, a majority of the votes properly cast on any question shall decide the question, unless the question is one upon which by express provision of statute or the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control. Notwithstanding the preceding sentence, a plurality of votes properly cast shall elect the directors.

### **Section 2.7. Determination of Stockholders of Record.**

(a) The Board may fix a record date to determine the stockholders entitled to notice of and to vote at a meeting of stockholders or any adjournment thereof ("Record Date"). The Record Date shall not be more than 60 days nor less than 10 days before the date of the meeting.

(b) If no Record Date is fixed by the Board for a meeting of stockholders, the Record Date for the meeting shall be at the close of business on the day preceding the date on which notice of the meeting is given by the Corporation.

(c) A Record Date shall apply to any adjournment of a meeting of stockholders; provided, however, that the Board may fix a new Record Date for the adjourned meeting.

### **Section 2.8. Action by Written Consent of Stockholders.**

Unless otherwise restricted by the Certificate of Incorporation, any corporate action upon which a vote of stockholders is required or permitted may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote on that matter were present and voted and shall be delivered to the Corporation in the manner required by law at its registered office within the State of Delaware or at its principal place of business or to an officer or agent of the Corporation having custody of the book in which proceedings of meetings of stockholders of the Corporation are recorded. Every written consent shall bear the date of signature of each stockholder who signs the consent and no written consent shall be effective to take the corporate action referred to in the consent unless, within 60 days of the earliest dated consent delivered to the Corporation, written consents signed by a sufficient number of holders to take action are delivered to the Corporation as required by these Bylaws or by applicable law. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not so consented in writing.

## **ARTICLE III Board of Directors**

### **Section 3.1. Number, Election and Term of Office of Directors.**

The Board of the Corporation shall consist of not less than 11 and not more than 23 directors, the exact number to be fixed by the Board from time to time pursuant to resolution adopted by the Board. The Board shall initially consist of 23 directors, including the Chief Executive Officer, twelve Non-Industry Directors and ten Industry Directors. The number of Non-Industry Directors and Industry Directors may be changed from time to time by resolution adopted by the Board, but in no event shall the number of Industry Directors constitute less than 30% of the members of the Board and in no event shall the number of Non-Industry Directors constitute less than the number of Industry Directors (excluding the Chief Executive Officer from the calculation of Industry Directors for such purpose). In addition, at all times at least 20% of directors serving on the Board shall be Representative Directors nominated (or otherwise selected through the petition process) as provided for in Section 3.2 by the Industry-Director Subcommittee (except for the initial Board which shall be appointed by the incorporator of the Corporation).

A "Non-Industry Director" is a person who is not an Industry Director.

An "Industry Director" is any director who (i) is a holder of a Trading Permit or otherwise subject to regulation by the Exchange; (ii) is a broker-dealer or an officer, director or employee of a broker-dealer or has been in any such capacity within the prior three years; (iii) is, or was within the prior three years, associated with an entity that is affiliated with a broker-dealer whose revenues account for a material portion of the consolidated revenues of the entities with which the broker-dealer is affiliated; (iv) has a material ownership interest in a broker-dealer and has investments in broker-dealers that account for a material portion of the director's net worth; (v) has a consulting or employment relationship with or has provided professional services to the Exchange or any of its affiliates or has had such a relationship or has provided such services within the prior three years; or (vi) provides, or has provided within the prior three years, professional or consulting services to a broker-dealer, or to an entity with a 50% or greater ownership interest in a broker-dealer whose revenues account for a material portion of the consolidated revenues of the entities with which the broker-dealer is affiliated, and the revenue from all such professional or consulting services accounts for a material portion of either the revenues received by the director or the revenues received by the director's firm or partnership.

Notwithstanding the foregoing, a director shall not be deemed to be an "Industry Director" solely because either (A) the person is or was within the prior three years an outside director of a broker-dealer or an outside director of an entity that is affiliated with a broker-dealer, provided that the broker-dealer is not a holder of a Trading Permit or otherwise subject to regulation by the Exchange, or (B) the person is or was within the prior three years associated with an entity that is affiliated with a broker-dealer whose revenues do not account for a material portion of the consolidated revenues of the entities with which the broker-dealer is affiliated, provided that the broker-dealer is not a holder of a Trading Permit or otherwise subject to regulation by the Exchange. At all times, at least one Non-Industry Director shall be a Non-Industry Director exclusive of the exceptions provided for in the immediately preceding sentence and shall have no material business relationship with a broker or dealer or the Exchange or any of its affiliates. For purposes of this Section 3.1, the term "outside director" shall mean a director of an entity who is not an employee or officer (or any person occupying a similar status or performing similar functions) of such entity.

The Board of Directors of the Exchange or the Nominating and Governance Committee of the Board shall make all materiality determinations under the foregoing two paragraphs. A director shall qualify as a Non-Industry Director only so long as such director meets the requirements for that position.

The directors will be divided into two classes, as nearly equal in number as possible. The initial term of the Class I directors selected to serve on the Board will end with the annual stockholders meeting to be held by the Corporation in 2009, and the initial term of the Class II directors will end with the annual stockholders meeting to be held by the Corporation in 2010. Thereafter, directors will serve two-year terms ending on the second annual meeting following the meeting at which such directors were elected. Class I directors will initially consist of the Chief Executive Officer, five Non-Industry Directors and five Industry Directors (two of whom are Representative Directors (as defined in Section 3.2 of these Bylaws). Class II directors will initially consist of seven Non-Industry Directors and five Industry Directors (three of whom are Representative Directors). The Board is authorized to assign members of the Board already in office to such initial classes at the time the classification becomes effective. All directors shall

continue in office until their successors are elected or appointed and qualified, except in the event of their earlier death, resignation or removal.

Only persons who are nominated by the Nominating and Governance Committee as Representative Directors shall be eligible for election as Representative Directors. The Nominating and Governance Committee shall be bound to accept and nominate the Representative Director nominees recommended by the Industry-Director Subcommittee, provided that the Representative Director nominees are not opposed by a petition candidate as forth in Section 3.2 below. If such Representative Director nominees are opposed by a petition candidate then the Nominating and Governance Committee shall be bound to accept and nominate the Representative Director nominees who receive the most votes pursuant to a Run-off Election as set forth in Section 3.2 below.

The Nominating and Governance Committee shall determine, subject to review by the Board, whether a director candidate satisfies the applicable qualifications for election as a director, and the decision of that committee shall, subject to review, if any, by the Board, be final.

### **Section 3.2. Nomination of Industry Directors.**

The Industry-Director Subcommittee of the Nominating and Governance Committee shall recommend a number of Industry Directors that equals 20% of the total number of directors serving on the Board (the "Representative Director(s)"), provided that if 20% of the directors then serving on the Board is not a whole number, such number of Representative Directors shall be rounded up to the next whole number. Industry Directors not recommended by the Industry-Director Subcommittee shall be nominated by the Nominating and Governance Committee. The Industry-Director Subcommittee shall consist of all of the Industry Directors then serving on the Nominating and Governance Committee.

The Industry-Director Subcommittee shall provide a mechanism for holders of Trading Permits to provide input to the Industry-Director Subcommittee with respect to nominees for the Representative Directors. The Industry-Director Subcommittee shall issue a circular to the holders of Trading Permits identifying the Representative Director nominees selected by the committee not later than January 15th, or the first business day thereafter if January 15th is not a business day.

Holders of Trading Permits may nominate alternative candidates for election to the Representative Director positions to be elected in a given year by submitting a petition signed by individuals representing not less than 10% of the total outstanding Trading Permits at that time. Petitions must be filed with the Secretary no later than 5:00 p.m. (Chicago time) on the Monday preceding the 1st Friday in February, or the first business day thereafter in the event that Monday occurs on a holiday. The names of all Representative Director nominees recommended by the Industry-Director Subcommittee and those selected pursuant to a valid and timely petition shall, immediately following their selection, be given to the Secretary who shall promptly issue a circular to all of the Trading Permit Holders identifying all such Representative Director candidates.

If one or more valid petitions are received, the Secretary shall issue a circular to all of the Trading Permit Holders identifying those individuals nominated for Representative Director by the Industry-Director Subcommittee and those individuals nominated for Representative Director



through the petition process as well as of the time and date of a run-off election to determine which individuals will be nominated as Representative Director(s) by the Nominating and Governance Committee (the "Run-off Election"). The Run-off Election will be held at least 20 days prior to the mailing of any notice of the annual stockholders' meeting. In any Run-off Election, each holder of a Trading Permit shall have one vote with respect to each Trading Permit held by such Trading Permit Holder for each Representative Director position to be filled that year; provided, however, that no holder of Trading Permits, either alone or together with its affiliates, may account for more than 20% of the votes cast for a candidate, and any votes cast by a holder of Trading Permits, either alone or together with its affiliates, in excess of this 20% limitation shall be disregarded. Votes may be cast in person or by proxy. Additionally, in any Run-off Election, Trading Permits representing one-third of the total outstanding Trading Permits entitled to vote, when present in person or represented by proxy, shall constitute a quorum for purposes of the Run-off Election. The Secretary shall issue a circular to all of the Trading Permit Holders setting forth the results of the Run-off Election. The number of individual Representative Director nominees equal to the number of Representative Director positions to be filled that year receiving the largest number of votes in the Run-off Election (after taking into account the voting limitation set forth herein) will be the persons approved by the Trading Permit Holders to be nominated as the Representative Director(s) by the Nominating and Governance Committee for that year.

Notwithstanding anything to the contrary contained in the Bylaws (including, without limitation, Sections 3.1 and 3.2 hereof), within 45 days from the date on which trading commences on the Corporation, the Industry Directors Subcommittee shall issue a circular to the Trading Permit Holders identifying the Representative Director nominees of the committee. Petitions, if any, for the nomination of Representative Directors by the Trading Permit Holders pursuant to this Section 3.2 shall be filed with the Secretary no later than 5:00 p.m. (Chicago time) on the 20th day (the "Petition Date") after the Industry Directors Subcommittee issues the circular identifying the Representative Director nominees of the committee. If one or more valid petitions from the Trading Permit Holders is properly received by the Corporation, a Run-off Election shall be held within 30 days of the Petition Date. Promptly after the Petition Date (if no valid petitions are received) or the Run-off Election (if valid petitions are received) the Corporation shall cause the election of the applicable class of directors to be held (whether through an annual meeting of stockholders or other means permitted by applicable law) (the "Initial Annual Election"). The dates and times set forth in paragraphs two through four of this Section 3.2 shall apply in each calendar year following the calendar year in which the Initial Annual Election is held and the provisions of this paragraph shall apply in the calendar year in which the Initial Annual Election is held (including, if applicable, where the Approval Date takes place in the calendar year prior to the calendar year in which the Initial Annual Election is held).

### **Section 3.3. Powers of the Board.**

The Board shall be the governing body of the Corporation and shall be vested with all powers necessary for the management of the business and affairs of the Corporation and for the promotion of its welfare, objects and purposes. The Board shall regulate the business conduct of Trading Permit Holders and may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or the Certificate of Incorporation directed or required to be exercised or done by others. In the exercise of such powers, the Board may organize such subsidiary corporations, impose such fees and charges, adopt or amend such Rules, issue such

orders and directions, and make such decisions as it deems necessary or appropriate. It may prescribe and impose penalties for violations of the Rules, for neglect or refusal to comply with orders, directions or decisions of the Board, or for any other offenses against the Corporation.

#### **Section 3.4. Resignation, Disqualification and Removal of Directors.**

(a) A director may resign at any time by giving written notice of his resignation to the Chairman of the Board or the Secretary, and such resignation, unless specifically contingent upon its acceptance, will be effective as of its date or of the date specified therein.

(b) In the event any Industry Director or Non-Industry Director fails to maintain the qualifications required for such category of director in Section 3.1 hereof, of which failure the Board shall be the sole judge, the term of office of such director shall terminate and such director shall thereupon cease to be a director, his office shall become vacant and, notwithstanding any provision to the contrary, the vacancy may be filled by the Board with a person who qualifies for the category in which the vacancy exists. Notwithstanding the foregoing, unless otherwise required by statute, the Certificate of Incorporation, regulations of the SEC or, if applicable, the regulations of any listing exchange on which the Corporation is listed, a director who fails to maintain the applicable qualifications may be allowed the later of (i) 45 days from the date when the Board determines the director is unqualified or (ii) until the next regular Board meeting following the date when the Board makes such determination, in which to requalify. Following the date when the Board determines the director is unqualified, the director shall be deemed not to hold office and the seat formerly held by the director shall be deemed to be vacant for all purposes. The Board shall be the sole judge of whether the director has requalified. If a director is determined to have requalified, the Board, in its sole discretion, may fill an existing vacancy in the Board or may increase the size of the Board, as necessary, to appoint such director to the Board; provided, however, that the Board shall be under no obligation to return such director to the Board.

(c) No director may be removed from office by a vote of the stockholders at any time except for cause. For purposes of this section, "cause" shall mean only (i) a breach of a director's duty of loyalty to the Corporation or its stockholders, (ii) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or (iii) transactions from which a director derived an improper personal benefit. Any director may be removed for cause by the holders of a majority of the shares of stock then entitled to be voted at an election of directors.

#### **Section 3.5. Filling of Vacancies.**

(a) Notwithstanding any provision herein to the contrary, any vacancy in the Board, however occurring, including a vacancy resulting from an increase in the number of the directors, may be filled by vote of a majority of the directors then in office, although less than a quorum, or by a sole remaining director, provided such new director qualifies for the category in which the vacancy exists. A director elected to fill a vacancy shall hold office until the next annual meeting of stockholders, subject to the election and qualification of his or her successor and to his or her earlier death, resignation or removal.

(b) If the Board fills a vacancy resulting from a Representative Director position becoming vacant prior to the expiration of such Representative Director's term, or resulting from the creation of an additional Representative Director position required by an increase in the size of the Board, then the Board shall follow the procedures set forth in this Section 3.5(b). In such an

event, the Industry-Director Subcommittee of the Nominating and Governance Committee shall either (i) recommend an individual to the Board to be elected to fill such vacancy or (ii) provide a list of recommended individuals to the Board from which the Board shall elect the individual to fill such vacancy. The Board shall elect, pursuant to this Section 3.5(b), only individuals recommended by the Industry-Director Subcommittee; provided, however, the Board shall not be required to take any action or elect any individual if the Board believes that taking such action or electing such individual would be contrary to the Board's fiduciary duties. Any individual recommended by the Industry-Director Subcommittee to fill the vacancy of a Representative Director position must qualify as an Industry Director. Any vacancy filled pursuant to this Section 3.5(b), shall be filled by the vote of a majority of the directors then in office, although less than a quorum.

### **Section 3.6. Chairman of the Board of Directors.**

The Board shall appoint one of the directors to serve as Chairman of the Board. Except as provided for in Section 3.8 hereof, the Chairman of the Board shall be the presiding officer at all meetings of the Board and stockholders and shall exercise such other powers and perform such other duties as are delegated to him or her by the Board.

### **Section 3.7. Vice Chairman of the Board.**

Each year following the annual election of the directors, the Board shall select, from among the Industry Directors, a Vice Chairman of the Board to serve for a term of one year and until a successor is elected or appointed and qualified. The Vice Chairman shall (i) preside over the meetings of the Board in the event the Chairman of the Board is absent or unable to do so, (ii) except as otherwise provided in the Rules or resolution of the Board, appoint, subject to the approval of the Board, the individuals to serve on all Trading Permit Holder committees established in the Rules or by resolution of the Board, and (iii) exercise such other powers and perform such other duties as are delegated to the Vice Chairman of the Board by the Board.

### **Section 3.8. Lead Director.**

The Board may appoint one of the Non-Industry Directors to serve as the Lead Director. The Lead Director shall perform such duties and possess such powers as the Board may from time to time prescribe. The Lead Director, if appointed, shall be authorized to preside at meetings of the directors that are not officers or employees of the Exchange.

### **Section 3.9. Acting Chairman and Vacancy in Chairman or Vice Chairman of the Board Positions.**

(a) In the absence or inability to act of the Chairman of the Board and the Vice Chairman of the Board, the Board may designate an Acting Chairman of the Board. The Acting Chairman of the Board, in the absence or inability to act of the Chairman and Vice Chairman of the Board, shall be presiding officer at all meetings of the Board and shall exercise such other powers and perform such other duties as are delegated to the Acting Chairman by the Board.

(b) If a vacancy occurs in the office of Chairman or Vice Chairman, the Board may fill such vacancy by the affirmative vote of at least a majority of the directors then in office.

### **Section 3.10. Quorum.**

At all meetings of the Board, two-thirds of the number of directors then in office shall constitute a quorum for the transaction of business, and the vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board, except as may be otherwise specifically provided by statute or the Certificate of Incorporation. If a quorum shall not be present at any meeting of the Board, a majority of the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

### **Section 3.11. Regular Meetings.**

Regular meetings of the Board shall be held at such time and at such place as shall from time to time be determined by the Chairman of the Board with notice of such determination provided to the full Board.

### **Section 3.12. Special Meetings.**

Special meetings of the Board may be called by the Chairman of the Board or the Vice Chairman of the Board and shall be called by the Secretary upon the written request of any four directors. The Secretary shall give at least 24 hours notice of such meeting to each director, in a manner permitted by Section 7.1. Every such notice shall state the time and place of the meeting which shall be fixed by the person calling the meeting, but need not state the purpose thereof except as otherwise required by statute.

### **Section 3.13. Participation in Meeting.**

Members of the Board or of any committee thereof may participate in a meeting of the Board or such committee by conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such a meeting.

### **Section 3.14. Action by Written Consent.**

Unless otherwise restricted by statute or the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if all members of the Board or such committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or of such committee.

### **Section 3.15. Interested Directors.**

No director shall be disqualified from participating in any meeting, action or proceeding of the Board by reason of being or having been a member of a committee which has made prior inquiry, examination or investigation of the subject under consideration. No director shall participate in the adjudication of any matter with respect to which the Board is acting as an adjudicative body under the Rules, and in which such director is personally interested, although interested directors may be counted in determining the presence of a quorum at the meeting of the Board or of a committee which authorizes actions with respect to such matter.

## **ARTICLE IV Committees**

### **Section 4.1. Designation of Committees.**

(a) Committees of the Board. The committees of the Board shall consist of an Executive Committee, an Audit Committee, a Compensation Committee, a Regulatory Oversight Committee, a Nominating and Governance Committee and such other standing and special committees as may be approved by the Board. Except as may be otherwise provided in these Bylaws or as may be otherwise provided for from time to time by resolution of the Board, the Board may, at any time, with or without cause, remove any member of any such committees of the Board. Promptly following the adoption of these Bylaws, the Board shall appoint the initial members of the Nominating and Governance Committee, and thereafter the Nominating and Governance Committee shall promptly act to recommend, and the Board shall promptly act to approve, membership compositions for each of the committees of the Board provided for in these Bylaws.

(b) Committees of the Exchange. The Exchange also shall have such other committees as may be provided in these Bylaws or the Rules or as may be from time to time created by the Board. Except as may be otherwise provided in these Bylaws, the Rules or the resolution of the Board establishing any such other committee, the Vice Chairman of the Board, with the approval of the Board, shall appoint the members of such Exchange committees (other than the committees of the Board) and may designate, with the approval of the Board, a Chairman and a Vice-Chairman thereof. Except as may be otherwise provided in these Bylaws or the Rules, the Board may, at any time, with or without cause, remove any member of any such Exchange committees.

### **Section 4.2. The Executive Committee.**

The Executive Committee will include the Chairman of the Board, the Chief Executive Officer (if a director), the Vice Chairman of the Board, the Lead Director, if any, at least one Representative Director and such other number of directors that the Board deems appropriate, provided that in no event shall the number of Non-Industry Directors constitute less than the number of Industry Directors serving on the Executive Committee (excluding the Chief Executive Officer from the calculation of Industry Directors for such purpose). Members of the Executive Committee (other than those specified in the immediately preceding sentence) shall be recommended by the Nominating and Governance Committee for approval by the Board. Members of the Executive Committee shall not be subject to removal except by the Board. The Chairman of the Board shall be the Chairman of the Executive Committee. Each member of this Committee shall be a voting member. The members of the Executive Committee shall serve for a term of one year expiring at the first regular meeting of directors following the annual meeting of stockholders each year or until their successors are appointed. The Executive Committee shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the Corporation, except it shall not have the power and authority of the Board to (i) approve or adopt or recommend to the stockholders any action or matter (other than the election or removal of directors) expressly required by Delaware law to be submitted to stockholders for approval, including without limitation, amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, approving a sale, lease or exchange of all or substantially all of the Corporation's property and assets, or approval of a

dissolution of the Corporation or revocation of a dissolution, or (ii) adopt, alter, amend or repeal any bylaw of the Corporation.

#### **Section 4.3. The Audit Committee.**

The Audit Committee shall consist of at least three directors, all of whom must be Non-Industry Directors and all of whom shall be recommended by the Nominating and Governance Committee for approval by the Board. The exact number of Audit Committee members shall be determined from time to time by the Board. Members of the Audit Committee shall not be subject to removal except by the Board. The Chairman of the Audit Committee shall be recommended by the Nominating and Governance Committee for approval by the Board. The Audit Committee shall have such duties and may exercise such authority as may be prescribed by resolution of the Board and the Audit Committee Charter as adopted by resolution of the Board.

#### **Section 4.4. The Compensation Committee.**

The Compensation Committee shall consist of at least three directors, all of whom must be Non-Industry Directors and all of whom shall be recommended by the Nominating and Governance Committee for approval by the Board. The exact number of Compensation Committee members shall be determined from time to time by the Board. Members of the Compensation Committee shall not be subject to removal except by the Board. The Chairman of the Compensation Committee shall be recommended by the Nominating and Governance Committee for approval by the Board. The Compensation Committee shall have such duties and may exercise such authority as may be prescribed by resolution of the Board and the Compensation Committee Charter as adopted by resolution of the Board.

#### **Section 4.5. The Nominating and Governance Committee.**

The Nominating and Governance Committee shall consist of at least seven directors, including both Industry Directors and Non-Industry Directors, and shall at all times have a majority of directors that are Non-Industry Directors. All members of the committee, except for the initial members of the committee (appointed to the committee in accordance with Section 4.1 of these Bylaws), shall be recommended by the Nominating and Governance Committee for approval by the Board. The exact number of Nominating and Governance Committee members shall be determined from time to time by the Board. Members of the Nominating and Governance Committee shall not be subject to removal except by the Board. The Chairman of the Nominating and Governance Committee shall be recommended by the Nominating and Governance Committee for approval by the Board. Subject to Section 3.2 and Section 3.5 of these Bylaws, the Nominating and Governance Committee shall have the authority to nominate individuals for election as directors of the Corporation. The Nominating and Governance Committee shall have such other duties and may exercise such other authority as may be prescribed by resolution of the Board and the Nominating and Governance Committee Charter as adopted by resolution of the Board.

#### **Section 4.6. The Regulatory Oversight Committee.**

The Regulatory Oversight Committee shall consist of at least four directors, all of whom shall be Non-Industry Directors and all of whom shall be recommended by the Non-Industry

Directors on the Nominating and Governance Committee for approval by the Board. The exact number of Regulatory Oversight Committee members shall be determined from time to time by the Board. Members of the Regulatory Oversight Committee shall not be subject to removal except by the Board. The Chairman of the Regulatory Oversight Committee shall be recommended by the Non-Industry Directors of the Nominating and Governance Committee for approval by the Board. The Regulatory Oversight Committee shall have such duties and may exercise such authority as may be prescribed by resolution of the Board, these Bylaws or the Rules of the Exchange.

#### **Section 4.7. Other.**

All other committees shall have such duties and may exercise such authority as may be prescribed for them by the Certificate of Incorporation, these Bylaws or the Rules or by resolution of the Board.

#### **Section 4.8. Conduct of Proceedings.**

Unless otherwise provided in the Certificate of Incorporation, these Bylaws, the Rules, the charter of the committee or by the Board of Directors by resolution, each committee may determine the manner in which committee proceedings shall be conducted. In the absence of any such established procedures, each committee shall conduct its business in the same manner as the Board of Directors conducts its business pursuant to Article 3 of these Bylaws. Committees shall keep minutes of their meetings and periodically report their proceedings to the Board and appropriate committees of the Board to the extent requested by the Board or Board committee.

### **ARTICLE V Officers**

#### **Section 5.1. Designation; Number; Election.**

(a) The officers of the Corporation shall be a Chief Executive Officer, a Vice Chairman, a President, a Chief Financial Officer, one or more Vice-Presidents (the number thereof to be determined by the Board), a Secretary, a Treasurer, and such other officers as the Board may determine, including an Assistant Secretary and Assistant Treasurer. The Chief Executive Officer shall be appointed by an affirmative vote of the majority of the Board, and may, but need not be the Chairman of the Board. Such affirmative vote may also prescribe his duties not inconsistent with these Bylaws and may prescribe a tenure of office. The remaining officers of the Corporation shall be appointed by the Board, each to serve until a successor has been duly chosen and qualified or until the officer's earlier death, resignation or removal.

(b) Two or more offices may be held by the same person, except the offices of Chief Executive Officer and President. In addition, the Chief Executive Officer and the President may not also be either the Secretary or Assistant Secretary.

#### **Section 5.2. Chief Executive Officer.**

The Chief Executive Officer shall, subject to the direction of the Board, have general charge and supervision of the business of the Corporation. The Chief Executive Officer shall be the official representative of the Corporation in all public matters. The Chief Executive Officer shall perform such other duties and possess such other powers as the Board may from time to time prescribe and that are incident to such office. The Chief Executive Officer shall not engage in

any other business during his incumbency except with approval of the Board, and by his acceptance of the office of Chief Executive Officer he shall be deemed to have agreed to uphold these Bylaws.

### **Section 5.3. Vice Chairman.**

The Vice Chairman shall perform such duties and possess such powers as the Board or the Chief Executive Officer may from time to time prescribe. The Vice Chairman shall preside at meetings of the Trading Permit Holders. The Vice Chairman shall be responsible for the coordination of the activities of all Trading Permit Holder committees.

### **Section 5.4. President.**

The President shall be the chief operating officer of the Corporation and shall perform such duties and possess such powers as the Board or the Chief Executive Officer may from time to time prescribe. In the event of the absence, inability or refusal to act of the Chief Executive Officer, the President shall perform the officer duties of the Chief Executive Officer and, when so performing, shall have all the powers of and be subject to all the restrictions upon the office of Chief Executive Officer.

### **Section 5.5. Chief Financial Officer.**

The Chief Financial Officer shall perform such duties and possess such powers as the Board or the Chief Executive Officer may from time to time prescribe. The Chief Financial Officer shall have the custody of the Corporation's funds and securities; shall keep full and accurate all books and accounts of the Corporation as shall be necessary or desirable in accordance with applicable law or generally accepted accounting principles; shall deposit all monies and other valuable effects in the name and to the credit of the Corporation as may be ordered by the Chief Executive Officer or the Board; shall cause the funds of the Corporation to be disbursed when such disbursements have been duly authorized, taking proper vouchers for such disbursements; and shall render to the Board, at its regular meeting or when the Board so requires, an account of the Corporation.

### **Section 5.6. Vice Presidents.**

Vice Presidents shall perform the duties prescribed by the Board, Chief Executive Officer or President.

### **Section 5.7. Secretary.**

The Secretary shall keep official records of meetings of stockholders and of Trading Permit Holders at which action is taken and of all meetings of the Board; the Secretary shall, in person or by representative, perform like services for the standing and special committees when required; the Secretary shall give notice of meetings of stockholders and of Trading Permit Holders and of special meetings of the Board in accordance with the provisions of the Rules or these Bylaws or as required by statute; the Secretary shall post all notices which may be required to be posted upon the Corporation website; the Secretary shall be custodian of the books, records, and corporate seal of the Corporation and attest, upon behalf of the Corporation, all contracts and other documents requiring authentication; the Secretary shall perform such other



duties as may be prescribed by the Board, Chairman of the Board, Chief Executive Officer or President.

#### **Section 5.8. Treasurer.**

The Treasurer shall perform such duties and possess such powers as the Board, the Chief Executive Officer or the Chief Financial Officer may from time to time prescribe. In addition, the Treasurer shall perform such duties and have such powers that are incident to the office of Treasurer, including without limitation the duty to keep and be responsible for all funds of the Corporation.

#### **Section 5.9. Removals.**

Any officer appointed by the Board may be removed at any time by the Board, the Chief Executive Officer or the President; provided that the Chief Executive Officer can only be removed by the Board. Any such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any vacancies occurring in any office of the Corporation at any time may be filled by the Board or an officer authorized by the Board to appoint a person to hold such office.

#### **Section 5.10. Resignations.**

Any officer may resign by delivering such officer's written resignation to the Corporation at its principal office or to the Chief Executive Officer or Secretary. Such resignation shall be effective upon receipt unless it is specified to be effective at some other time or upon the happening of some other event.

#### **Section 5.11. Vacancies.**

The Board may fill any vacancy occurring in any office for any reason and may, in its discretion, leave unfilled for such period as it may determine any offices other than those of Chief Executive Officer, President, Secretary and Treasurer. Any vacancies occurring in any office of the Corporation at any time also may be filled by an officer authorized by the Board to appoint a person to hold such office. Each such successor shall hold office until such officer's successor is elected and qualified, or until such officer's earlier death, resignation or removal.

#### **Section 5.12. Salaries**

Officers of the Corporation shall be entitled to such salaries, compensation or reimbursement as shall be fixed or allowed from time to time by the Board unless otherwise delegated to the Compensation Committee of the Board or to members of senior management. No officer shall be prevented from receiving such salary by reason of the fact that the officer is also a director of the Corporation.

## **ARTICLE VI Reserved**

## **ARTICLE VII Notices**

### **Section 7.1. Notices.**

Except as provided in Section 7.2 and to the extent permitted by law, any notice required to be given by the Bylaws or the Rules or otherwise shall be deemed to have been given:

(a) in person upon delivery of the notice in person to the Person to whom such notice is addressed;

(b) by mail upon deposit of the notice in the United States mail, enclosed in a postage prepaid envelope;

(c) by messenger or overnight courier service upon provision of the notice to the messenger or courier service, provided that the delivery method does not require payment of the messenger or courier service fee to deliver the notice by the Person to whom the notice is addressed;

(d) by facsimile machine upon acknowledgment by the facsimile machine used to transmit the notice of the successful transmission of the notice;

(e) by electronic mail upon electronic transmission of the notice; and

(f) by telephone when received.

Any such notice must be addressed to its intended recipient at the intended recipient's address (including the intended recipient's business or residence address, facsimile number, electronic address, or telephone number, as applicable) as it appears on the books and records of the Corporation, or if no address appears on such books and records, then at such address as shall be otherwise known to the Secretary, or if no such address appears on such books and records, then in care of the registered agent of the Corporation in the State of Delaware. In the event that a notice is not provided in conformity with the provisions of this Section 7.1, the notice will be deemed to have been given to its intended recipient upon any receipt of the notice by its intended recipient.

### **Section 7.2. Electronic Notice to Stockholders.**

Whenever any notice whatsoever is required to be given in writing to any stockholder by law, by the Certificate of Incorporation or by these Bylaws, such notice may be given by a form of electronic transmission if the stockholder to whom such notice is given has previously consented to the receipt of notice by electronic transmission.

### **Section 7.3. Waiver of Notice.**

Whenever notice is required to be given under the provisions of any statute, the Certificate of Incorporation, these Bylaws, the Rules or otherwise, a written waiver thereof, signed by the Person entitled to notice, or his proxy, whether before or after the time stated therein shall be deemed equivalent to notice. Except as may be otherwise specifically provided by statute, any waiver by mail, messenger, overnight courier, facsimile machine, or electronic mail, bearing the name of the Person entitled to notice shall be deemed a written waiver duly signed. Attendance of a Person at a meeting, including attendance by proxy, shall constitute a waiver of notice of such meeting except when the Person attends a meeting for the express purpose of objecting, at

the beginning of the meeting, to the transaction of any business the meeting is not lawfully called or convened. Except as required by statute or the Certificate of Incorporation, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or any committee need be specified in any written waiver of notice.

## **ARTICLE VIII General Provisions**

### **Section 8.1. Fiscal Year.**

Except as otherwise determined from time to time by the Board, the fiscal year of the Corporation ends on the close of business on December 31 of each year.

### **Section 8.2. Checks, Drafts and Other Instruments.**

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, or by such agent or agents of the Corporation and in such manner as the Board may from time to time determine.

### **Section 8.3. Corporate Seal.**

The corporate seal, if any, shall be in such form as shall be approved by the Board or an officer of the Corporation.

### **Section 8.4. Voting Securities.**

Except as the Board may otherwise designate, the Chairman of the Board, Chief Executive Officer, Chief Financial Officer or Treasurer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for the Corporation (with or without power of substitution) at, any meeting of stockholders or shareholders of any other corporation or organization, the securities of which may be held by this Corporation.

### **Section 8.5. Evidence of Authority.**

A certificate by the Secretary, or Assistant Secretary, if any, as to any action taken by the stockholders, directors, a committee or any officer or representative of the Corporation shall, as to all Persons who rely on the certificate in good faith, be conclusive evidence of such action.

### **Section 8.6. Certificate of Incorporation.**

All references in these Bylaws to the Certificate of Incorporation shall be deemed to refer to the Certificate of Incorporation of the Corporation, as amended, altered or restated and in effect from time to time.

### **Section 8.7. Transactions with Interested Parties.**

No contract or transaction between the Corporation and one or more of the directors or officers, or between the Corporation and any other corporation, limited liability company, partnership, association or other organization in which one or more of the directors or officers are directors, managers or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting

of the Board or a committee of the Board which authorizes the contract or transaction or solely because his, her or their votes are counted for such purpose, if:

(a) The material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board or the committee, and the Board or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum;

(b) The material facts as to his, her or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or

(c) The contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board, a committee of the Board or the stockholders.

Both (i) directors who are directors of both the Corporation and a party with whom the Corporation may be engaged in a transaction and (ii) interested directors may be counted in determining the presence of a quorum at a meeting of the Board or of a committee at which the contract or transaction is authorized.

#### **Section 8.8. Severability.**

Any determination that any provision of these Bylaws is for any reason inapplicable, illegal or ineffective shall not affect or invalidate any other provision of these Bylaws.

#### **Section 8.9. Pronouns.**

All pronouns used in these Bylaws shall be deemed to refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

#### **Section 8.10. Contracts.**

In addition to the powers otherwise granted to officers pursuant to Article V hereof, the Board may authorize any officer or officers, or any agent or agents, of the Corporation to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

#### **Section 8.11. Loans.**

The Corporation may, to the extent permitted by applicable law, lend money to, or guarantee any obligation of, or otherwise assist any officer or other employee of the Corporation or of its subsidiaries, including any officer or employee who is a director of the Corporation or its subsidiaries, whenever, in the judgment of the directors, such loan, guaranty or assistance may reasonably be expected to benefit the Corporation. The loan, guaranty or other assistance may include, without limitation, a pledge of shares of stock of the Corporation. Nothing in this Section 8.11 shall be deemed to deny, limit or restrict the powers of guaranty or warranty of the Corporation at common law or under any statute.

### **Section 8.12. Books and Records.**

Subject to applicable law, the Board shall have power from time to time to determine to what extent and at what times and places and under what conditions and regulations the accounts and books of the Corporation, or any of them, shall be open to the inspection of the stockholders; and no stockholder shall have any right to inspect any account or book or document of the Corporation, except as conferred by the laws of the State of Delaware. The Corporation shall keep its books and records within the United States. Any books or records of the Corporation may be kept on, or be in the form of, magnetic tape, computer disk, or any other information storage device, provided that the records so kept can be converted into clearly legible form within a reasonable time.

### **Section 8.13. Section Headings.**

Section headings in these Bylaws are for convenience of reference only and shall not be given any substantive effect in limiting or otherwise construing any provision herein.

### **Section 8.14. Inconsistent Provisions.**

In the event that any provision of these Bylaws is or becomes inconsistent with any provision of the Certificate of Incorporation, the General Corporation Law of the State of Delaware ("DGCL") or any other applicable law, the provision of these Bylaws shall not be given any effect to the extent of such inconsistency but shall otherwise be given full force and effect.

## **ARTICLE IX Amendments**

### **Section 9.1. By the Board.**

These Bylaws may be altered, amended or repealed, or new Bylaws may be adopted, by the Board.

### **Section 9.2. By the Stockholders.**

These Bylaws may be altered, amended or repealed or new Bylaws may be adopted by the affirmative vote of the majority of the stockholders present at any annual meeting of the stockholders at which a quorum is present.

### **Section 9.3. SEC Approval.**

Before any amendment to, alteration or repeal of any provision of the Bylaws of the Corporation under this Article IX shall be effective, those changes shall be submitted to the Board and if the same must be filed with or filed with and approved by the SEC, then the proposed changes to the Bylaws of the Corporation shall not become effective until filed with or filed with and approved by the SEC, as the case may be.

## **ARTICLE X Rulemaking**

### **Section 10.1. Rulemaking.**

The Board may, by the affirmative vote of a majority of a quorum of the Board, alter, adopt, amend or repeal as it may deem necessary or proper any of the Corporation's Rules, which shall not become effective until filed with or filed with and approved by the SEC, as the case may be.



## **C2 RULES**

### **CHAPTER 1**

#### **Definitions**

##### **Rule 1.1. Definitions**

###### **Affiliate and Affiliated with**

The term “affiliate” of or a person “affiliated with” another person means a person who, directly or indirectly, controls, is controlled by, or is under common control with, such other person.

###### **Aggregate Exercise Price**

The term “aggregate exercise price” means the exercise price of an option contract multiplied by the number of units of the underlying security covered by the option contract.

###### **American-style Option**

The term “American-style option” means an option contract that, subject to the provisions of Rule 11.1 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised on any business day prior to its expiration date and on its expiration date.

###### **Associated Person or Person Associated with a Participant**

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

###### **Board**

The term “Board” shall mean the Board of Directors of the Exchange.

###### **Book**

The term “Book” means the electronic book of buy and sell orders and quotes maintained by the System.

###### **Bylaws**

The term “Bylaws” means the Bylaws of the Exchange as the same may be amended from time to time.



**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 Clearing Corporation the number of shares of the underlying security covered by the option contract.

**Capped-style Option**

The term “capped-style option” means an option contract that is automatically exercised when the cap price is reached. If this does not occur prior to expiration, it can be exercised, subject to the provisions of Rule 11.1 (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, only on its expiration date. CAPS<sup>TM</sup> refers to capped-style options traded on the Exchange.

**CBOE**

The term “CBOE” means the Chicago Board Options Exchange, Incorporated.

**Class of Options**

The term “class of options” means all option contracts of the same type covering the same underlying security.

**Clearing Corporation**

The term “Clearing Corporation” means The Options Clearing Corporation.

**Clearing Participant**

The term “Clearing Participant” means a Permit Holder that has been admitted to membership in the Clearing Corporation pursuant to the provisions of the rules of the Clearing Corporation.

**Closing Purchase Transaction**

The term “closing purchase transaction” means an Exchange transaction which will reduce or eliminate a short position in an option contract.

**Closing Writing Transaction**

The term “closing writing transaction” means an Exchange transaction which will reduce or eliminate a long position in an option contract.

**Commission**

The term “Commission” means the United States Securities and Exchange Commission.

**Control**

The term “control” means the power to exercise a controlling influence over the management or policies of a person, unless such power is solely the result of an official position with such person. Any person who owns beneficially, directly or indirectly, more than 20% of the voting power in the election of directors of a corporation, or more than 25% of the voting power in the election of directors of any other corporation which directly or through one or more affiliates owns beneficially more than 25% of the voting

power in the election of directors of such corporation, shall be presumed to control such corporation.

**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 conditions of Rule 610(f) or 610(h), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an 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, 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.

**European-style Option**

The term “European-style option” means an option contract that, subject to the provisions of Rule 11.1 (relating to the cutoff time for exercise instructions) and to the rules of the Clearing Corporation, can be exercised only on its expiration date.

**Exchange**

The term “Exchange” means the national securities exchange known as C2.

**Exchange Act**

The term “Exchange Act” means the Securities Exchange Act of 1934, as amended.

**Exercise Price**

The term “exercise price” means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an option contract.

**Federal Reserve Board**

The term “Federal Reserve Board” means the Board of Governors of the Federal Reserve System.

**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 is required to be so registered, authorized or licensed) to perform the function of a broker or dealer in securities, or both. For the purposes of this definition, the terms “broker” and “dealer” have the same meaning as provided in Section 3(a)(4) and 3(a)(5) of the Exchange Act, except that a “broker” or “dealer” may be a bank.

**Help Desk**

The term “Help Desk” means the Exchange’s control room consisting of Exchange staff authorized to make certain trading determinations on behalf of the Exchange.

**Index Portfolio Receipts**

The term index portfolio receipts or “IPRs” means securities that (a) represent an interest in a unit investment trust (“Trust”) which holds the securities that comprise an index on which a series of IPRs is based; (b) are issued by the Trust in a specified aggregate minimum number in return for a “Portfolio Deposit” consisting of specified numbers of shares of stock plus a cash amount; (c) when aggregated in the same specified minimum number, may be redeemed from the Trust which will pay to the redeeming holder the stock and cash then comprising the Portfolio Deposit; and (d) pay holders a periodic cash payment corresponding to the regular cash dividends or distributions declared and paid with respect to the component securities of the stock index on which the IPRs are based, less certain expenses and other charges as set forth in the Trust prospectus. IPRs are “UIT interests” within the meaning of the Rules of the Exchange.

**Index Portfolio Shares**

The term “Index Portfolio Shares” or IPSs means securities that (a) are issued by an open-end management investment company based on a portfolio of stocks or fixed income securities designed to provide investment results that correspond generally to the price and yield performance of a specified foreign or domestic stock index or fixed income securities index; (b) are issued by such an open-end management investment company in a specified aggregate minimum number in return for a deposit of specified number of shares of stock and/or a cash amount, or a specified portfolio of fixed income securities and/or a cash amount, with a value equal to the next determined net asset value; and (c) when aggregated in the same specified minimum number, may be redeemed at a holder's request by such open-end management investment company which will pay to the redeeming holder stock and/or cash, or a specified portfolio of fixed income securities and/or cash with a value equal to the next determined net asset value.

**Index-Linked Exchangeable Note**

The term Index-Linked Exchangeable Note means an exchangeable debt security that is exchangeable at the option of the holder (subject to the requirement that the holder in most circumstances exchange a specified minimum amount of notes), on call by the issuer, or at maturity for a cash amount based on the reported market prices of the underlying stocks of an underlying index.

**Long Position**

The term “long position” means a person's interest as the holder of one or more units of trading of a given option contract.

**Market Maker**

The term “Market-Maker” means a Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter 8 of these Rules.

**NBBO**

The term “NBBO” means the national best bid or offer as calculated by the Exchange based on market information received by the Exchange from OPRA.

**Opening Purchase Transaction**

The term “opening purchase transaction” means an Exchange transaction which will create or increase a long position in an option contract.

**Opening Writing Transaction**

The term “opening writing transaction” means an Exchange transaction which will create or increase a short position in an option contract.

**Option Contract**

The term “option contract” means a put or a call issued, or subject to issuance, by the Clearing Corporation pursuant to the rules of the Clearing Corporation.

**Options Principal**

The term “Options Principal” means a person engaged in the management and supervision of the Participant's business pertaining to options contracts that has responsibility for the overall oversight of the Participant's options related activities on the Exchange.

**Outstanding**

The term “outstanding” in respect of an option contract means an option contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.

**Participant**

The term “Participant” means a Permit Holder.

**Permit Holder**

The term “Permit Holder” means the Exchange recognized holder of a Trading Permit. A Permit Holder is also known as a Trading Permit Holder under the Bylaws. Permit Holders are deemed “members” under the Exchange Act.

**Principal Shareholder**

(i) The term “principal shareholder” means any person beneficially owning, directly or indirectly, equity securities representing 5% of the voting power in elections of directors, or 5% of the net worth, or a 5% participation in the net profits, of a corporation.

**Public Customer**

The term “Public Customer” means a person that is not a broker or dealer in securities.

**Put**

The term "put" means an option contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the number of shares of the underlying security covered by the option contract.

**Quarterly Options Series**

A Quarterly Option Series is a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

**Quote**

The term "quote" or "quotation" means a bid or offer entered by a Market-Maker that is firm and that updates the Market-Maker's previous quote, if any.

**Responsible Person**

The term "Responsible Person" shall mean an individual designated by an organization that is the holder of a Trading Permit to represent the organization with respect to that Trading Permit in all matters relating to the Exchange. The Responsible Person must be a United States-based officer, director or management-level employee of the Permit Holder, who is responsible for the direct supervision and control of Associated Persons of that Permit Holder.

**Rules**

The term "Rules" means the Rules of the Exchange as the same may be in effect from time to time.

**Rules of the Clearing Corporation**

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

**Security Future-Option Order**

A security future-option order is an order to buy or sell a stated number of units of a security future or a related security convertible into a security future ("convertible security future") coupled with either (a) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of the underlying for the security future or convertible security future or the number of units of the underlying for the security future or convertible security future necessary to create a delta neutral position or (b) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date and each representing the same number of the underlying for the security future or convertible security future, as and on the opposite side of the market from, the underlying for the security future or convertible security future portion of the order.

**Series of Options**

The term “series of options” means all option contracts of the same class having the same exercise price and expiration date.

**Short Position**

The term “short position” means a person's interest as the writer of one or more units of trading of a given option contract.

**Short Term Option**

The term “Short Term Option” is a series in an option class that is approved for listing and trading on the Exchange in which the series is opened for trading on any Friday that is a business day and that expires on the next Friday that is a business day. If a Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Friday.

**System**

The term “System” means the automated trading system used by the Exchange for the trading of options contracts.

**Trading Permit**

The term “Trading Permit” means a permit issued by the Exchange that confers the ability to transact on the Exchange.

**Trading Permit Holder**

The term “Trading Permit Holder” means a Permit Holder.

**Trust Issued Receipt**

The term “Trust Issued Receipt” means a security (a) that is issued by a trust (“Trust”) which holds specific securities deposited with the Trust; (b) that, when aggregated in some specified minimum number, may be surrendered to the Trust by the beneficial owner to receive the securities; and (c) that pays beneficial owners dividends and other distributions on the deposited securities, if any are declared and paid to the trustee by an issuer of the deposited securities.

**Type of Option**

The term “type of option” means the classification of an option contract as either a put or a call.

**Uncovered**

The term “uncovered” in respect of a short position in an option contract means that the short position is not covered.

**Underlying Security**

The term “underlying security” in respect of an option contract means the security which the Clearing Corporation shall be obligated to sell (in the case of a call option contract) or purchase (in the case of a put option contract) upon the valid exercise of the option contract.

## CHAPTER 2 Administration

### **Rule 2.1. Participant Fees**

The fees payable by Participants shall be fixed from time to time by the Exchange. Fees shall be payable in full on the first day of each month on a nonrefundable basis and shall be applied to the month beginning on that day.

### **Rule 2.2. Exchange's Costs of Defending Legal Proceedings**

Any Participant or person associated with a Participant who fails to prevail in a lawsuit or other legal proceeding instituted by such person against the Exchange or any of its directors, officers, committee members, employees or agents, and related to the business of the Exchange, shall pay to the Exchange all reasonable expenses, including attorneys' fees, incurred by the Exchange in the defense of such proceeding, but only in the event that such expenses exceed Fifty Thousand Dollars (\$50,000.00). This provision shall not apply to disciplinary actions by the Exchange, to administrative appeals of Exchange actions or in any specific instance where the Board has granted a waiver of this provision.

### **Rule 2.3 Regulatory Revenues**

Any revenues received by the Exchange from fees derived from its regulatory function or regulatory fines will not be used for non-regulatory purposes, but rather, shall be applied to fund the legal and regulatory operations of the Exchange (including surveillance and enforcement activities), or, as the case may be, shall be used to pay restitution and disgorgement of funds intended for customers.

## CHAPTER 3 Access

### **Rule 3.1. Trading Permits**

(a) *Issuance.* The Exchange shall issue Trading Permits that confer the ability to transact on the Exchange. There is no limit on the number of Trading Permits that may be issued by the Exchange, however the Exchange shall have the authority to limit or decrease the number of Trading Permits it has determined to issue. The Exchange shall announce in advance any limitation or decrease it plans to impose pursuant to this Rule. In the event the Exchange imposes a limitation or decrease pursuant to this Rule, the Exchange, in doing so, may not eliminate the ability of an existing Permit Holder or CBOE member to trade on C2 unless the Exchange is permitted to do so pursuant to a rule filing submitted to the Commission under Section 19(b) of the Exchange Act. In addition, in no event shall the Exchange act in a manner under this subparagraph that does not comply with the provisions of Section 6(c)(4) of the Exchange Act.

(b) *Qualification Requirements.* A Permit Holder must be registered as a broker-dealer pursuant to Section 15 of the Exchange Act. If a Permit Holder intends to transact a business with the public, it must obtain approval to transact business with the public pursuant to Rule 9.1 or be approved to transact business with the public by another national securities exchange.

(c) *Application Process.*

(1) *CBOE Members.* A CBOE member in good standing is eligible to receive one Trading Permit (regardless of the number of CBOE memberships owned by that CBOE member). CBOE member applicants are not required to complete and submit an Exchange application. Instead, only Exchange forms concerning electing to trade on the Exchange, submitting to Exchange jurisdiction, and operational matters need be completed and tendered.

(2) *Non-CBOE Members.* All non-CBOE Members seeking to hold a Trading Permit ("Applicant") must submit an application to the Exchange in accordance with such procedures as shall be established by the Exchange via regulatory circular including submission deadlines and payment of any applicable application fees. In addition, the following shall apply:

(A) Each Applicant shall promptly update the application materials submitted to the Exchange if any of the information provided in these materials becomes inaccurate or incomplete after the date of submission of the application to the Exchange and prior to any approval of the application.

(B) The Exchange shall investigate each Applicant applying to be a Permit Holder (with the exception of any Applicant that was a Permit Holder within 9 months prior to the date of receipt of that Applicant's application by the Exchange, and any Applicant that was investigated by the Exchange within 9 months prior to the date of receipt of that Applicant's application by the Exchange). The Exchange may investigate any Applicant that is not required to be investigated pursuant to this paragraph. In connection with an investigation conducted pursuant to this paragraph, the Exchange may (i) conduct a fingerprint based criminal records check of the Applicant and its Responsible Person; or (ii) utilize the results of a fingerprint based criminal records check of the Applicant and its Responsible Person conducted by the Exchange or another self-regulatory organization within the prior year.

(C) The Exchange may approve an application submitted pursuant to this Rule only if any investigation pursuant to paragraph (B) above has been completed, and any applicable orientation and/or exam requirements established by the Exchange have been satisfied.

(D) Each Applicant that submits an application pursuant to paragraph (c)(2) of this Rule shall submit to the Exchange any additional information requested by the Exchange in connection with the Exchange's review of the application and



may be required to appear before the Exchange for an in-person interview or interviews.

(E) Upon completion of the application process, the Exchange shall determine whether to approve or disapprove the application, unless there is just cause for delay. One such just cause for delay is when an Applicant is the subject of an inquiry, investigation, or proceeding conducted by a self-regulatory organization or governmental authority that involves the Applicant's fitness to be a Permit Holder. In such an instance, the Exchange need not act on any application submitted by that Applicant until the matter has been resolved.

(F) Written notice of the action regarding an application to become a Permit Holder, specifying in the case of disapproval of an application the grounds thereof, shall be provided to the Applicant.

(G) Every Applicant must have and maintain membership in another options exchange registered under the Exchange Act and that is not registered solely under Section 6(g) of the Exchange Act.

(d) *Rights of Permit Holder.* No rights shall be conferred upon a Permit Holder except those set forth in the Bylaws or Rules as amended from time to time. A Trading Permit shall not convey any ownership interest in the Exchange. Trading Permits may not be leased and are not transferable except in the event of a change in control or corporate reorganization involving a Permit Holder. In such a case, Permit Holder status may be transferred to a qualified affiliate or successor upon written notice to the Exchange.

(e) *Fees and Charges for Trading Permits.* Trading Permits shall be subject to such fees and charges as are established by the Exchange from time to time pursuant to Rule 2.1 and the Exchange Fee Schedule. The entire fee for a Trading Permit shall be due and payable in full on or before the first day on which the Trading Permit is effective on a nonrefundable basis. An organization holding a Trading Permit in its name shall be responsible for paying all fees and charges for that Trading Permit. An individual holding a Trading Permit in his or her name shall be responsible for paying all fees and charges for that Trading Permit.

(f) *Exchange Jurisdiction over Trading Permit Holders.* Every Permit Holder shall be subject to the regulatory jurisdiction of the Exchange under the Exchange Act, the Bylaws and the Rules, including without limitation the Exchange's disciplinary jurisdiction under Chapter 17 of the Rules.

### **Rule 3.2. Denial of and Conditions to Being a Permit Holder or an Associated Person**

(a) The Exchange may deny or condition an Applicant (as defined in Rule 3.1(c)(2)) from becoming a Permit Holder or a person from becoming associated with a Permit Holder for the same reasons that the Commission may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Exchange Act.

(b) The Exchange also may deny or condition an Applicant from becoming a Permit Holder or a person from becoming associated with a Permit Holder when the applicant:

(1) is a broker-dealer and (A) has a net worth (excluding personal assets) below \$25,000 if the applicant is an individual, (B) has a net worth (excluding personal assets) below \$50,000 if the applicant is an organization, (C) has financial difficulties involving an amount that is more than 5% of the applicant's net worth, or (D) has a pattern of failure to pay just debts;

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

(3) would bring the Exchange into disrepute; or

(4) for such other cause as the Exchange reasonably may decide, including failure of any required qualification examinations.

(c) The Exchange may determine not to permit a Permit Holder or a person associated with a Permit Holder to continue being a Permit Holder (or associated person) or may condition such continuance as a Permit Holder (or association) if the Permit Holder or associated person:

(1) fails to meet any of the qualification requirements for being a Permit Holder or associated person after approval;

(2) fails to meet any condition placed by the Exchange on being a Permit Holder or associated person; or

(3) violates any agreement with the Exchange.

(d) Any decision made by the Exchange pursuant to this Rule must be consistent with both the provisions of this Rule and the provisions of the Exchange Act.

(e) Any applicant who has been denied from becoming a Permit Holder (associated person) or has condition(s) imposed on becoming a Permit Holder (associated person) pursuant to paragraph (a) or (b) of this Rule, and any Permit Holder (associated person) who is not permitted to continue being a Permit Holder (associated person) or whose continuance as a Permit Holder (associated person) is conditioned pursuant to paragraph (c) of this Rule, may appeal the Exchange's decision under Chapter 19. No determination of the Exchange to discontinue or condition a Permit Holder (associated person) pursuant to paragraph (c) of this Rule shall take effect until the review procedures under Chapter 19 have been exhausted or the time for review has expired.

(f) Without prior Commission approval, the Exchange or any entity with which it is affiliated shall not directly acquire or maintain an ownership interest in an Exchange Permit Holder. In addition, without prior Commission approval, no Permit Holder shall

be or become affiliated with (i) the Exchange; or (ii) any affiliate of the Exchange. Nothing herein shall prohibit a Permit Holder from (i) acquiring or holding an equity interest in the CBSX LLC; or (ii) being affiliated with OneChicago, LLC, provided the Exchange's or any Exchange affiliate's proportionate share of OneChicago, LLC's gross revenues does not exceed 5% of the Exchange (or the relevant affiliate's) gross revenue.

### **Rule 3.3. Persons Associated with Permit Holder**

(a) Persons associated with Permit Holders shall be bound by the Bylaws and Rules of the Exchange and of the Clearing Corporation. The Exchange may bar a person from becoming or continuing to be associated with a Permit Holder if such person does not agree in writing, in a manner and form prescribed by the Exchange, to furnish the Exchange with information with respect to such person's relationship and dealings with the Permit Holder, and information reasonably related to such person's other securities business, as may be required by the Exchange, and to permit the examination of its books and records by the Exchange to verify the accuracy of any information so supplied.

(b) Each associated person of a Permit Holder that is required to be disclosed on Exchange Act Form BD as a direct owner or executive officer (or, if the member organization is not required to be a registered broker-dealer, each associated person of the organization that would be required to be disclosed on Form BD as a direct owner or executive officer in the event that the organization was a registered broker-dealer) is required to submit to the Exchange an application for approval to become associated with the Permit Holder in that capacity. No person may become associated with a Permit Holder in the capacity of a direct owner or executive officer that is (or would be) required to be disclosed on Form BD unless and until the Exchange approves that association.

(c) A claim of any associated person required to be approved by the Exchange pursuant to paragraph (b) of this Rule against the Permit Holder with which that person is associated shall be subordinate in right of payment to customers and other Permit Holders.

### **Rule 3.4. Qualification and Registration**

(a) *Registration of Permit Holders and Associated Persons Engaged in the Securities Business.*

(1) Permit Holders that are individuals ("PHI") and associated persons of Permit Holders engaged or to be engaged in the securities business of a Permit Holder shall be registered with the Exchange in the category of registration appropriate to the function to be performed in a form and manner prescribed by the Exchange. Before the registration can become effective, the PHI or individual associated person shall pass a qualification examination appropriate to the category of registration in a form and manner prescribed by the Exchange. A Permit Holder shall not maintain a registration with the Exchange for any person (1) who is no longer active in the Permit Holder's securities business or (2) where the sole purpose is to avoid an examination requirement. A Permit Holder shall not make application for the registration of any person where there is no intent to employ

that person in the Permit Holder's securities business. A Permit Holder may, however, maintain or make application for the registration of an individual who performs legal, compliance, internal audit, back-office operations, or similar responsibilities for the Permit Holder, or a person who performs administrative support functions for registered personnel, or a person engaged in the securities business of a foreign securities affiliate or subsidiary of the Permit Holder.

(2) *Persons Exempt from Registration.* The following PHIs and individual associated persons of Permit Holders are exempt from the registration requirements set forth in paragraph (1):

(A) individual associated persons whose functions are solely and exclusively clerical or ministerial;

(B) PHIs and individual associated persons who are not actively engaged in the securities business; or

(C) individual associated persons whose functions are related solely and exclusively to the member's need for nominal corporate officers or for capital participation;

(b) *Financial/Operations Principal.* Each Permit Holder subject to Exchange Act Rule 15c3-1 shall designate a Financial/Operations Principal. The duties of a Financial/Operations Principal shall include taking appropriate actions to assure that the Permit Holder complies with applicable financial and operational requirements under the Rules and the Exchange Act, including but not limited to those requirements relating to the submission of financial reports and the maintenance of books and records. Each Financial/Operations Principal is required to have successfully completed the Financial and Operations Principal Examination (Series 27 Exam). Each Financial/Operations Principal designated by a Permit Holder shall be registered in that capacity with the Exchange in a form and manner prescribed by the Exchange. A Financial/Operations Principal of a Permit Holder may be a full-time employee, a part-time employee or independent contractor of the Permit Holder. Permit Holders for which the Exchange is the Designated Examining Authority ("DEA") must provide prompt written notice to the Exchange for each person designated as a Financial/Operations Principal reporting whether such person is a full-time employee, part-time employee, independent contractor or has any outside business affiliations.

(c) *Associated Person Statuses Under Chapter IX.* Associated person statuses under Chapter IX (along with the primary Exchange Rule concerning the status) include, among others: (i) Registered Options Principal ( Rule 9.2); (ii) Registered Representative ( Rule 9.3); (iii) Chief Compliance Officer ( Rule 9.8).

... *Interpretations and Policies:*

.01 Each person in an associated person status enumerated in paragraphs (a) through (c) of this Rule shall, electronically submit to the FINRA's Web Central Registration Depository ("CRD") System (i) any required amendments to Form U-4.

.02 Any Permit Holder that discharges or terminates the employment or retention of an associated person enumerated in paragraph (a) through (c) of this Rule shall comply with the termination filing requirements set forth in Rule 9.3(b) and Rule 9.3(c).

.03 Each person in an associated person status enumerated in paragraph (a) through (c) of this Rule is required to satisfy the continuing education requirements set forth in Rule 9.3A.

.04 The Exchange may, in exceptional cases and where good cause is shown, waive the applicable qualification examination and accept other standards as evidence of an applicant's qualifications for registration. Advanced age or physical infirmity will not individually of themselves constitute sufficient grounds to waive a qualification examination. Experience in fields ancillary to the securities business may constitute sufficient grounds to waive a qualification examination.

**Rule 3.5. Permit Holders and Persons Associated with a Permit Holder Who Are or Become Subject to a Statutory Disqualification**

(a) The Exchange may determine in accordance with the provisions of this Rule not to allow a Permit Holder or associated person of a Permit Holder to continue being a Permit Holder or associated with a Permit Holder, or to condition such continuance as a Permit Holder or associated person, if the Permit Holder or associated person is or becomes subject to a statutory disqualification under the Exchange Act.

(b) If a Permit Holder or associated person of a Permit Holder who is or becomes subject to a statutory disqualification under the Exchange Act wants to continue being a Permit Holder or associated with a Permit Holder, the Permit Holder or associated person must, within 10 days of becoming subject to a statutory disqualification, submit an application to the Exchange, in a form and manner prescribed by the Exchange, seeking to continue being a Permit Holder or associated with a Permit Holder notwithstanding the statutory disqualification. The application shall be accompanied by copies of all documents that are contained in the record of the underlying proceeding that triggered the statutory disqualification.

(c) Following the receipt of an application submitted pursuant to paragraph (b) of this Rule, or in the event the Exchange becomes aware that a Permit Holder or associated person of a Permit Holder is subject to a statutory disqualification and has failed to submit an application pursuant to paragraph (b) of this Rule within the required time period, the Exchange shall appoint a panel composed of three Permit Holders or persons associated with Permit Holders to conduct a hearing concerning the matter pursuant to paragraph (f) of this Rule.

(d) Any person who is the subject of a proceeding under this Rule is entitled to be accompanied, represented, and advised by counsel at all stages of the proceeding.

(e) Any person who is the subject of a proceeding under this Rule and any Permit Holder or associated person of a Permit Holder shall promptly submit any information requested by the Exchange or hearing panel in connection with the proceeding.

(f) The hearing panel shall hold a hearing to determine whether to permit the Permit Holder or associated person of a Permit Holder who is the subject of a proceeding under this Rule to continue being a Permit Holder or associated with a Permit Holder, and if so, whether to condition such continuance as a Permit Holder or associated person. The hearing shall be held 14 or more days following the receipt of an application, or the initiation of a proceeding, pursuant to paragraph (c) of this Rule. The Exchange shall notify the subject of the proceeding in writing of the date, time, and location of the hearing. Both the subject of the proceeding and Exchange staff will be afforded an opportunity to present relevant information, arguments, and witnesses during the hearing. The hearing panel shall regulate the conduct of the hearing, and formal rules of evidence shall not apply. The subject of the proceeding shall be required to attend the hearing, and the Exchange or hearing panel may require any Permit Holder or associated person of a Permit Holder to testify at the hearing. A verbatim record of the hearing shall be kept.

(g) Following the hearing, the hearing panel shall prepare a decision. Failure to timely file an application pursuant to paragraph (b) of this Rule is a factor that may be taken into consideration in rendering the decision. The decision shall be in writing and set forth the basis for the decision. The decision shall be promptly provided to the subject of the proceeding under this Rule and to the Board. The Board or its designee may determine within 7 days after the issuance of the hearing panel's decision to order review of the decision. If the Board or its designee does not order review of the hearing panel's decision, the hearing panel's decision shall become the final decision of the Exchange.

(h) If the Board or its designee orders review of the hearing panel's decision, the review shall be conducted by the Board or its designee or a panel thereof composed of at least 3 members of the Board. Unless the Board or its designee shall decide to open the record for the introduction of additional information or argument, any determination to order review of the hearing panel's decision and any review of the decision shall be based solely on the record of the proceeding. The decision of the Board or its designee shall be in writing, shall be promptly provided to the subject of the proceeding, and shall be the final decision of the Exchange.

(i) No determination to discontinue or condition a person as a Permit Holder or associated person pursuant to this Rule shall take effect until the review procedures under paragraph (h) of this Rule have been exhausted or the time for review has expired.

***... Interpretations and Policies:***

**.01** The Exchange may waive the provisions of this Rule when a proceeding is pending before another self-regulatory organization to determine whether to permit a Permit

Holder or an associated person of a Permit Holder to continue being a Permit Holder or associated with the Permit Holder notwithstanding a statutory disqualification. In the event the Exchange determines to waive the provisions of this Rule with respect to a Permit Holder or associated person, the Exchange shall determine whether it will concur in any Exchange Act Rule 19h-1 filing made by another self-regulatory organization with respect to the Permit Holder or associated person.

.02 If a Permit Holder or an associated person of a Permit Holder is or becomes subject to a statutory disqualification under the Exchange Act, the Permit Holder shall immediately provide written notice to the Exchange of the name of the Permit Holder or associated person, the associated person's capacity with the Permit Holder, and the nature of the statutory disqualification.

.03 In those instances where Exchange Act Rule 19h-1(a)(2) does not require the Exchange to make a notice filing with the Commission to permit an associated person to continue in association with a Permit Holder, and where the Exchange intends to grant the associated person's application for continued association, the Exchange may waive the hearing provisions of paragraph (c) above with respect to that associated person.

### **Rule 3.6. Dissolution and Liquidation of Permit Holders**

Every Permit Holder shall promptly provide written notice to the Exchange of any adoption of a plan of liquidation or dissolution of the Permit Holder and of any actual liquidation or dissolution of the Permit Holder. Upon receipt of such a notice, the Permit Holder may be suspended in accordance with Chapter 16 of the Rules.

### **Rule 3.7. Obligations of Terminating Permit Holders**

Each terminating Permit Holder shall promptly (i) make any outstanding filings required under Exchange Rules, and (ii) pay any outstanding fees, assessments, charges, fines, or other amounts due to the Exchange, the Commission, or the Securities Investor Protection Corporation.

### **Rule 3.8. Responsible Person**

Each organization that is the holder of a Trading Permit must designate an individual as the Responsible Person (as defined in Rule 1.1) for the Permit Holder. The Responsible Person must be affiliated with the Permit Holder.

### **Rule 3.9. Integrated Billing System**

Every Permit Holder must designate a Clearing Participant for the payment of the Permit Holder's Exchange invoices and vendor invoices for Exchange-related services designated by the Exchange by means of the Exchange's integrated billing system ("IBS"). The designated Clearing Participant shall pay to the Exchange on a timely basis any amount that is not disputed pursuant to IBS procedures by the Permit Holder who is directly involved. Such payments shall be drafted by the Exchange against the designated

Clearing Participant's account at the Clearing Corporation. The Clearing Corporation shall have no liability in connection with its forwarding to the Exchange each month a check representing the total amount that the Exchange advises the Clearing Corporation is owed to the Exchange.

**Rule 3.10. Letter Of Guarantee**

Each Permit Holder shall provide a letter of guarantee for the Permit Holder's trading activities on the Exchange from a Clearing Participant in a form and manner prescribed by the Exchange.

**Rule 3.11 C2 Pledge**

In a manner and form prescribed by the Exchange, each Applicant, Permit Holder, and associated person required to be approved by the Exchange pursuant to Rule 3.3(b) shall pledge to abide by the Rules of the Exchange, as from time to time amended, and by all circulars, notices, directives, or decisions adopted pursuant to or made in accordance with the Rules.

**Rule 3.12 Maintaining Current Address**

Each Permit Holder shall maintain with the Exchange its current (i) business address and (ii) address where notices may be served.

**Rule 3.15. Sponsored Users**

(a) General. This Rule governs electronic access for the entry and execution of orders by Sponsored Users with authorized access to the System and the applicable requirements that Sponsored Users and Sponsoring Participants are required to satisfy in order to engage in a Sponsoring Participant/Sponsored User relationship. For purposes of this Rule, a "Sponsored User" is a person or entity that has entered into a sponsorship arrangement with a Sponsoring Participant for purposes of receiving access to the System.

(b) Sponsored User. A Sponsored User may obtain and maintain authorized access to the System, only if such access is authorized in advance by one or more Sponsoring Participants as follows:

(1) Sponsored Users must enter into a sponsorship arrangement with a "Sponsoring Participant," which is defined as a Permit Holder that agrees to sponsor the Sponsored User's access to the System. The sponsorship arrangement consists of three separate components:

(A) The Sponsored User must enter into and maintain a customer agreement(s) with its Sponsoring Participant(s), establishing a proper relationship(s) and account(s) through which the Sponsored User will be permitted to trade on the System.



(B) For a Sponsored User to obtain and maintain authorized access to the System, the Sponsored User and its Sponsoring Participant must enter into a written agreement that incorporates the following sponsorship provisions:

(i) The Sponsored User and its Sponsoring Participant must have entered into and maintained a Sponsored User Agreement with the Exchange.

(ii) The Sponsoring Participant acknowledges and agrees that:

(I) all orders entered by its Sponsored User, any person acting on behalf of such Sponsored User ( *e.g.*, employees or agents of the Sponsored User), or any person acting in the name of such Sponsored User ( *e.g.*, customers of the Sponsored User) and any executions occurring as a result of such orders are binding in all respects on the Sponsoring Participant; and

(II) the Sponsoring Participant is responsible for any and all actions taken by such Sponsored User and any person acting on behalf of or in the name of such Sponsored User.

(iii) The Sponsoring Participant agrees that it will be bound by and comply with the Exchange's Certificate of Incorporation, Bylaws, Rules and procedures, as well as any other equivalent documents pertaining to the System (collectively, the "Exchange Rules"), and the Sponsored User agrees that it will be bound by and comply with the Exchange Rules as if the Sponsored User were a Permit Holder.

(iv) The Sponsored User agrees that it will maintain, keep current and provide to the Sponsoring Participant a list of persons who have been granted access to the System on behalf of the Sponsored User ("Authorized Traders").

(v) The Sponsored User agrees that it will familiarize its Authorized Traders with all of the Sponsored User's obligations under this Rule and will assure that they receive appropriate training prior to any use of or access to the System.

(vi) The Sponsored User agrees that it will not permit anyone other than Authorized Traders to use or obtain access to the System.

(vii) The Sponsored User agrees that it will take reasonable security precautions to prevent unauthorized use of or access to the System, including unauthorized entry of information into the System, or the information and data made available therein. The Sponsored User understands and agrees that it is responsible for any and all orders, trades and other messages and instructions entered, transmitted or received under identifiers, passwords and security codes of the Sponsored User and any person acting on behalf of or in the

name of such Sponsored User, and for the trading and other consequences thereof.

(viii) The Sponsored User acknowledges its responsibility for establishing adequate procedures and controls that permit it to effectively monitor use of and access to the System by any person acting on behalf of or in the name of Sponsored User for compliance with the terms of these sponsorship provisions.

(ix) The Sponsored User agrees that it will pay when due all amounts, if any, payable to the Sponsoring Participant, the Exchange or any other third parties that arise from the Sponsored User's use of or access to the System. Such amounts include, but are not limited to, applicable Exchange and regulatory fees.

(C) The Sponsored User and Sponsoring Participant must provide the Exchange with a Sponsored User Agreement acknowledging and agreeing to the requirements of this Rule, including an acknowledgement by the Sponsoring Participant of its responsibility for the orders, executions and actions of its Sponsored User. To the extent the Sponsoring Participant is not a clearing firm, the Sponsoring Participant's clearing firm, which must be a Permit Holder, must provide the Exchange with a Letter of Authorization, which specifically accepts responsibility for the clearance of the Sponsored User's transactions. Upon approval by the Clearing Corporation, if applicable, and filing with the Exchange, an existing Letter of Authorization may be amended to include the Sponsoring Participant/Sponsored User relationship. Sponsored User Agreements and Letters of Authorization filed with the Exchange will remain in effect until a written notice of revocation has been filed with the Exchange. If such a written notice of revocation has not been filed with the Exchange at least one hour prior to the opening of trading on the particular business day, such revocation shall not become effective until the close of trading on such day. A revocation shall in no way relieve the Sponsoring Participant or, if applicable, the Sponsored Participant's clearing firm of responsibility for transactions guaranteed prior to the effective date of the revocation.

(2) Each Sponsoring Participant must maintain an up-to-date list of persons who may obtain access to the System on behalf of its Sponsored Users (*i.e.*, Authorized Traders) and must provide that list to the Exchange upon request. In addition, each Sponsoring Participant must have reasonable procedures to ensure that Sponsored User and all of its Sponsored Users' Authorized Traders: (i) maintain the physical security of the Exchange and the System, which includes, but is not limited to, the equipment for accessing the facilities of the Exchange and the System, to prevent the unauthorized use or access to the Exchange or the System, including the unauthorized entry of information into the Exchange or the System, or the information and data made available therein; and (ii) otherwise comply with the Exchange Rules. If the Exchange determines that a Sponsored User or an Authorized Trader has caused a

Sponsoring Participant to violate the Exchange Rules, the Exchange may direct the Sponsoring Participant to suspend or withdraw the Sponsored User's status as a Sponsored User or the person's status as an Authorized Trader and, if so directed, the Sponsoring Participant must suspend or withdraw such status.

#### **CHAPTER 4 Business Conduct**

The rules contained in CBOE Chapter IV, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter IV as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter IV shall have the following meanings for purposes of this Chapter: "Exchange" and "CBOE" shall mean C2; "member" shall mean "Participant" or "Permit Holder"; "trading crowd" shall mean "Exchange"; and "Clearing Firms" shall mean "Clearing Participants."

#### **CHAPTER 5 Securities Dealt In**

The rules contained in CBOE Chapter V, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter V as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter V shall have the following meanings for purposes of this Chapter: "Exchange" and "CBOE" shall mean C2; and, "member" shall mean "Participant" or "Permit Holder."

#### **CHAPTER 6 Trading on the Exchange**

##### **Section A: General**

##### **Rule 6.1. Days and Hours of Business**

The hours during which option transactions may be made on the Exchange shall be from 8:30 a.m. Chicago Time to 3:00 p.m. Chicago Time except for option contracts on Index Options, Index Portfolio Shares, Index Portfolio Receipts, and Trust Issued Receipts which may remain open for trading beyond 3:00 p.m. but in no case later than 3:15 p.m. Chicago Time, as designated by the Exchange.

##### ***... Interpretations and Policies:***

.01 The Board of Directors has resolved that, except under unusual conditions as may be determined by the Board or its designee, hours during which transactions in options on individual stocks may be made on the Exchange shall correspond to the normal hours for

business set forth in the rules of the primary exchange listing the stocks underlying Exchange options.

.02 The Board of Directors has determined that the Exchange will not be open for business on New Year's Day, Martin Luther King, Jr. Day, Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day or Christmas Day. The Board has also determined that, when any holiday observed by the Exchange falls on a Saturday, the Exchange will not be open for business on the preceding Friday, and that when any holiday observed by the Exchange falls on a Sunday, the Exchange will not be open for business on the following Monday, unless unusual business conditions exist at the time.

### **Rule 6.2. Unit of Trading**

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.

### **Rule 6.3. Meaning of Premium Bids and Offers**

(a) *General.* Except as provided in paragraph (b), bids and offers shall be expressed in terms of dollars per unit of the underlying security. (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 a bid of \$770 for an option contract having a unit of trading consisting of 110 shares of an underlying security.)

(b) *Special cases.* Bids and offers for an option contract for which an adjusted unit of trading has been established in accordance with Rule 5.7 shall be expressed in terms of dollars per .01 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 plus 10 rights.)

### **Rule 6.4. Minimum Increments for Bids and Offers**

The Board of Directors may establish minimum quoting increments for options traded on the Exchange. When the Board of Directors determines to change the minimum increments, the Exchange will designate such change as a stated policy, practice, or interpretation with respect to the administration of this Rule within the meaning of subparagraph (3)(A) of subsection 19(b) of the Exchange Act and will file a rule change for effectiveness upon filing with the Commission. Until such time as the Board of Directors makes a change to the minimum increments, the following minimum increments shall apply to options traded on the Exchange:

- (1) If the options series is quoting at less than \$3.00, five (5) cents;
- (2) if the options series is quoting at \$3 or higher, ten (10) cents; and
- (3) at its discretion, the Exchange may establish: a one (1) cent minimum increment for options series that are subject to the Commission's Penny Pilot Program if the options

series is quoting at less than \$3 (including LEAPS), and a five (5) cent minimum increment for options series that are subject to the Commission's Penny Pilot Program if the options series is quoting at \$3 or higher (including LEAPS) (except for QQQQs where the minimum quoting increment may be one (1) cent for all series). Also, for so long as SPDR options (SPY) and options on Diamonds (DIA) participate in the Penny Pilot Program, the minimum increments for Mini-SPX Index Options (XSP) and options on the Dow Jones Industrial Average (DJX), respectively, may be one (1) cent for all option series quoting less than \$3 (including LEAPS), and \$0.05 for all option series quoting at \$3 or higher (including LEAPS).

(4) Except as provided in Rule 6.13, bids and offers on complex orders may be expressed in any increment regardless of the minimum increments otherwise appropriate to the individual legs of the order. Notwithstanding the foregoing sentence, bids and offers on complex orders in options on the S&P 500 Index (SPX) or on the S&P 100 Index (OEX and XEO), except for box/roll spreads, shall be expressed in decimal increments no smaller than \$0.05 or in any increment, as determined by the Exchange on a class-by-class basis and announced via Regulatory Circular. In addition, the legs of a complex order may be executed in \$0.01 increments.

## **Section B: Trading**

### **Rule 6.10. Orders Types Defined**

(a) *Market Order*. A market order is an order to buy or sell a stated number of option contracts at the best price available at the time of execution.

(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 resident within the System.

(1) *All-or-None Order*. An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.

(2) *Market-on-close order*. A market or limit order may be designated a market-on-close order to be executed as close as possible to the closing bell, or during the closing rotation, and should be near to or at the closing price for the particular series of option contracts.

(3) *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 on the Exchange. A stop order to buy becomes a market order when the option contract trades or is bid at or above the stop price on the Exchange. A stop order to sell becomes a market order

when the option contract trades or is offered at or below the stop-limit price on the Exchange.

(4) *Stop-limit order.* A stop-limit order is a contingency order to buy or sell when the market for a particular option contract reaches a specified price on the Exchange. A stop order to buy becomes a limit order when the option contract trades or is bid at or above the stop-limit price on the Exchange. A stop-limit order to sell becomes a limit order when the option contract trades or is offered at or below the stop-limit price on the Exchange.

(5) *Fill-or-Kill Order.* A fill-or-kill order is an order which is to be executed in its entirety as soon as it is received, and such order, if not so executed, is to be treated as cancelled.

(6) *Immediate-or-Cancel Order.* An immediate-or-cancel order is a market or limit order which is to be executed in whole or in part as soon as such order is received. Any portion not so executed is to be treated as cancelled.

(7) *Opening Rotation Order.* An opening rotation order is a market order which is to be executed in whole or in part during the opening rotation of an option series or not at all. Any portion not so executed is to be treated as cancelled.

(8) *Reserve Order.* A reserve order is a limit order that has both a displayed size as well as an additional non-displayed amount. Both the displayed and non-displayed portions of the reserve order are available for potential execution against incoming orders. If the displayed portion of a reserve order is fully executed, the System will replenish the display portion from reserve up to the size of the original display amount. A new timestamp is created for the replenished portion of the order each time it is replenished from reserve, while the reserve portion retains the time-stamp of its original entry.

(d) *Complex Order.* A complex order is an order of more than one option series components.

(1) *Spread Order.* A spread order is an order to buy a stated number of option contracts and to sell the same number of option contracts, or contracts representing the same number of shares at option, of the same class of options.

(2) *Combination Order.* A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security. In the case of adjusted option 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 at option.

(3) *Straddle Order.* A straddle order is an order to buy a number of call option contracts and the same number of put option contracts on the same underlying

security which contracts have the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts on the same underlying security which contracts have the same exercise price and expiration date. (e.g., an order to buy two XYZ July 50 calls and to buy two July 50 XYZ puts is a straddle order.) In the case of adjusted option 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 at option.

(4) *Strangle Order*. A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two XYZ June 35 calls and to buy two XYZ June 40 puts).

(5) *Ratio Order*. A spread, straddle or combination order may consist of legs that have a different number of contracts, so long as the number of contracts differs by a permissible ratio. For purposes of this section, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00).

(6) *Butterfly Spread Order*. A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is equal, which orders are structured as either (A) a "long butterfly spread" in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (B) a "short butterfly spread" in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.

(7) *Box/Roll Spread Order*. Box spread means an aggregation of positions in a long call option and short put option with the same exercise price ("buy side") coupled with a long put option and short call option with the same exercise price ("sell side") all of which have the same aggregate current underlying value, and are structured as either: (A) a "long box spread" in which the sell side exercise price exceeds the buy side exercise price or (B) a "short box spread" in which the buy side exercise price exceeds the sell side exercise price.

(8) *Collar Orders and Risk Reversals*. A collar order (risk reversal) is an order involving the sale (purchase) of a call (put) option coupled with the purchase (sale) of a put (call) option in equivalent units of the same underlying security having a lower (higher) exercise price than, and same expiration date as, the sold (purchased) call (put) option.

(e) Time in Force.

(1) *Day*. A day order shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall

remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party.

(2) *Good Til Cancelled*. A Good Til Cancelled or GTC shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first.

(f) *Attributable Order*. An attributable order is a market or limit order which displays the user firm ID for purposes of electronic trading on the Exchange. Use of attributable orders is voluntary. Attributable orders may not be available for all Exchange systems. The Exchange will issue a Regulatory Circular specifying the systems (e.g. Complex Order Auction) for which the attributable order-type shall be available.

#### **Rule 6.11. Openings (and sometimes Closings)**

(a) For a period of time before the opening of trading in the underlying security (or in the case of index options, prior to 8:30 a.m. Chicago Time), as determined by the Exchange and announced to Participants via Regulatory Circular, the System will accept orders and quotes. At specified intervals of time that will be announced to Participants, the System will disseminate to Participants information about resting orders in the book that remain from the prior business day and any orders and quotes submitted before the opening, including the expected opening price ("EOP") and expected opening size ("EOS") given the current resting orders and quotes. The EOP is the price at which the greatest number of orders and quotes in the Book are expected to trade. An EOP may only be calculated if: (i) there are market orders in the Book, or the Book is crossed (highest bid is higher than the lowest offer) or locked (highest bid equals the lowest offer), and (ii) at least one quote is present. Spread orders and contingency orders do not participate in the opening trade or in the determination of the opening price, EOP or EOS.

(b) Unless unusual circumstances exists, at a randomly selected time within a number of seconds after the opening trade and/or the opening quote is disseminated in the market for the underlying security (or after 8:30 a.m. for index options), the System initiates the opening rotation procedure and sends a notice ("Rotation Notice") to Participants. For purposes of this paragraph, the "market for the underlying security" shall be either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on a class-by-class basis and announced via Regulatory Circular.

(1) Whether the Rotation Notice will be sent following the opening trade and/or opening quote (or whichever occurs first) will be determined on a class basis by the Exchange and announced via Regulatory Circular.

(2) In the event an underlying security has not opened within a reasonable time after 8:30 a.m., then the opening rotation for option contracts in such security shall be



delayed until the underlying security has opened unless the Help Desk determines that the interest of a fair and orderly market are best served by opening trading in the option contracts. However, in the particular event where the underlying security has not opened within a reasonable time after 8:30 a.m. and the Help Desk believes the delay is because the market for the underlying security has not reported an opening trade in the underlying security but has disseminated opening quotations and not given an indication of a delayed opening, the senior official in the Help Desk may authorize the initiation of the opening rotation process in the affected option class where necessary to ensure a fair and orderly market.

(c) After the Rotation Notice is sent, the System will enter into a Rotation Period, during which the opening price will be established for each series.

(1) During the Rotation Period, the System will continue to calculate and provide the EOP and EOS given the current resting orders and quotes.

(2) The System will process the series of a class in a random order and the series will begin opening after a period following the Rotation Notice. This period, which shall not exceed sixty seconds, will be established on a class basis by the Exchange and announced to via Regulatory Circular.

(d) As the opening price is determined by series, the System will disseminate through OPRA the opening quote and the opening trade price, if any.

(e) Subject to subparagraph (f) below, the System will not open a series if one of the following conditions is met:

(1) There is no quote present in the series;

(2) The opening price is not within an acceptable range (as determined by the Exchange and announced via Regulatory Circular) compared to the lowest quote offer and the highest quote bid;

(3) The opening trade would be at a price that is not the NBBO; or

(4) The opening trade would leave a market order imbalance (i.e., there are more market orders to buy or to sell for the particular series than can be satisfied by the limit orders, quotes and market orders on the opposite side).

(f)

(1) If the condition in paragraph (e)(1) is present, the System will check to see if there is an NBBO quote on another market that falls within the acceptable opening range. If such an NBBO quote is present, the series will open and expose the marketable order(s) at the NBBO price. If such an NBBO quote is not present, the System will not open the series and will send a notification to Participants indicating the reason.

(2) If the condition in paragraph (e)(2) is present, the System will match orders and quotes to the extent possible at a single clearing price within the acceptable range and then expose the remaining marketable order(s) at the widest price point within the acceptable opening range or the NBBO price, whichever is better.

(3) If the condition in paragraph (e)(3) is present, the System will match orders and quotes to the extent possible at a single clearing price within the acceptable opening range or the NBBO price, whichever is better, and then expose the remaining marketable order(s) at the NBBO price.

(4) If the condition in paragraph (e)(4) is present, the System will match orders and quotes to the extent possible at a single clearing price and then expose the remaining marketable order(s) at the widest price point within the acceptable opening range or the NBBO price, whichever is better.

(g) Matching Orders.

(1) At Clearing price. In determining the priority of orders and quotes to be traded at a single clearing price, the System gives priority to public customer market orders first (with multiple orders ranked based on time priority), then to non-public customer market orders second (with multiple orders being ranked based on time priority), then to limit orders and quotes whose price is better than the opening price (with multiple orders and quotes being ranked in accordance with the allocation algorithm in effect for the option class), and then to limit orders and quotes at the opening price (with multiple orders and quotes being ranked in accordance with the allocation algorithm in effect for the option class).

(2) Exposed Orders. All orders exposed pursuant to this Rule shall be exposed for a period of time designated by the Exchange which shall not exceed 1.5 seconds. Once an exposed order has received a response, a matching period begins which shall last for a period of time designated by the Exchange that shall not exceed 1 second. The size of a response may not exceed the size of the exposed order(s). Allocations shall be in accordance with the matching algorithms in effect for the class. In addition, for all classes, any remaining balance of opening contingency orders not executed after an exposure on the opening will be automatically cancelled.

(h) The Help Desk may deviate from the standard manner of the opening procedure, including delaying the opening in any option class, when necessary in the interests of maintaining a fair and orderly market.

(i) The procedure described in this Rule may be used to reopen a class after a trading halt.

(j) *Closing Rotation Procedure.* The procedure described in this Rule may be employed after the end of the normal close of any trading session whenever the Help Desk concludes that such action is appropriate in the interests of a fair and orderly market. The factors that may be considered in holding a closing rotation procedure include, but are not

limited to, whether there has been a recent opening or reopening of trading in the underlying security, or a need for a closing procedure in connection with expiring individual security options, an end of the year procedure, or the restart of a procedure which is already in progress. The decision to employ a closing rotation procedure shall be disseminated prior to the commencement of such procedure.

**Rule 6.12. Order Execution and Priority**

System orders shall be executed consistent with the following provisions:

(a) *Base Execution Algorithm.* The Exchange will determine to apply, for each option class traded on the System, one of the following rules of trading priority.

(1) *Price-Time Priority.* Under this method, resting orders in the System are prioritized according to price and time. If there are two or more orders at the best price then priority is afforded among these orders in the order in which they were received by the System.

(2) *Pro Rata Priority.* Under this method, resting orders in the System are prioritized according to price. If there are two or more orders at the best price then trades are allocated proportionally according to size (in a pro rata fashion). The executable quantity is allocated to the nearest whole number, with fractions  $\frac{1}{2}$  or greater rounded up and fractions less than  $\frac{1}{2}$  rounded down. If there are two market participants that both are entitled to an additional  $\frac{1}{2}$  contract and there is only one contract remaining to be distributed, the additional contract will be distributed to the participant whose quote or order has time priority.

Under either (1) or (2) above, all displayed orders at a given price shall have priority over the non-displayed portion of a Reserve Order at the same price.

(b) *Additional Priority Overlays.* In addition to the base allocation methodologies set forth above, the Exchange may determine to apply, on a series-by-series basis, any or all of the following designated market participant overlay priorities in a sequence determined by the Exchange. The Exchange will issue a Regulatory Circular periodically which will specify which series or classes are subject to these additional priorities as well as any time the Exchange changes these priorities.

(1) *Public Customer.* When this priority overlay is in effect, an order for an account in which no Participant, non-Participant in a joint-venture with a Participant, or non-Participant broker-dealer (including a foreign broker-dealer) has an interest (a "public customer" order) shall have priority over non-public customer orders. If there are two or more public customer orders at the same price, priority shall be afforded to such public customer orders in the sequence in which they are received by the System, even if the Pro Rata Priority allocation method is the chosen allocation method. Non-displayed public customer orders shall not have priority over displayed orders.

(2) *Market Turner*. "Market Turner" means a party that was the first to enter an order or quote at a better price than the previous best disseminated Exchange price and the order (quote) is continuously in the market until it trades. There may be a Market Turner for each price at which a particular order trades. The Market Turner priority at a given price remains with the order once it is earned. For example, if the market moves in the same direction as the direction in which the order from the Market Turner moved the market, and then the market moves back to the Market Turner's original price, then the Market Turner retains priority at the original price. Market Turner priority cannot be established until after the opening print and/or the conclusion of the opening rotation and, once established, shall remain in effect until the conclusion of the trading session.

The Exchange may determine, on a series-by-series basis, to reduce the Market Turner priority to a percentage of each inbound order that is executable against the Market Turner. In such cases, the Market Turner may participate in the balance of an order, pursuant to the allocation procedure in effect, after the Market Turner priority has been applied. To the extent the Market Turner order (quote) is not fully exhausted, it shall retain Market Turner priority for subsequent inbound orders until the conclusion of the trading session.

(c) *Contingency Orders*. Regardless of the allocation method in place, contingency orders (except elected Stop-limit Orders and the displayed portion of a Reserve Order) are placed last in priority order, regardless of when they were entered into the System. A contingency order that was entered before a limit order for the same security at the same price will be treated as if it were entered after the limit order. If public customer priority is afforded to a particular security, public customer contingency orders will have priority over non-public customer contingency orders but behind all other orders.

(d) *Decrementation*. Upon execution, an order/quote shall be decremented by an amount equal to the size of that execution.

(e) *Cancel/Replace*. Depending on how a quote or order is modified, the quote or order may change priority position as follows:

- (1) If the price is changed, the changed side loses position and is placed in a priority position as if the order/quote was just received.
- (2) If the quantity of one side of a quote is changed, the unchanged side retains its priority position.
- (3) If the quantity of a quote or order is decreased, it retains its priority position.
- (4) If the quantity of a quote or order is increased, it loses its priority position and is placed in a priority position as if the order/quote was just received.

(f) *Price Improvement*. Unless expressly stated otherwise, any potential price improvement resulting from an execution in the System shall accrue to the party that is removing liquidity previously posted in the System.

(g) *Complex Order Priority Exception.* A complex order as defined in Rule 6.10 may be executed at a net debit or credit price without giving priority to equivalent bids (offers) in the individual series legs that are represented in the System provided at least one leg of the order betters the best corresponding public customer bid (offer) in the System by at least one minimum trading increment as defined in Rule 6.4 ( *i.e.*, \$0.10 or \$0.05 or \$0.01, as applicable) or if COB and COA are activated for all market participants in the subject option class, a \$0.01 increment, which increment shall be determined by the Exchange on a class-by-class basis.

**Rule 6.13. Complex Order Execution**

(a) *Types of Complex Orders.* Complex orders may be entered into the Complex Order Book as immediate or cancel, day, or good-'til-cancelled.

(b) *Complex Order Book (COB).*

(1) Execution of Complex Orders in the COB: The Exchange will determine on a class-by-class basis whether complex orders that are submitted to the COB may be expressed on a net price basis in a multiple of the minimum increment (*i.e.*, \$0.10 or \$0.05 or \$0.01, as applicable) or in a smaller increment that may not be less than \$0.01. Complex orders that are submitted to the COB may be executed without consideration to prices of the same complex orders that might be available on other exchanges, and the legs of a complex order may be executed in \$0.01 increments, regardless of the minimum quoting increments otherwise appropriate to the individual legs of the order. Complex orders that are submitted to the COB may trade in the following way:

(A) Orders and Quotes in the Book: A complex order in the COB will automatically execute against individual orders or quotes residing in the Book provided the complex order can be executed in full (or in a permissible ratio) by the orders and quotes in Book.

(B) Orders in COB: Complex orders in the COB that are marketable against each other will automatically execute. The allocation of a complex order within the COB shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.

(2) Complex orders in the COB may be designated as day orders or good-'til-cancelled orders. Only those complex orders with no more than four legs and having a ratio of one-to-two or lower, as determined by the Exchange, are eligible for placement into the COB.

(c) Process for Complex Order RFR Auction: Prior to routing to the COB, eligible complex orders may be subject to an automated request for responses ("RFR") auction process.

(1) For purposes of paragraph (c):

(A) "COA" is the automated complex order RFR auction process.

(B) A "COA-eligible order" means a complex order that, as determined by the Exchange on a class-by-class basis, is eligible for a COA considering the order's marketability (defined as a number of ticks away from the current market), size, complex order type and complex order origin types (i.e. non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-makers or specialists on an options exchange). Complex orders processed through a COA may be executed without consideration to prices of the same complex orders that might be available on other exchanges.

(2) Initiation of a COA: On receipt of a COA-eligible order and request from the Participant representing the order that it be processed through COA, the Exchange will send an RFR message to all Participants who have elected to receive RFR messages. The RFR message will identify the component series, the size of the COA-eligible order and any contingencies, if applicable, but will not identify the side of the market.

(3) Bidding and Offering in Response to RFRs: The Exchange shall determine, on a class-by-class basis, which of the following two groups of Participants may submit responses to the RFR message ("RFR Responses") during the Response Time Interval: (a) each Market-Maker registered in the relevant option class, and each Participant acting as agent for orders resting at the top of the COB in the relevant options series; or (b) all Participants.

(A) RFR Response sizes will be limited to the size of the COA-eligible order for allocation purposes and may be expressed on a net price basis in a multiple of the minimum increment (i.e., \$0.10, \$0.05 or \$0.01, as applicable) or in a smaller increment that may not be less than \$0.01, as determined by the Exchange on a class-by-class basis. RFR Responses will not be visible (other than by the COA system).

(B) The "Response Time Interval" means the period of time during which responses to the RFR may be entered. The Exchange will determine the length of the Response Time Interval on a class-by-class basis; provided, however, that the duration shall not exceed three (3) seconds.

(4) Processing of COA-Eligible Orders: At the expiration of the Response Time Interval, COA-eligible orders will be allocated in accordance with subparagraph (5) below or routed in accordance with subparagraph (6) below.

(5) Execution of COA-Eligible Orders: COA-eligible orders may be executed without consideration to prices of the same complex orders that might be available on other exchanges, and the legs of a COA-eligible order may be executed in one cent increments, regardless of the minimum quoting increments otherwise appropriate to

the individual legs of the order. COA-eligible orders will trade first based on the best net price(s) and, at the same net price, will be allocated in the following way:

- (A) The individual orders and quotes residing in the Book shall have first priority to trade against a COA-eligible order provided the COA-eligible order can be executed in full (or in a permissible ratio) by the orders and quotes in the Book. The allocation of a COA-eligible order against the Book shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.
- (B) Public customer complex orders resting in the COB before, or that are received during, the Response Time Interval and public customer RFR Responses shall, collectively have second priority to trade against a COA-eligible order. The allocation of a COA-eligible order against the public customer complex orders resting in the COB shall be according to time priority.
- (C) Non-public customer orders resting in the COB before the Response Time Interval shall have third priority to trade against a COA-eligible order. The allocation of a COA-eligible order against non-public customer orders resting in the COB shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.
- (D) Non-public customer orders resting in the COB that are received during the Response Time Interval and non-public customer RFR responses shall, collectively, have fourth priority. The allocation of a COA-eligible order against these opposing orders shall be pursuant to the rules of trading priority otherwise applicable to incoming orders in the individual component legs.
- (6) Routing of COA-Eligible Orders: If a COA-eligible order cannot be filled in whole or in a permissible ratio, the order (or any remaining balance) will route to the COB.
- (7) Firm Quote Requirement for COA-Eligible Orders: RFR Responses represent non-firm interest that can be modified or withdrawn at any time prior to the end of the Response Time Interval. At the end of the Response Time Interval, RFR Responses shall be firm only with respect to the COA-eligible order for which it is submitted, provided that RFR Responses that exceed the size of a COA-eligible order are also eligible to trade with other incoming COA-eligible orders that are received during the Response Time Interval. Any RFR Responses not accepted in whole or in a permissible ratio will expire at the end of the Response Time Interval.
- (8) Handling of Unrelated Complex Orders: Incoming complex orders that are received prior to the expiration of the Response Time Interval for a COA-eligible order (the "original COA") will impact the original COA as follows:

(A) Incoming complex orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the opposite side of the market and are marketable against the starting price of the original COA-eligible order will cause the original COA to end. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same. For purposes of this Rule, the “starting price”, shall mean the better of the original COA-eligible order's limit price or the best price, on a net debit or credit basis, that existed in the Book or COB at the beginning of the Response Time Interval.

(B) Incoming COA-eligible orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the same side of the market, at the same price or worse than the original COA-eligible order and better than or equal to the starting price will join the original COA. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same with the addition that the priority of the original COA-eligible order and incoming COA-eligible order(s) shall be according to time priority.

(C) Incoming COA-eligible orders that are received prior to the expiration of the Response Time Interval for the original COA that are on the same side of the market and at a better price than the original COA-eligible order will join the original COA, cause the original COA to end, and a new COA to begin for any remaining balance on the incoming COA-eligible order. The processing of the original COA pursuant to subparagraphs (c)(4) through (c)(6) remains the same with the addition that the priority of the original COA-eligible order and incoming COA-eligible order shall be according to time priority.

***... Interpretations and Policies:***

**.01** All pronouncements regarding determinations by the Exchange pursuant to this Rule will be announced via Regulatory Circular.

**.02** With respect to the initiation of a COA, Participants routing complex orders directly to the COB may request that the complex orders be processed by COA on a class-by-class basis.

**.03** A pattern or practice of submitting orders that cause a COA to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1.

**.04** Price Check Parameters: On a class by class basis, the Exchange may determine (and announce via Regulatory Circular) that COB will not automatically execute eligible complex orders that are:

(a) Market orders if (i) the width between the Exchange's best bid and best offer in any individual series leg is not within an acceptable price range or (ii) the width between the Exchange's best net priced bid and best net priced offer in the individual series legs



comprising the complex order is not within an acceptable price range. For purpose of this paragraph (a):

(1) An “acceptable price range” shall be determined by the Exchange (and announced to via Regulatory Circular) on a series by series basis for each series comprising the complex order (or, in the case of subparagraph (a)(ii), based on the sum of each individual series leg of a complex order) and be no less than \$0.37 for each option contract for which the bid is less than \$2, \$0.60 for each option contract for which the bid is at least \$2 but does not exceed \$5, \$0.75 for each option contract for which the bid is at least \$5 but does not exceed \$10, \$1.20 for each option contract for which the bid is at least \$10 but does not exceed \$20, and \$1.50 for each option contract for which the bid is more than \$20; and

(2) The Help Desk may grant intra-day relief by widening the acceptable price range.

(3) Such complex orders under this paragraph (a) will be cancelled.

(4) Notwithstanding paragraph (a) above, if part of a market order may be executed within an acceptable price range, that part of the order will be executed automatically and the part of the order that would execute at a price outside the acceptable price range will be cancelled.

(b) Market orders that would be executed at a net credit (debit) price after receiving a partial execution at a net debit (credit) price will be cancelled.

(c) Market orders that would be executed at a net credit (debit) price or orders priced at a net credit (debit) price, that consist of at least two series and would result in an execution to:

(1) Buy (sell) a number of call option contracts and sell (buy) the same number or applicable ratio (as determined by the Exchange on a class by class basis) of call option contracts in a series with the same underlying security and expiration date but a higher exercise price; or

(2) Buy (sell) a number of put option contracts and sell (buy) the same number or applicable ratio (as determined by the Exchange on a class by class basis) of put option contracts in a series with the same underlying security and expiration date but a lower exercise price.

(3) Such complex orders under this paragraph (c) will be rejected if these conditions exist when the order is routed to COB. To the extent the parameters under this paragraph (c) are triggered once an order is resting in COB or after an incoming order receives a partial execution, such complex orders will be cancelled.

#### **Rule 6.14. SAL**

This Rule governs the operation of the SAL system. SAL is a feature within the System that auctions marketable orders for price improvement over the NBBO.

(a) *SAL Eligibility.* The Exchange shall designate the eligible order size, eligible order type, eligible order origin code ( *i.e.* public customer orders, non-Market-Maker broker-dealer orders, and Market-Maker broker-dealer orders), and classes in which SAL shall be activated. For such classes, SAL shall automatically initiate an auction process for any non-contingency order that is marketable against the Exchange's NBBO quote ("Agency Order"), except when the Exchange's disseminated quotation on the opposite side of the market from the Agency Order does not contain sufficient Market-Maker quotation size to satisfy the entire Agency Order.

(b) *SAL Auction.* Prior to commencing the auction, SAL shall stop the Agency Order at the NBBO against Market-Maker quotations displayed at the NBBO on the opposite side of the market as the Agency Order. SAL will not allow such quotations to be cancelled or to move to an inferior price or size throughout the duration of the auction. The auction will last for a period of time not to exceed two (2) seconds as determined by the Exchange on a class-by-class basis. Auction responses may be submitted by any Participants. With respect to responses, the following shall apply:

(1) Responses shall not be visible to other auction participants and shall not be disseminated to OPRA.

(2) Responses may be submitted in one-cent increments unless for the relevant option class the Exchange has determined that responses shall be submitted in standard increments.

(3) Multiple responses are allowed.

(4) Responses may be cancelled.

(5) Responses cannot cross the Exchange's disseminated quotation on the opposite side of the market.

(c) *Allocation of Agency Orders.* Agency Orders may be allocated at multiple prices if necessary and shall be allocated in two rounds per price point as follows:

(1) *First Allocation Round.* The Agency Order shall first be allocated at the best response price (the "First Allocation Round") between all parties (responding at that price) that represented the Exchange's NBBO quotation at the time the auction commenced ("Original Quoters") up to the size of such quotation. During the First Allocation Round, the following shall apply:

(A) The Agency Order shall first be allocated against Public Customer interest at the best price;

(B) the Agency Order shall then be allocated pursuant to the matching algorithm in effect for the class; and

(C) An Original Quoter may only participate in a First Allocation Round at each allocation price up to its size at the NBBO at the time the auction commenced.

(2) Second Allocation Round. If an Agency Order is not fully allocated at the best response price during the First Allocation Round, then a subsequent allocation ("Second Allocation Round") shall occur at that price point. During this round, all responses received during the auction at that price that were not eligible for the First Allocation Round shall participate in accordance with the matching algorithm in effect for the class (after Public Customer interest has been exhausted), and the size of such responses shall be capped to the size of the Agency Order for allocation purposes. If the Agency Order is not fully allocated in the Second Allocation Round then allocation of the Agency Order shall proceed at the next best response price.

(d) *Early Termination of Auction.* The auction will terminate early under the following circumstances:

(1) If the System receives an unrelated non-marketable limit order on the opposite side of the market from the Agency Order that improves any auction responses, the unrelated order will trade (after any responses that were priced better than the unrelated order have traded) to the fullest extent possible at the midpoint of the best remaining auction response and the unrelated order's limit price (rounded towards the unrelated order's limit price when necessary).

(2) If the System receives an unrelated market or marketable limit order on the opposite side of the market from the Agency Order, such unrelated order will trade to the fullest extent possible at the midpoint of the best auction response and the NBBO on the opposite side of the market from the auction responses (rounded towards the disseminated quote when necessary).

(3) If the System receives an unrelated order on the same side of the market as the Agency Order that is marketable against the NBBO, then the auction shall conclude and the Agency Order shall trade against the best auction response(s) in accordance with subparagraph (c) above.

(4) [reserved]

(5) The auction will terminate any time a response matches the Exchange's disseminated quote on the opposite side of the market from the response. If the disseminated quote on the opposite side of the market from the response does not contain a customer order then the response shall trade against the Agency Order. If the disseminated quote on the opposite side of the market from the response does contain a customer order then, unless there is sufficient size in the response to execute both the Agency Order and the booked customer order (in which case they will both

execute at that price), the Agency Order will execute against the response at one cent worse than the response price and any balance shall trade against the customer order in the book at such order's limit price.

*... Interpretations and Policies:*

.01 A pattern or practice of submitting unrelated orders that cause an auction exposure period to conclude early will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 and other Exchange Rules.

.02 When the disseminated market is crossed, SAL will continue to automatically initiate auctions provided the Exchange is the NBBO for the relevant side of the market at the time a SAL-eligible order is received.

**Rule 6.15. Obvious Error and Catastrophic Errors**

The Exchange shall either bust a transaction or adjust the execution price of a transaction that results from an Obvious Error or Catastrophic Error (collectively "Errors") as provided in this Rule. In limited circumstances, the Exchange may nullify transactions, pursuant to Interpretation and Policy .08 below.

*(a) Definitions*

(1) *Obvious Error.* For purposes of this Rule only, an Obvious Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price Minimum Amount</b>	
Below \$2	.25
\$2 to \$5	.40
Above \$5 to \$10	.50
Above \$10 to \$20	.80
Above \$20	1.00

(2) *Catastrophic Error.* For purposes of this Rule only, a Catastrophic Error will be deemed to have occurred when the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

<b>Theoretical Price Minimum Amount</b>	
Below \$2	\$1
\$2 to \$5	\$2
Above \$5 to \$10	\$5
Above \$10 to \$50	\$10
Above \$50 to \$100	\$20

Above \$100                      \$30

(3) *Theoretical Price.* For purposes of this Rule only, the Theoretical Price of an options series is:

(A) if the series is traded on at least one other options exchange, the last national best bid price with respect to an erroneous sell transaction, and the last national best offer price with respect to an erroneous buy transaction, just prior to the trade, or

(B) if there are no quotes for comparison purposes, as determined by designated personnel in the Help Desk.

(b) *Obvious Error Procedure.* The Help Desk shall administer the application of this Rule as follows.

(1) Notification. If a Participant on the Exchange believes that it participated in a transaction that was the result of an Obvious Error, it must notify the Help Desk within fifteen (15) minutes of the execution. Absent unusual circumstances, the Help Desk will not grant relief under this Rule unless notification is made within the prescribed time period.

(2) Adjust or Bust. The Help Desk will determine whether there was an Obvious Error as defined above. If it is determined that an Obvious Error has occurred, the Help Desk shall take one of the actions listed below. Upon taking final action, the Help Desk shall promptly notify both parties to the trade.

(A) Where each party to the transaction is a Market-Maker on the Exchange, the execution price of the transaction will be adjusted by the Help Desk to the prices provided in paragraphs (i) and (ii) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by the Help Desk of the Obvious Error.

(i) Erroneous buy transactions will be adjusted to their Theoretical Price (1) plus \$.15 if the Theoretical Price is under \$3, and (2) plus \$.30 if the Theoretical Price is at or above \$3.

(ii) Erroneous sell transactions will be adjusted to their Theoretical Price (1) minus \$.15 if the Theoretical Price is under \$3, and (2) minus \$.30 if the Theoretical Price is at or above \$3.

(B) Where at least one party to the Obvious Error is not a Market-Maker on the Exchange, the trade will be busted by the Help Desk unless both parties agree to an adjustment price for the transaction within thirty (30) minutes of being notified by the Help Desk of the Obvious Error.

(c) *Obvious Error Panel.*

(1) *Composition.* An Obvious Error Panel will be comprised of representatives from four (4) Participants. Two (2) of the representatives must be directly engaged in market making activity and two (2) of the representatives must be employed by non-Market-Maker Participants.

(2) *Scope of Panel's Review.* If a party affected by a determination made under this Rule so requests within the time permitted in (3) below, the Obvious Error Panel will review decisions made by the Help Desk under this Rule, including whether an Obvious Error occurred, whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price. A party may also request that the Obvious Error Panel provide relief as provided in this Rule in cases where the party failed to provide the notification required in paragraph (c)(1) and the Help Desk declined to grant an extension, but unusual circumstances must merit special consideration.

(3) *Procedure for Requesting Review.* A request for review must be made in writing within thirty (30) minutes after a party receives verbal notification of a final determination by the Help Desk under this Rule, except that if notification is made after 2:30 p.m. Chicago Time, either party has until 8:30 a.m. Chicago Time the next trading day to request review. The Obvious Error Panel shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made after 2:30 p.m. on the day of the transaction or where the request is properly made the next trade day.

(4) *Panel Decision.* The Obvious Error Panel may overturn or modify an action taken by the Help Desk under this Rule upon agreement by a majority of the Panel representatives. All determinations by the Obvious Error Panel shall constitute final Exchange action on the matter at issue.

(d) *Catastrophic Error Procedure.* The Help Desk shall administer the application of this Rule as follows.

(1) *Notification.* If a Participant believes that it participated in a transaction that qualifies as a Catastrophic Error pursuant to paragraph (a)(2) above, it must notify the Help Desk by 7:30 a.m. Chicago Time on the first trading day following the date the Catastrophic Error occurred. For transactions in an expiring options series that take place on expiration Friday, a Participant must notify the Help Desk by 4:00 pm Chicago Time that same day. Relief will not be granted under this paragraph: (i) unless notification is made within the prescribed time period; and (ii) if an Obvious Error Panel has previously rendered a decision with respect to the transaction(s) in question.

(2) *Catastrophic Error Determination.* A Catastrophic Error Tribunal, comprised of two (2) representatives of Participants directly engaged in market making activity and

two (2) representatives employed by non-Market-Maker Participants, will determine whether the transaction(s) qualifies as a Catastrophic Error. If it is determined that a Catastrophic Error has occurred, the Tribunal will instruct the Help Desk to adjust the execution price of the transaction(s) according to subparagraph (3) below. If it is determined that a Catastrophic Error has not occurred, the Participant will be subject to a charge of \$5,000. All determinations by the Catastrophic Error Tribunal shall constitute final Exchange action on the matter at issue.

(3) Adjustment. If it is determined that a Catastrophic Error has occurred, unless both parties agree to adjust the transaction(s) to a different price, the execution price of the transaction(s) will be adjusted to the theoretical price (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value provided below for erroneous sell transactions:

<b>Theoretical Price Adjustment Value</b>	
Below \$2	\$1
\$2 to \$5	\$2
Above \$5 to \$10	\$3
Above \$10 to \$50	\$5
Above \$50 to \$100	\$7
Above \$100	\$10

***...Interpretations and Policies:***

**.01** When the Help Desk determines that an Error has occurred and action is warranted under paragraphs (b) or (d) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.

**.02** To qualify as a representative of a non-Market-Maker Participant on an Obvious Error Panel or Catastrophic Error Tribunal, a person must (i) be employed by a Participant whose revenues from options market making activity do not exceed ten percent (10%) of its total revenues; or (ii) have as his or her primary responsibility the handling of Public Customer orders or supervisory responsibility over persons with such responsibility, and not have any responsibilities with respect to market making activities.

**.03** The Exchange shall designate at least ten (10) Market-Maker representatives and at least ten (10) non-Market-Maker representatives to be called upon to serve on Obvious Error Panels and Catastrophic Error Tribunals as needed. In no case shall an Obvious Error Panel or Catastrophic Error Tribunal include a person related to a party to the trade in question. To the extent reasonably possible, the Exchange shall call upon the designated representatives to participate on an Obvious Error Panel on an equally frequent basis.

**.04** All determinations made by the Exchange, the Help Desk, an Obvious Error Panel or Catastrophic Error Tribunal under this Rule shall be rendered without prejudice as to the rights of the parties to the transaction to submit a dispute to arbitration.

.05 Buyers of options with a zero bid and \$.05 or less offer (i.e., a Theoretical Price of \$.05) may request that their execution be busted if at least the one strike below (for calls) or above (for puts) in the same options class was quoted with a zero bid and \$.05 or less offer at the time of the execution. Such buyers must follow the procedures of paragraph (b)(1) above.

.06 For purposes of this Rule, an “erroneous sell transaction” is one in which the price received by the person selling the option is erroneously low, and an “erroneous buy transaction” is one in which the price paid by the person purchasing the option is erroneously high.

.07 Unless all parties to a trade agree otherwise, the Help Desk may nullify a trade if all parties to a trade fail to receive a trade execution report due to a verifiable system outage.

**Rule 6.16. Price Binding Despite Erroneous Report**

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.

**Section C: Operational and Liability Matters**

**Rule 6.30. Must Give Up Clearing Participant**

For each transaction in which it participates, a Participant must immediately give up the name of the Clearing Participant through whom the transaction will be cleared. If there is a subsequent change in identity of the Clearing Participant through whom a transaction will be cleared, the Participant must, as promptly as possible, report such change to the Clearing Participant on the other side of the transaction.

***... Interpretations and Policies:***

.01 Nothing herein shall be deemed to preclude the clearance of Exchange transactions by a non-Participant pursuant to the Bylaws of the Clearing Corporation so long as a Clearing Participant is also designated as having responsibility under these Rules for the clearance and comparison of such transactions.

**Rule 6.31. Reporting of Matched Trades to Clearing Corporation**

On each business day at or prior to such time as may be prescribed by the Clearing Corporation, the Exchange shall furnish the Clearing Corporation a report of each Clearing Participant's matched trades based on the trade information filed with the Exchange on that day. Only trades which have been matched in accordance with the provisions of these Rules shall be furnished by the Exchange to the Clearing Corporation, and the Exchange shall assume no responsibility with respect to any unmatched trade nor for any delays or errors in the reporting to it of trade information. The Exchange may delegate its responsibility in respect of trade matching to the Clearing Corporation or other facility, in which case Clearing Participants shall abide by the procedures



established by the Clearing Corporation or other facility in the filing of trade information, the reconciliation of unmatched trades, and other actions pertinent to trade comparison.

**Rule 6.32. Trading Halts**

(a) *Halts.* The Help Desk may halt trading in any security in the interests of a fair and orderly market for a period not in excess of two consecutive business days. The Help Desk, in consultation with a designated senior executive officer of the Exchange, may halt trading in any security in the interests of a fair and orderly market for a period exceeding two consecutive business days. Any trading halt that lasts more than two consecutive business days shall be reviewed by the President or his/her designee, who shall be authorized to determine whether, in the interests of a fair and orderly market, to terminate or modify any such trading halt that is then still in effect. Among the factors that may be considered in making the foregoing determinations are whether:

- (1) in the case of an option on a security, trading in the underlying security has been halted or suspended in the primary market,
- (2) in the case of an option on a security, the opening of such underlying security has been delayed because of unusual circumstances,
- (3) [reserved]
- (4) the extent to which the rotation has been completed or other factors regarding the status of the rotation, or
- (5) other unusual conditions or circumstances are present.

(b) *Resumptions.* Trading in a security that has been the subject of a halt under paragraph (a) above may be resumed upon a determination by the Help Desk that the interests of a fair and orderly market are best served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions which led to the halt are no longer present.

**... Interpretations and Policies:**

**.01** No Participant or person associated with a Participant shall effect a trade on the Exchange in any option class in which trading has been suspended or halted under the provisions of this Rule and its Interpretation and Policies during the time in which the suspension or halt remains in effect.

**.02** Generally, in the case of an option on a security, trading will be halted when a regulatory halt in the underlying security has occurred in the primary market for that security.

.03 The Exchange shall halt trading in all securities whenever a market-wide trading halt commonly known as a circuit breaker is initiated on the New York Stock Exchange in response to extraordinary market conditions.

**Rule 6.33. Authority to Take Action Under Emergency Conditions**

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

**Rule 6.34. Participant Electronic Connectivity**

(a) The Exchange may limit the number of messages sent by Participants accessing the Exchange electronically in order to protect the integrity of the System. In addition, the Exchange may impose restrictions on the use of a computer connected through an API if it believes such restrictions are necessary to ensure the proper performance of the System. Any such restrictions shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

(b) In order to control the number of quotations the Exchange disseminates, the Exchange may utilize a mechanism so that newly-received quotations and other changes to the Exchange's best bid and offer are not disseminated for a period of up to, but not more than one second.

**Rule 6.35. Message Packets**

Each Trading Permit shall entitle the holder to a maximum number of orders and quotes per second as determined by the Exchange. Only Market-Makers may submit quotes to the System. Participants seeking to exceed that number of messages per second may purchase additional message packets at prices set forth in the Exchange's Fee Schedule.

**Rule 6.40. Contract Made on Acceptance of Bid or Offer**

All bids or offers made and accepted in accordance with the Rules shall constitute binding contracts, subject to applicable requirements of the Bylaws and the Rules and the Rules of the Clearing Corporation.

**Rule 6.41. Limitation on Dealings**

No Participant shall bid, offer, purchase or write (sell) on the Exchange any security other than an option contract that is currently open for trading in accordance with the provisions of Chapter 5.

**Rule 6.42. Exchange Liability**

(a) Except to the extent provided in paragraph (b) of this Rule, and except as otherwise expressly provided in the Rules, neither the Exchange nor its directors, officers, committee members, employees or agents shall be liable to Permit Holders or to persons associated therewith for any loss, expense, damages or claims that arise out of the use or enjoyment of the facilities or services afforded by the Exchange, any interruption in or failure or unavailability of any such facilities or services, or any action taken or omitted to be taken in respect to the business of the Exchange except to the extent such loss, expense, damages or claims are attributable to the willful misconduct, gross negligence, bad faith or fraudulent or criminal acts of the Exchange or its officers, employees or agents acting within the scope of their authority. Without limiting the generality of the foregoing and subject to the same exception, the Exchange shall have no liability to any person for any loss, expense, damages or claims that result from any error, omission or delay in calculating or disseminating any current or closing index value, any current or closing value of interest rate options, or any reports of transactions in or quotations for options or other securities, including underlying securities. The Exchange makes no warranty, express or implied, as to results to be obtained by any person or entity from the use of any data transmitted or disseminated by or on behalf of the Exchange or any reporting authority designated by the Exchange, including but not limited to reports of transactions in or quotations for securities traded on the Exchange or underlying securities, or reports of interest rate measures or index values or related data, and the Exchange makes no express or implied warranties of merchantability or fitness for a particular purpose or use with respect to any such data. The foregoing limitations of liability and disclaimers shall be in addition to, and not in limitation of, the provisions of Article Eighth of the Exchange's Certificate of Incorporation.

(b) Whenever custody of an unexecuted order is transmitted by a Participant to or through the Exchange's System or to any other automated facility of the Exchange whereby the Exchange assumes responsibility for the transmission or execution of the order, provided that the Exchange has acknowledged receipt of such order, the Exchange's liability for the negligent acts or omissions of its employees or for the failure of its systems or facilities shall not exceed the limits provided in this paragraph (b), and no assets of the Exchange shall be applied or shall be subject to such liability in excess of the following limits:

(1) As to any one or more claims made by a single Participant growing out of the use or enjoyment of the facilities afforded by the Exchange on a single trading day, the Exchange shall not be liable in excess of the larger of \$100,000 or the amount of any recovery obtained by the Exchange under any applicable insurance maintained by the Exchange;

(2) As to the aggregate of all claims made by all Participants growing out of the use or enjoyment of the facilities afforded by the Exchange on a single trading day, the

Exchange shall not be liable in excess of the larger of \$250,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange;

(3) As to the aggregate of all claims made by all Participants growing out of the use or enjoyment of the facilities afforded by the Exchange during a single calendar month, the Exchange shall not be liable in excess of the larger of \$500,000 or the amount of the recovery obtained by the Exchange under any applicable insurance maintained by the Exchange.

(c) If all of the claims arising out of the use or enjoyment of the facilities afforded by the Exchange cannot be fully satisfied because in the aggregate they exceed the applicable maximum amount of liability provided for in paragraph (b) above, then such maximum amount shall be allocated among all such claims arising on a single trading day or during a single calendar month, as applicable, written notice of which has been given to the Exchange no later than the opening of trading on the next business day following the day on which the use or enjoyment of Exchange facilities giving rise to the claim occurred, based upon the proportion that each such claim bears to the sum of all such claims.

***... Interpretations and Policies***

.01 The Clearing Corporation shall have no liability to Permit Holders or to their associated persons with respect to the use, non-use or inability to use the Linkage, including, without limitation, the content of orders, trades, or other business facilitated through the Linkage, the truth or accuracy of the content of messages or other information transmitted through the Linkage, or otherwise.

**Rule 6.43. Limitation on the Liability of Index Licensors for Options on Units**

(a) The term "index licensor" as used in this rule refers to any entity that grants the Exchange a license to use one or more indexes or portfolios in connection with the trading of options on Units (as defined in Interpretation .06 to Rule 5.3).

(b) No index licensor with respect to any index pertaining to Units underlying an option traded on the Exchange makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of such index, any opening, intra-day or closing value therefor, or any data included therein or relating thereto, in connection with the trading of any option contract on Units based thereon or for any other purpose. The index licensor shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the index licensor does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefor, or any data included therein or related thereto. The index licensor hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any such index, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Units based thereon. The index licensor shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses or delays, whether direct or indirect, foreseen

or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefor, any data included therein or relating thereto, or any option contract on Units based thereon, or arising out of any errors or delays in calculating or disseminating such index.

**Rule 6.44. Legal Proceedings Against the Exchange and its Directors, Officers, Employees, Contractors or Agents**

No Participant or person associated with a Participant shall institute a lawsuit or other legal proceeding against the Exchange or any director, officer, employee, contractor, agent or other official of the Exchange or any subsidiary of the Exchange, for actions taken or omitted to be taken in connection with the official business of the Exchange or any subsidiary, except to the extent such actions or omissions constitute violations of the federal securities laws for which a private right of action exists. This provision shall not apply to appeals of disciplinary actions or other actions by the Exchange as provided for in the Rules.

**Section D: Crossing**

**Rule 6.50. Order Exposure Requirement**

(a) *Principal Transactions*: Participants may not execute as principal against orders they represent as agent unless: (i) agency orders are first exposed on the System for at least one (1) second, (ii) the Participant has been bidding or offering for at least one (1) second prior to receiving an agency order that is executable against such bid or offer, or (iii) the Participant proceeds in accordance with the crossing rules contained in Rule 6.51 or 6.52.

(b) *Solicitation Orders*. Participants must expose orders they represent as agent for at least one (1) second before such orders may be executed on the System, in whole or in part, against orders solicited from Participants and non-Participant broker-dealers to transact with such orders, unless the Participant proceeds in accordance with the crossing rules contained in Rule 6.51 or 6.52.

(c) AON orders on the System are not deemed exposed for purposes of paragraphs (a) and (b) above.

**Rule 6.51. Automated Improvement Mechanism ("AIM")**

Notwithstanding the provisions of Rule 6.50, a Participant that represents agency orders may electronically execute an order it represents as agent ("Agency Order") against principal interest or against a solicited order provided it submits the Agency Order for execution into the AIM auction ("Auction") pursuant to this Rule.

(a) *Auction Eligibility Requirements*. A Participant (the "Initiating Participant") may initiate an Auction provided all of the following are met:

(1) the Agency Order is in a class designated as eligible for AIM Auctions as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange;

(2) if the Agency Order is for 50 contracts or more, the Initiating Participant must stop the entire Agency Order as principal or with a solicited order at the better of the NBBO or the Agency Order's limit price (if the order is a limit order);

(3) if the Agency Order is for less than 50 contracts, the Initiating Participant must stop the entire Agency Order as principal or with a solicited order at the better of (A) the NBBO price improved by one minimum price improvement increment, which increment shall be determined by the Exchange but may not be smaller than one cent; or (B) the Agency Order's limit price (if the order is a limit order); and

(4) at least three (3) Market-Makers are quoting in the relevant series.

(b) Auction Process. Only one Auction may be ongoing at any given time in a series and Auctions in the same series may not queue or overlap in any manner. The Auction may not be cancelled and shall proceed as follows:

(1) Auction Period and Request for Responses (RFRs).

(A) To initiate the Auction, the Initiating Participant must mark the Agency Order for Auction processing, and specify (i) a single price at which it seeks to cross the Agency Order (with principal interest or a solicited order) (a "single-price submission"), or (ii) that it is willing to automatically match as principal the price and size of all Auction responses ("auto-match") in which case the Agency Order will be stopped at the NBBO (if 50 contracts or greater) or one cent/one minimum increment better than the NBBO (if less than 50 contracts). Once the Initiating Participant has submitted an Agency Order for processing pursuant to this subparagraph, such submission may not be modified or cancelled.

(B) When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses ("RFR") detailing the side and size of the order will be sent to all Participants that have elected to receive RFRs.

(C) The RFR will last for 1 second.

(D) Responses to RFRs may be submitted by Participants.

(E) Responses shall specify price and size and cannot cross the disseminated Exchange quote on the opposite side of the market.

(F) RFR responses shall not be visible to other Auction participants, and shall not be disseminated to OPRA.

- (G) The minimum price increment for RFR responses and for an Initiating Participant's single price submission shall not be smaller than the minimum price improvement increment established pursuant to subparagraph (a)(3)(A) above.
- (H) An RFR response size at any given price point may not exceed the size of the Agency Order.
- (I) RFR responses may be modified or cancelled.
- (2) Conclusion of Auction. The Auction shall conclude at the sooner of (A) through (D) below with the Agency Order executing pursuant to paragraph (3) below.
- (A) The end of the RFR period;
- (B) Upon receipt by the System of an unrelated order (in the same series as the Agency Order) that is marketable against either the Exchange's disseminated quote (when such quote is the NBBO) or the RFR responses;
- (C) Upon receipt by the System of an unrelated limit order (in the same series as the Agency Order and on the opposite side of the market as the Agency Order) that improves any RFR response; or
- (D) Any time an RFR response matches the Exchange's disseminated quote on the opposite side of the market from the RFR responses.
- (3) Order Allocation. At the conclusion of the Auction, the Agency Order will be allocated at the best price(s) pursuant to the matching algorithm in effect for the class subject to the following:
- (A) Such best prices may include non-Auction quotes and orders.
- (B) Public customer orders in the book shall have priority.
- (C) [reserved]
- (D) If an unrelated market or marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the best RFR response and the NBBO on the other side of the market from the RFR responses (rounded towards the disseminated quote when necessary).
- (E) If an unrelated non-marketable limit order on the opposite side of the market as the Agency Order was received during the Auction and ended the Auction, such unrelated order shall trade against the Agency Order at the midpoint of the

best RFR response and the unrelated order's limit price (rounded towards the unrelated order's limit price when necessary).

(F) If the best price equals the Initiating Participant's single-price submission, the Initiating Participant's single-price submission shall be allocated the greater of one contract or a certain percentage of the order, which percentage will be determined by the Exchange and may not be larger than 40%. However, if only one Market-Maker matches the Initiating Participant's single price submission then the Initiating Participant may be allocated up to 50% of the order.

(G) If the Initiating Participant selected the auto-match option of the Auction, the Initiating Participant shall be allocated its full size at each price point until a price point is reached where the balance of the order can be fully executed. At such price point, the Initiating Participant shall be allocated the greater of one contract or a certain percentage of the remainder of the order, which percentage will be determined by the Exchange and may not be larger than 40%.

(H) If the Auction does not result in price improvement over the Exchange's disseminated price at the time the Auction began, resting unchanged quotes or orders that were disseminated at the best price before the Auction began shall have priority after any public customer order priority and the Initiating Participant's priority (40%) have been satisfied. Any unexecuted balance on the Agency Order shall be allocated to RFR responses provided that those RFR responses will be capped to the size of the unexecuted balance and that the Initiating Participant may not participate on any such balance unless the Agency Order would otherwise go unfilled.

(I) If the final Auction price locks a customer order in the book on the same side of the market as the Agency Order, then, unless there is sufficient size in the Auction responses to execute both the Agency Order and the booked customer order (in which case they will both execute at the final Auction price), the Agency Order will execute against the RFR responses at one minimum RFR response increment worse than the final Auction price against the Auction participants that submitted the final Auction price and any balance shall trade against the customer order in the book at such order's limit price.

If an unexecuted balance remains on the Auction responses after the Agency Order has been executed and such balance could trade against any unrelated order(s) that caused the Auction to conclude, then the RFR balance will trade against the unrelated order(s).

***... Interpretations and Policies:***

**.01** The Auction may be used only where there is a genuine intention to execute a bona fide transaction.



**.02** A pattern or practice of submitting unrelated orders that cause an Auction to conclude before the end of the RFR period will be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1. It will also be deemed conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 to engage in a pattern of conduct where the Initiating Participant breaks-up an Agency Order into separate orders for two (2) or fewer contracts for the purpose of gaining a higher allocation percentage than the Initiating Participant would have otherwise received in accordance with the allocation procedures contained in subparagraph (b)(3) above.

**.03** Initially, and for at least a Pilot Period expiring on July 18, 2010, there will be no minimum size requirement for orders to be eligible for the Auction. During this Pilot Period, the Exchange will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size orders and that there is an active and liquid market functioning on the Exchange outside of the Auction mechanism. Any data which is submitted to the Commission will be provided on a confidential basis.

**.04** Any solicited orders submitted by the Initiating Participant to trade against the Agency Order may not be for the account of a Market-Maker assigned to the option class.

**.05** Any determinations made by the Exchange pursuant to this Rule such as eligible classes, order size parameters and the minimum price increment for RFR responses shall be communicated in a Regulatory Circular.

**.06** Complex orders may be executed through the Auction at a net debit or net credit price provided the Auction eligibility requirements in paragraph (a) of this Rule are satisfied and the Agency Order is eligible for the Auction considering its complex order type, order origin code (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Order allocation will be the same as in paragraph (b)(3), provided that the complex order priority rules applicable to bids and offers in the individual series legs of a complex order contained in Rule 6.13(c) will continue to apply.

**.07** Reserved.

**.08** In lieu of the procedures in paragraphs (a) through (b) above, an Initiating Participant may enter an Agency Order for the account of a non-broker-dealer customer paired with a solicited order for the account of a non-broker-dealer customer and such paired orders will be automatically executed without an Auction Period provided the execution price is in the applicable standard increment and will not trade through the NBBO or at the same price as any resting customer order, and provided further that:

(a) the Agency Order is in a class designated as eligible for AIM customer-to-customer immediate crosses as determined by the Exchange and within the designated Auction

order eligibility size parameters as such size parameters are determined by the Exchange; and

(b) if the Exchange determines on a class-by-class basis to (i) designate complex orders as eligible for AIM customer-to-customer immediate crosses then the NBBO condition shall not apply to such orders and instead the execution price will not trade through the Exchange's BBO.

Rule 6.50 prevents a Participant from executing agency orders to increase its economic gain from trading against the order without first giving other trading interests on the Exchange an opportunity to either trade with the agency order or to trade at the execution price when the Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for a firm to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on the Exchange and to realize similar economic benefits as it would achieve by executing agency orders as principal. It would be a violation of Rule 6.50 for a firm to circumvent Rule 6.50 by providing an opportunity for (i) a customer affiliated with the firm, or (ii) a customer with whom the firm has an arrangement that allows the firm to realize similar economic benefits from the transaction as the firm would achieve by executing agency orders as principal, to regularly execute against agency orders handled by the firm immediately upon their entry as AIM customer-to-customer immediate crosses.

#### **Rule 6.52 Solicitation Auction Mechanism**

A Participant that represents agency orders may electronically execute orders it represents as agent ("Agency Order") against solicited orders provided it submits the Agency Order for electronic execution into the solicitation auction mechanism (the "Auction") pursuant to this Rule.

(a) Auction Eligibility Requirements. A Participant (the "Initiating Participant") may initiate an Auction provided all of the following are met:

(1) The Agency Order is in a class designated as eligible for Auctions as determined by the Exchange and within the designated Auction order eligibility size parameters as such size parameters are determined by the Exchange (however, the eligible order size may not be less than 500 contracts);

(2) Each order entered into the Auction shall be designated as all-or-none; and

(3) The minimum price increment for an Initiating Participant's single price submission shall be determined by the Exchange on a series basis and may not be smaller than one cent.

(b) Auction Process. The Auction shall proceed as follows:

(1) Auction Period and Requests for Responses.

- (A) To initiate the Auction, the Initiating Participant must mark the Agency Order for Auction processing, and specify a single price at which it seeks to cross the Agency Order with a solicited order.
- (B) When the Exchange receives a properly designated Agency Order for Auction processing, a Request for Responses message indicating the price and size will be sent to all members that have elected to receive such messages.
- (C) Participants may submit responses to the Request for Responses (specifying prices and sizes) during the response period (which shall be one (1) second), except that responses may not be entered for the account of an options market maker from another options exchange.
- (D) Responses shall not be visible to other Auction participants, and shall not be disseminated to OPRA.
- (E) The minimum price increment for responses shall be the same as provided in subparagraph (a)(3) above.
- (F) A response size at any given price point may not exceed the size of the Agency Order.
- (G) Responses may be modified or cancelled.
- (2) Auction Conclusion and Order Allocation. The Auction shall conclude at the sooner of subparagraphs (b)(2)(A) through (D) of Rule 6.51. At the conclusion of the Auction, the Agency Order will be automatically executed in full or cancelled and allocated subject to the following:
- (A) The Agency Order will be executed against the solicited order at the proposed execution price, provided that:
- (i) The execution price must be equal to or better than the BBO. If the execution would take place outside the BBO, the Agency Order and solicited order will be cancelled;
  - (ii) There are no public customer orders resting in the book on the opposite side of the Agency Order at the proposed execution price. If there are public customer orders and there is sufficient size (considering all resting orders, electronic quotes and responses) to execute the Agency Order, the Agency Order will be executed against these interests and the solicited order will be cancelled. If there are public customer orders and there is not sufficient size (considering all resting orders, electronic quotes and responses), both the Agency Order and the solicited order will be cancelled; and

(iii) There is insufficient size to execute the Agency Order at an improved price(s). If there is sufficient size (considering all resting orders, electronic quotes and responses) to execute the Agency Order at an improved price(s) that is equal or better than the BBO, the Agency Order will execute at the improved price(s) and the solicited order will be cancelled.

*. . . Interpretations and Policies:*

**.01** Complex orders may be executed through the Auction at a net debit or net credit price provided the Auction eligibility requirements in paragraph (a) of this Rule are satisfied and the Agency Order is eligible for the Auction considering its complex order type, order origin code (i.e., non-broker-dealer public customer, broker-dealers that are not Market-Makers or specialists on an options exchange, and/or Market-Makers or specialists on an options exchange), class, and marketability as determined by the Exchange. Order allocation will be the same as in paragraph (b)(2), provided that the complex order priority rules applicable to bids and offers in the individual series legs of a complex order contained in Rule 6.13(c) will continue to apply.

**.02** Prior to entering Agency Orders into the Auction on behalf of customers, Initiating Participants must deliver to the customer a written notification informing the customer that his order may be executed using the Exchange's Auction. The written notification must disclose the terms and conditions contained in this Rule and be in a form approved by the Exchange.

**.03** Under this Rule, Participants may enter contra orders that are solicited. The Auction provides a facility for members that locate liquidity for their customer orders. Participants may not use the Auction to circumvent Rules 6.50 or 6.51 limiting principal transactions. This may include, but is not limited to, Participants entering contra orders that are solicited from (a) affiliated broker-dealers, or (b) broker-dealers with which the Participant has an arrangement that allows the Participant to realize similar economic benefits from the solicited transaction as it would achieve by executing the customer order in whole or in part as principal. Additionally, solicited contra orders entered by Participants to trade against Agency Orders may not be for the account of an Exchange Market-Maker registered in the options class.

**Rule 6.55 Trading on Knowledge of Imminent Undisclosed Solicited Transaction**

It will be considered conduct inconsistent with just and equitable principles of trade and a violation of Rule 4.1 for any Participant or person associated with a Participant, who has knowledge of all material terms and conditions of an original order and a solicited order, including a facilitation order, that matches the original order's limit, the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option

of the same class as an option that is the subject of the original order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until either (i) all the terms and conditions of the original order and any changes in the terms and conditions of the original order of which that member or associated person has knowledge are disclosed to the trading crowd or (ii) the solicited trade can no longer reasonably be considered imminent in view of the passage of time since the solicitation. For 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 ten percent or more of the component securities in the index or an order to buy or sell a futures contract on any economically equivalent index. With respect to an SPX option, an OEX option is a related instrument, and vice versa.

### **Section E: Intermarket Linkage**

The rules contained in Section E of CBOE Chapter VI relating to the Options Order Protection and Locked/Crossed Market Plan, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. The terms "Exchange" and "CBOE" in Section E of CBOE Chapter VI shall also mean C2 for purposes of this Section.

### **CHAPTER 7**

[Reserved]

### **CHAPTER 8**

#### **Market-Makers**

#### **Rule 8.1. Initial Market-Maker Registration**

Participants registered as Market-Makers have certain rights and bear certain responsibilities beyond those of other Participants. All Market-Makers are designated as specialists on the Exchange for all purposes under the Exchange Act or Rules thereunder.

(a) To register as a Market-Maker, a Participant must file an application in writing on such forms as the Exchange may prescribe. The Exchange reviews applications and considers an applicant's market making ability and such other factors as the Exchange deems appropriate in determining whether to approve an applicant's registration as a Market-Maker.

(b) The registration of any Participant as a Market-Maker may be suspended or terminated by the Exchange upon a determination that such Participant has failed to properly perform as a Market-Maker.

(c) These Rules place no limit on the number of qualifying entities that may become Market-Makers. However, based on system constraints, capacity restrictions or other factors relevant to protecting the integrity of the System, the Board or its designee may limit access to the System, for a period to be determined in the Board's discretion, pending any action required to address the issue of concern to the Board. To the extent that the Board places permanent limitations on access to the System on any Participant(s), such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

**Rule 8.2. Continuing Market-Maker Registration**

(a) A Participant that has qualified as a Market-Maker may register to make markets in individual classes of options.

(b) A Market-Maker may become registered in a class by entering a registration request with the Exchange. The process for submitting registration requests shall be made available by the Exchange via Regulatory Circular. Registration shall become effective on the day the registration request is entered.

**Rule 8.4. Good Standing for Market-Makers**

(a) To remain in good standing as a Market-Maker, the Market-Maker must:

- (1) continue to meet the requirements established in Exchange Act Rule 15c3-1(a)(6)(i) and the general membership requirements set forth in Chapter 3 of these Rules and the Market-Maker requirements set forth in Chapter 8 of these Rules.
- (2) continue to satisfy the Market-Maker qualification requirements specified by the Exchange, as amended from time to time by the Exchange;
- (3) comply with the Rules of the Exchange as well as the rules of the Clearing Corporation and the Federal Reserve Board; and,
- (4) pay on a timely basis such participation, transaction and other fees as the Exchange shall prescribe.

(b) The good standing of a Market-Maker may be suspended, terminated or otherwise withdrawn, as provided in the Rules, if any of said conditions for approval cease to be maintained or the Market-Maker violates any of its agreements with the Exchange or any of the provisions of the Rules.

**Rule 8.5. Obligations of Market-Makers**

(a) In registering as a Market-Maker, a Participant commits itself to various obligations. Transactions of a Market-Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market-Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. Ordinarily, Market Makers are expected to adhere to the following obligations:

(1) During trading hours a Market-Maker must maintain a continuous two-sided market in 60% of the series of each registered class that have a time to expiration of less than nine months. For purposes of this subparagraph, "continuous" means 99% of the time. If a technical failure or limitation of the System prevents a Market-Maker from maintaining, or from communicating to the Exchange, timely and accurate quotes in a series, the duration of such failure shall not be considered in determining whether that Market-Maker has satisfied the 99% quoting standard with respect to that series. The Exchange may consider other exceptions to this obligation based on demonstrated legal or regulatory requirements or other mitigating circumstances.

(2) Engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.

(3) Compete with other Market-Makers in all classes in which the Market-Maker is registered to trade.

(4) Update quotations in response to changed market conditions in all classes in which the Market-Maker is registered to trade.

(5) Maintain active markets in all classes in which the Market-Maker is registered.

(6) Make markets that will be honored for the number of contracts entered into the System in all classes of options in which the Market-Maker is registered to trade.

(b) Market-Makers should not effect purchases or sales on the Exchange except in a reasonable and orderly manner.

(c) If the Exchange finds any substantial or continued failure by a Market-Maker to engage in a course of dealings as specified in paragraph (a) of this Rule, such Market-Maker will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the Market-Maker is registered. Nothing in this Rule will limit any other power of the Board under these Rules, or procedures of the Exchange with respect to the registration of a Market-Maker or in respect of any violation by a Market-Maker of the provisions of this Rule.

#### **Rule 8.6. Market-Maker Firm Quotes**

(a) Market-Maker bids and offers are firm for all orders under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602") for the number of contracts specified in the bid or offer.

(b) Market-Maker bids and offers are not firm under this Rule and Rule 602 if:

(1) a system malfunction or other circumstance impairs the Exchange's ability to disseminate or update market bids and offers in a timely and accurate manner;

(2) the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to

quotation vendors the data for the option in a manner that accurately reflects the current state of the market on the Exchange;  
(3) during the pre-opening; or  
(4) any of the circumstances provided in paragraph (c)(4) of Rule 602 exist.

**Rule 8.7. Securities Accounts and Orders of Market-Makers**

(a) *Identification of Accounts.* In a manner prescribed by the Exchange, each Market-Maker shall file with the Exchange and keep current a list identifying all accounts for stock, options and related securities trading in which the Market-Maker may, directly or indirectly, engage in trading activities or over which it exercises investment discretion. No Market-Maker shall engage in stock, options or related securities trading in an account which has not been reported pursuant to this Rule.

(b) *Reports of Orders.* Each Market-Maker shall, in the prescribed form, report to the Exchange every order entered by the Market-Maker for the purchase or sale of (i) a security underlying options traded on the Exchange, or (ii) a security convertible into or exchangeable for such underlying security, as well as opening and closing positions in all such securities held in each account reported pursuant to paragraph (a) of this Rule. The report pertaining to orders must include the terms of each order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times report of execution were received and, if all or part of the order was executed, the quantity and execution price.

(c) *Joint Accounts.* No Market-Maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any options contract unless each participant in such joint account is a Participant and unless such account is reported to, and not disapproved by, the Exchange. Such reports in a form prescribed by the Exchange shall be filed with the Exchange before any transaction is effected on the Exchange for such joint account. A participant in a joint account must:

- (1) Be either a Market-Maker or a Clearing Participant that carries the joint account.
- (2) File and keep current a completed application on such form as is prescribed by the Exchange.
- (3) Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.
- (4) Not be a Market-Maker registered to the same option classes to which the joint account holder is also registered as a Market-Maker.

**Rule 8.8. Financial Requirements for Market Makers**

(a) Each Market-Maker shall maintain net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each Market-Maker which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation.

**Rule 8.9. Limitations on Dealings**



Market-Makers shall maintain information barriers that are reasonably designed to prevent the misuse of material, non-public information with any affiliates that may conduct a brokerage business in option classes registered to the Market-Maker or that may act as specialist or market-maker in any security underlying options registered to the Market-Maker, and otherwise comply with the requirements of CBOE Rule 4.18 regarding the misuse of material non-public information.

**Rule 8.10. Financial Arrangements of Market-Makers**

Each Market-Maker who makes an arrangement to finance its transactions as a Market-Maker must identify to the Exchange the source of the financing and its terms. The Exchange must be informed immediately of the intention of any party to terminate or change any such arrangement.

**Rule 8.11. Maximum Number of Market-Makers Quoting per Product**

(a) *General.* The Exchange will impose an upper limit on the aggregate number of Market-Makers that may quote in each product ("Class Quoting Limit" or "CQL"). (For purposes of this Rule, the term "product" refers to all options of the same single underlying security/value.) Currently, the CQL is set at 50 Market-Makers.

All Market-Makers that request the ability to submit quotes in a product will be entitled to quote in that product in the order in which they so request provided the number of Market-Makers quoting electronically in the product does not exceed the CQL. When the number of Market-Makers in the product quoting electronically equals the CQL, all other Market-Makers requesting the ability to quote electronically in that product will be wait-listed in the order in which they submitted the request. The waiting list operates based on time priority. When the product can accommodate another quoter (whether due to attrition or an increase in the CQL), the Market-Maker at the "top" of the list (*i.e.*, the Market-Maker that has been on the waiting list the longest amount of time) has priority. Once a Market-Maker is wait-listed, the Exchange may not alter its position on the wait-list other than to improve such position (*i.e.*, the Exchange may not place other Market-Makers ahead of a previously wait-listed Market-Maker). If a wait-listed Market-Maker is offered, yet refuses, the ability to quote in the subject product, the Market-Maker will be removed from that waiting list.

(b) *Increasing the Class Quoting Limit.* The President of the Exchange (or in his absence his designee, who must be a Senior Vice President of the Exchange or higher) may increase the CQL for an existing or new product if the President determines that it would be appropriate. When the CQL increases pursuant to the President exercising his authority in accordance with this paragraph, Market-Makers on the wait-list for that product (if applicable) have first priority and remaining capacity will be filled on a time priority basis. The President (or his designee), in his discretion, may determine to reduce the CQL ("reduced CQL") if the President determines that it would be appropriate, provided, however, that any reduction must be undertaken in accordance with the following procedure. If a Market-Makers changes its registration and ceases quoting in that class after the President (or his designee) has determined to decrease the CQL, the

“increased” CQL will decrease by one until such time that the number of remaining Market-Makers quoting in the product equals the “reduced CQL.” From that point forward, the number of Market-Makers quoting in the product may not exceed the “reduced CQL.” Any actions taken by the President of the Exchange pursuant to this paragraph will be submitted to the Commission in a rule filing pursuant to Section 19(b)(3)(A) of the Exchange Act.

(c) *Announcements Regarding, or Changes to, Class Quoting Limits.* The Exchange will announce all changes regarding Class Quoting Limits via Information Circular. The Exchange may increase the CQL levels by submitting to the Commission a rule filing pursuant to Section 19(b)(3)(A) of the Exchange Act. The Exchange may decrease the CQL levels established above upon Commission approval of a rule filing submitted pursuant to Section 19(b)(2) of the Exchange Act.

(d) *Termination for Inactivity.* In the event a Market-Maker who is registered in an option class has not submitted any quotes in that option class during the preceding 30 calendar days (measured on a rolling basis), then the Market-Maker’s registration in that option class will be terminated effective immediately. The Market-Maker can subsequently request a registration in the option class. If there is a wait-list for the class, then Market-Maker will be placed on the wait-list for the option class. The Exchange will notify the Market-Maker prior to terminating its registration, and the Exchange can make exceptions to this policy in unusual circumstances.

## **CHAPTER 9**

### **Doing Business with the Public**

The rules contained in CBOE Chapter IX, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter IX as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter IX shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Floor” shall mean “System”; “member” shall mean “Participant” or “Permit Holder”; “Membership Committee” shall mean “Exchange”; and “clearing member organization” shall mean “Clearing Participant.”

## **CHAPTER 10**

### **Closing Transactions**

The rules contained in CBOE Chapter X, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter X as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter X shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “member” shall mean “Participant” or “Permit

Holder”; “Clearing Member” shall mean “Clearing Participant”; and “floor of the Exchange” shall mean “System.”

Notwithstanding the above paragraph, the following Rules from CBOE Chapter IX shall not apply to C2: All of Part B – Stocks Warrants, and Other Securities (Rules 10.10 – 10.22).

## **CHAPTER 11**

### **Exercises and Deliveries**

The rules contained in CBOE Chapter XI, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XI as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XI shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “member” shall mean “Participant” or “Permit Holder”; and “Clearing Member” shall mean “Clearing Participant.”

## **CHAPTER 12**

### **Margins**

The rules contained in CBOE Chapter XII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “member” shall mean “Participant” or “Permit Holder”; and “clearing firm” shall mean “Clearing Participant.”

## **CHAPTER 13**

### **Net Capital Requirements**

The rules contained in CBOE Chapter XIII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XIII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XIII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “member” shall mean “Participant” or “Permit Holder”; and “Clearing Members” shall mean “Clearing Participants.”

## **CHAPTER 14**

[Reserved]

## **CHAPTER 15**

### **Records, Reports and Audits**

The rules contained in CBOE Chapter XV, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XV as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from

CBOE Chapter XV shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “clearing member organization” shall mean “Clearing Participant”; “Department of Compliance” shall mean “Exchange”; “Department of Financial and Sales Practice Compliance” shall mean “Exchange”; “Department of Member Firm Regulation” shall mean “Exchange”; and “trading floor” shall mean “System.”

## **CHAPTER 16**

### **Summary Suspension by Chairman of the Board or Vice Chairman of the Board**

The rules contained in CBOE Chapter XVI, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVI as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVI shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Membership Committee” shall mean “Executive Committee”; and “membership” shall mean “Trading Permit” or “Permit Holders” as the context dictates.

## **CHAPTER 17**

### **Discipline**

The rules contained in CBOE Chapter XVII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “member” shall mean “Permit Holder”; “membership” shall mean “Permit Holders”; and “Clearing Member” shall mean “Clearing Participant.”

## **CHAPTER 18**

### **Arbitration**

The rules contained in CBOE Chapter XVIII, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XVIII as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XVIII shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; and “Clearing Member” shall mean “Clearing Participant.”

## **CHAPTER 19**

### **Hearings and Review**

The rules contained in CBOE Chapter XIX, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XIX as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XIX shall have the following meanings for purposes of this Chapter:

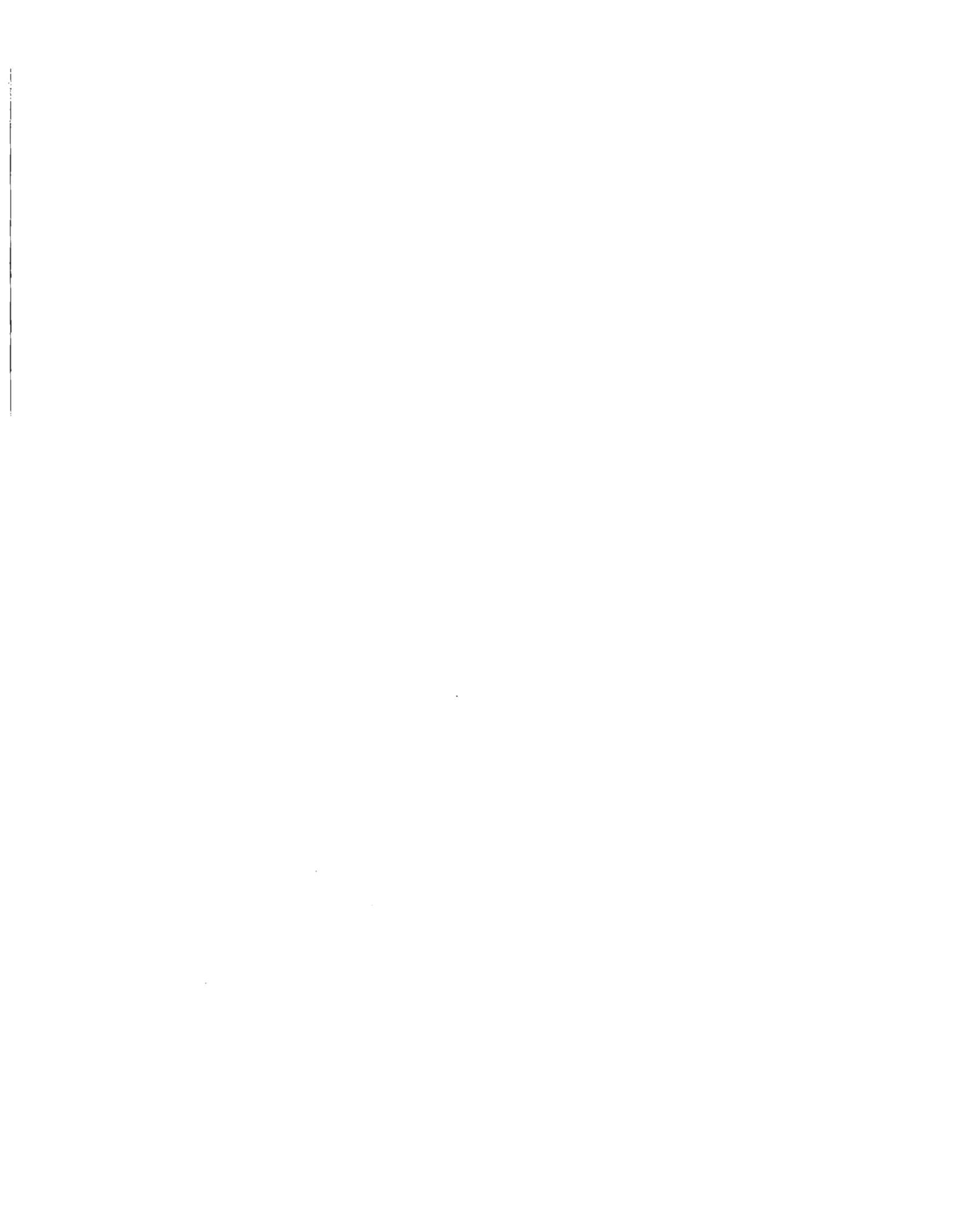
“Exchange” and “CBOE” shall mean C2; “Constitution” shall mean “Bylaws”; and “membership” shall mean “access”.

**CHAPTERS 20-23**  
**[Reserved]**

**CHAPTER 24**  
**Index Options**

The rules contained in CBOE Chapter XXIV, as such rules may be in effect from time to time, shall apply to C2 and are hereby incorporated into this Chapter. C2 Participants shall comply with CBOE Chapter XXIV as if such rules were part of the C2 Rules. Unless the context dictates otherwise, the following terms, or any variations of these terms, from CBOE Chapter XXIV shall have the following meanings for purposes of this Chapter: “Exchange” and “CBOE” shall mean C2; “Clearing Firm” shall mean “Clearing Participant”; “trading crowd” shall mean “Exchange”; and “floor of the Exchange” shall mean “System.”

Notwithstanding the above paragraph, the following Rules from CBOE Chapter XXIV shall not apply to C2: Rules 24.6 (Days and Hours of Business); 24.7 (Trading Halts, Suspensions, or Primary Market Closure); 24.13 (Trading Rotations); 24.16 (Nullification and Adjustment of Transactions in Index Options, Options on ETFs, and Options on HOLDERS); 24.17 (RAES Eligibility in Broad-Based Index Options and Options on Exchange Traded Funds on Broad Based Indexes); 24.19 (Multi-Class Broad-Based Index Option Spread Orders); and 24.21 (Index Crowd Space Dispute Resolution Procedures).



**EXHIBIT C**

**Exhibit Request:**

**For each subsidiary or affiliate of the applicant, and for any entity with whom the applicant has a contractual or other agreement relating to the operation of an electronic trading system to be used to effect transactions on the exchange ("System"), provide the following information:**

- 1. Name and address of organization.**
- 2. Form of organization (e.g., association, corporation, partnership, etc.).**
- 3. Name of state and statute citation under which organized. Date of incorporation in present form.**
- 4. Brief description of nature and extent of affiliation.**
- 5. Brief description of business or functions. Description should include responsibilities with respect to operation of the System and/or execution, reporting, clearance, or settlement of transactions in connection with operation of the System.**
- 6. A copy of the constitution.**
- 7. A copy of the articles of incorporation or association including all amendments.**
- 8. A copy of existing by-laws or corresponding rules or instruments.**
- 9. The name and title of the present officers, governors, members of all standing committees or persons performing similar functions.**
- 10. An indication of whether such business or organization ceased to be associated with the applicant during the previous year, and a brief statement of the reasons for termination of the association.**

Response:

Table of Subsidiaries and Affiliates

- A. Chicago Board Options Exchange, Incorporated
- B. Chicago Options Exchange Building Corporation
- C. The Options Clearing Corporation
- D. CBOE Futures Exchange, LLC
- E. DerivaTech Corporation
- F. The Options Exchange, Incorporated
- G. CBOE, LLC
- H. OneChicago, LLC

- I. CBOE II, LLC
  - J. Market Data Express, LLC
  - K. CBOE Stock Exchange, LLC
  - L. CBOE Holdings, Inc.
- A. Chicago Board Options Exchange, Incorporated.
1. Chicago Board Options Exchange, Incorporated  
400 South LaSalle Street  
Chicago, Illinois 60605
  2. Corporation.
  3. Delaware, Delaware General Corporation Law (8 Del. C. § 101, et seq),  
February 4, 1972.
  4. C2 is a wholly-owned subsidiary of the Chicago Board Options Exchange,  
Incorporated.
  5. The Chicago Board Options Exchange, Incorporated is a registered  
national securities exchange.
  6. See attached Chicago Board Options Exchange, Incorporated Constitution.
  7. See attached Certificate of Incorporation of Chicago Board Options  
Exchange, Incorporated.
  8. See attached Form of Amended and Restated Bylaws and Rules of the  
Chicago Board Options Exchange, Incorporated.
  9. See attached Chicago Board Options Exchange, Incorporated 2008 Board  
of Directors and Committees. Also see attached Officers of Chicago Board  
Options Exchange, Incorporated.
  10. Not applicable.
- B. Chicago Options Exchange Building Corporation
1. Chicago Options Exchange Building Corporation  
400 South LaSalle Street  
Chicago, Illinois 60605
  2. Corporation.
  3. Delaware, Delaware General Corporation Law (8 Del. C. § 101, et seq),  
August 7, 1980.



4. C2 and the Chicago Options Exchange Building Corporation are wholly-owned subsidiaries of the Chicago Board Options Exchange, Inc.
5. Maintain facility used by the Chicago Board Options Exchange, Inc.
6. Not applicable.
7. See attached Certificate of Incorporation of Chicago Options Exchange Building Corporation.
8. See attached Chicago Options Exchange Building Corporation By-Laws.
9. See attached Board of Directors and Officers of Chicago Options Exchange Building Corporation.
10. Not applicable.

C. The Options Clearing Corporation

1. The Options Clearing Corporation  
400 South LaSalle Street  
Chicago, Illinois 60605
2. Corporation.
3. Delaware, Delaware General Corporation Law (8 Del. C. § 101, et seq), December 23, 1974.
4. The Chicago Board Options Exchange, Inc., of which C2 is a wholly owned subsidiary, is a participant exchange of The Options Clearing Corporation.
5. Issuance, clearance, and settlement of option contracts.
6. Not applicable.
7. Restated Certificate of Incorporation of The Options Clearing Corporation.
8. See attached By-Laws and Rules of the Options Clearing Corporation.
9. See attached Board of Directors and Officers of The Options Clearing Corporation.
10. Not applicable.

D. CBOE Futures Exchange, LLC

1. CBOE Futures Exchange, LLC  
400 South LaSalle Street  
Chicago, Illinois 60605
2. Limited Liability Company.
3. Delaware, Delaware General Corporation Law (8 Del. C. §18-101, et seq),  
July 17, 2002.
4. C2 and the CBOE Futures Exchange, LLC ("CFE") are both wholly-  
owned subsidiaries of the Chicago Board Options Exchange, Inc.
5. CFE is a contract market approved by the Commodity Futures Trading  
Commission in August 2003. CFE is a fully electronic exchange.
6. Not applicable.
7. See attached Certificate of Formation.
8. See attached Third Amended and Restated Limited Liability Company  
Agreement of CBOE Futures Exchange, LLC and CBOE Futures  
Exchange, LLC Rulebook.
9. See attached Board of Directors, Officers, and Executive Committee of  
CBOE Futures Exchange, LLC.
10. Not applicable.

E. DerivaTech Corporation

1. DerivaTech Corporation  
400 South LaSalle Street  
Chicago, IL 60605
2. Corporation.
3. Illinois, Illinois Business Corporation Act of 1983, January 2, 1997.
4. C2 and DerivaTech Corporation are both wholly-owned subsidiaries of the  
Chicago Board Options Exchange, Inc.
5. Development of educational software regarding options.

6. Not applicable.
7. See attached Articles of Incorporation of Lyn Software, Inc. and Articles of Amendment to the Articles of Incorporation of Lyn Software, Inc.
8. See attached By-Laws of Lyn Software, Inc.
9. See attached Board of Directors and Officers of Derivatech Corporation.
10. Not applicable.

F. The Options Exchange, Incorporated

1. The Options Exchange, Incorporated  
400 South LaSalle Street  
Chicago, IL 60605
2. Corporation.
3. Delaware, Delaware General Corporation Law (8 Del. C. § 101, et seq),
4. C2 and the Options Exchange, Incorporated are both wholly-owned subsidiaries of the Chicago Board Options Exchange, Inc.
5. To conduct and carry on the function of an “exchange” within the meaning of that term in the Securities Exchange Act of 1934, as amended. The Options Exchange, Incorporated has been inactive since its incorporation.
6. Not applicable.
7. See attached Certificate of Incorporation of The Options Exchange, Incorporated.
8. See attached Bylaws of The Options Exchange, Incorporated.
9. See attached Board of Directors and Officers of The Options Exchange, Incorporated.
10. Not applicable.

G. CBOE, LLC

1. CBOE, LLC  
400 South LaSalle Street  
Chicago, Illinois 60605

2. Limited Liability Company.
3. Delaware, Delaware Limited Liability Company Act (8 Del. C. §18-101, et seq), August 22, 2001.
4. C2 and CBOE, LLC are both wholly-owned subsidiaries of the Chicago Board Options Exchange, Inc.
5. CBOE, LLC is a limited liability company member of OneChicago, LLC.
6. Not applicable.
7. See attached Certificate of Formation.
8. See attached Limited Liability Agreement.
9. See attached list of CBOE, LLC Board of Directors and Officers.
10. Not applicable.

H. OneChicago, LLC

1. OneChicago, LLC  
141 West Jackson Boulevard  
Suite 2240  
Chicago, Illinois 60604
2. Limited Liability Company.
3. Delaware, Delaware Limited Liability Company Act (8 Del. C. §18-101, et seq), August 3, 2001.
4. CBOE, LLC, which along with C2 is a subsidiary of the Chicago Board Options Exchange, Inc., is a limited liability company member of OneChicago, LLC.
5. OneChicago, LLC is a contract market approved by the Commodity Futures Trading Commission in June 2002. OneChicago, LLC is a securities futures exchange.
6. Not applicable.
7. See attached Certificate of Formation and Certificate of Amendment of OneChicago, LLC.

8. See attached OneChicago Exchange Rulebook.
9. See attached Board of Directors and Officers of OneChicago, LLC.
10. Not applicable.

I. CBOE II, LLC

1. CBOE II, LLC  
400 South LaSalle Street  
Chicago, Illinois 60605
2. Limited Liability Company
3. Delaware, Delaware Limited Liability Company Act (6 Del. C. §18-101, et seq), January 31, 2006.
4. C2 and CBOE II, LLC are both wholly-owned subsidiaries of the Chicago Board Options Exchange, Inc.
5. CBOE II, LLC is a holding company and a shareholder of HedgeStreet, Inc.
6. Not applicable.
7. See attached Certificate of Formation.
8. See attached Limited Liability Company Agreement.
9. See attached lists of CBOE II, LLC Board of Directors and Officers.
10. Not applicable.

J. Market Data Express, LLC

1. Market Data Express, LLC  
400 South LaSalle Street  
Chicago, Illinois 60605
2. Limited Liability Company
3. Delaware, Delaware Limited Liability Company Act (6 Del. C. §18-101, et seq), February 21, 2006.
4. C2 and Market Data Express, LLC are both wholly-owned subsidiaries of the Chicago Board Options Exchange, Inc.

5. Market Data Express, LLC is established to sell market data.
  6. Not applicable.
  7. See attached Certificate of Formation of Market Data Express, LLC.
  8. See attached Limited Liability Company Agreement of Market Data Express, LLC.
  9. See attached lists of Market Data Express, LLC Board of Directors and Officers.
  10. Not applicable.
- K. CBOE Stock Exchange, LLC
1. CBOE Stock Exchange, LLC  
400 South LaSalle Street  
Chicago, Illinois 60605
  2. Limited Liability Company
  3. Delaware, Delaware Limited Liability Company Act (6 Del. C. §18-101, et seq), July 31, 2006.
  4. Fifty percent (50%)-owned subsidiary of the Chicago Board Options Exchange, Inc., of which C2 is a wholly owned subsidiary.
  5. CBOE Stock Exchange, LLC operates the CBOE Stock Exchange (“CBSX”), which acts as as a trading market for securities other than options, as a facility of the Chicago Board Options Exchange, Inc. CBSX was approved by the SEC in March 2007.
  6. Not applicable.
  7. See attached Certificate of Formation of CBOE Stock Exchange, LLC.
  8. See attached First Amended and Restated Operating Agreement of CBOE Stock Exchange, LLC.
  9. See attached Board of Directors and Officers of CBOE Stock Exchange, LLC.
  10. Not applicable.

L. CBOE Holdings, Inc.

1. CBOE Holdings, Inc.  
c/o Chicago Board Options Exchange, Incorporated  
400 South LaSalle Street  
Chicago, Illinois 60605
2. Corporation.
3. Delaware, Delaware General Corporation Law (8 Del. C. §101, et seq),  
August 15, 2006.
4. C2 and CBOE Holdings, Inc. are both wholly-owned subsidiaries of the  
Chicago Board Options Exchange, Inc.
5. CBOE Holdings, Inc. has been formed in anticipation of the proposed  
restructuring of the Chicago Board Options Exchange, Incorporated. It is  
currently intended that following the proposed restructuring transaction,  
the Chicago Board Options Exchange, Incorporated will become a wholly-  
owned subsidiary of CBOE Holdings, Inc., and CBOE Holdings, Inc. will  
function as a holding company of the Chicago Board Options Exchange,  
Incorporated, which will continue to be the operating entity.
6. Not applicable.
7. See attached Certificate of Incorporation of CBOE Holdings, Inc.
8. See attached Bylaws of CBOE Holdings, Inc.
9. See attached CBOE Holdings Directors and Officers
10. Not applicable.





**EXHIBIT D**

**Exhibit Request:**

**For each subsidiary or affiliate of the exchange, provide unconsolidated financial statements for the latest fiscal year. Such financial statements shall consist, at a minimum, of a balance sheet and an income statement with such footnotes and other disclosures as are necessary to avoid rendering the financial statements misleading. If any affiliate or subsidiary is required by another Commission rule to submit annual financial statements, a statement to that effect with a citation to the other Commission rule, may be provided in lieu of the financial statements required here.**

Response:

Table of Documents Attached Hereto

1. Chicago Board Options Exchange, Incorporated/ CBOE, LLC/ CBOE II, LLC/ CBOE Holdings, Inc./ CBOE Futures Exchange, LLC/ Market Data Express, LLC/ Chicago Options Exchange Building Corporation/ unconsolidated financial statements for fiscal year ended December 31, 2008.
2. OneChicago, LLC financial statements as of and for the years ended December 31, 2008.
3. CBOE Stock Exchange, LLC financial statements for the year ended December 31, 2008.

Pursuant to Securities Exchange Act Rules 6a-2 and 17Ab2-1, respectively, The Options Clearing Corporation is required to submit annual financial statements directly to the Commission.

CBOE acquired DerivaTech Corporation in order to acquire The Options Toolbox educational software. The software is distributed through Chicago Board Options Exchange, Incorporated. DerivaTech Corporation's only assets are software. It had no revenue or expenses.

The Options Exchange, Incorporated is inactive and no part of the capital has been paid. A financial statement is not available.



**EXHIBIT J**

**Exhibit Request:**

A list of the officers, governors, members of all standing committees, or persons performing similar functions, who presently hold or have held their offices or positions during the previous year, indicating the following for each:

**Name.**

**Title.**

**Dates of commencement and termination of term of office or position.**

**Type of business in which each is primarily engaged (e.g., floor broker, specialist, odd lot dealer, etc.)**

Response:

1. Officers

The Exchange anticipates that its management will initially be the same as that of the Chicago Board Options Exchange, Incorporated, as shown below. Officers shall serve until their successors are appointed by the Board in accordance with the Certificate of Incorporation and Bylaws. Officers of the Exchange will serve at the direction of the Board of Directors.

**Initial Officers**

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<b>Name</b>	<b>Title</b>	<b>Date of Commencement</b>
William J. Brodsky	Chief Executive Officer	[UPON APPROVAL]
Edward J. Joyce	President	[UPON APPROVAL]
Edward T. Tilly	Executive Vice Chairman	[UPON APPROVAL]
Alan J. Dean	Chief Financial Officer	[UPON APPROVAL]
Joanne Moffic-Silver	Secretary	[UPON APPROVAL]

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2. Directors

The Exchange anticipates that its Board of Directors will initially be the same as that of the Chicago Board Options Exchange, Incorporated, as shown below. Pursuant to Article Twelfth of the Certificate of Incorporation, the incorporator of the Corporation shall appoint the initial Board members. Directors of the Exchange will serve staggered, two-year terms.

**Initial Directors**

<b>Name Title</b>	<b>Type of Business</b>	<b>Date of Commencement</b>
William J. Brodsky Chief Executive Officer	Securities Exchange	[UPON APPROVAL]
Bradley G. Griffith Industry Director	Market Maker	[UPON APPROVAL]
Mark F. Duffy Industry Director	Market Maker	[UPON APPROVAL]
David A. Fisher Industry Director	Brokerage	[UPON APPROVAL]
Paul Kepes Industry Director	Market Maker	[UPON APPROVAL]
Stuart J. Kipnes Industry Director	Brokerage	[UPON APPROVAL]
Benjamin R. Londergan Industry Director	Market Maker	[UPON APPROVAL]
[vacant] Industry Director		[UPON APPROVAL]
Kevin L. Murphy Industry Director	Brokerage	[UPON APPROVAL]
John E. Smollen Industry Director	Market Maker	[UPON APPROVAL]
Jonathan B. Werts Industry Director	Brokerage	[UPON APPROVAL]
William R. Power Non-Industry Director	Lessor Member	[UPON APPROVAL]
James R. Boris Non-Industry Director	Retired President & CEO, EVEREN Capital Corp.	[UPON APPROVAL]

Robert J. Birnbaum Non-Industry Director	Retired President & CEO, NYSE; AMEX [UPON APPROVAL]
Janet P. Froetscher Non-Industry Director	President & CEO, National Safety Council [UPON APPROVAL]
Duane R. Kullberg Non-Industry Director	Retired CEO, Anderson Worldwide [UPON APPROVAL]
R. Eden Martin Non-Industry Director	President, The Commercial Club of Chicago; Of Counsel, Sidley Austin LLP [UPON APPROVAL]
Roderick Palmore Non-Industry Director	Executive VP, General Counsel & Chief Compliance and Risk Management Officer, General Mills, Inc. [UPON APPROVAL]
Susan M. Phillips Non-Industry Director	Dean & Professor of Finance, School of Business and Public Management, The George Washington University [UPON APPROVAL]
Samuel K. Skinner Non-Industry Director	Former Chairman and CEO, USF Corporation; Former U.S. Secretary of Transportation [UPON APPROVAL]
Carole E. Stone Non-Industry Director	Former Director, New York State Division of the Budget [UPON APPROVAL]
Howard L. Stone Non-Industry Director	Former Senior Managing Director, American Express Tax and Business Services [UPON APPROVAL]
Eugene S. Sunshine Non-Industry Director	Senior Vice President for Business and Finance, Northwestern University [UPON APPROVAL]

### 3. Committees

The committees of the Board shall consist of an Executive Committee, an Audit Committee, a Compensation Committee, a Regulatory Oversight Committee, a Nominating and Governance Committee and such other standing and special committees as may be approved by the Board. Upon the approval of C2's Form 1 Application for Registration as a National Securities Exchange by the Commission, and after the appointment of the Board and the Nominating and Governance Committee, the Nominating and Governance Committee shall recommend, and the Board shall appoint, persons to sit on the standing committees of the Board, consistent with Article IV of the Exchange's Bylaws.