

## Rule 8

### [OTHER SECURITIES]

#### Reserved

[Rules 8.1--8.17. Reserved.]

### Flex Exchange Options

#### Applicability and Definitions

Rule 8.100(a). **Applicability.** Rules 8.100 et seq. are applicable only to Flexible Exchange Options. Except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the provisions of the Constitution and other rules and policies of the Board of Governors shall be applicable to the trading on the Exchange of such securities. Pursuant to the provisions of Rule 4.1, Flexible Exchange Options are included within the definition of "security" or "securities" as such terms are used in the Constitution and Rules of the Exchange.

(1) Flexible Exchange Options on the following indexes are approved for trading on the Exchange:

- (A) the Wilshire Small Cap Index.
- (B) the PCX Technology Index.
- (C) the Dow Jones & Co. Taiwan Index
- (D) the Morgan Stanley Emerging Growth Index.

(2) Flexible Exchange Options on the following Exchange-Traded Fund Shares, as defined in Rule 6.1(b)(32), are approved for trading on the Exchange:

- (A) Nasdaq-100 Index Tracking Stock (Symbol: QQQ)

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

(1) The term "BBO" means the best bid or offer, or both, as applicable, entered in response to a Request for Quotes.

(2) The term "BBO; Improvement Interval" means the minimum period of time established by the Exchange during which members may submit FLEX Quotes to meet or improve the BBO established during the Request Response Time.

(3) The term "Cap Interval" for purposes of Rules 8.100 et seq. means the value specified by the Submitting Member in a Request for Quotes that is to be added to the exercise price for a European-capped FLEX Option (in the case of a call) or subtracted from the exercise price for a European-capped FLEX Option (in the case of a put) in setting the cap price.

(4) The term "Flexible Exchange Option" or "FLEX Option" means a customized options contract that is subject to the provisions of Rules 8.100 et seq.

(5) The term "FLEX Equity Option" means an option on a specified underlying equity security or Exchange-Traded Fund Share that is subject to Rules 8.100 et seq.

(6) The term "FLEX Index Option" means an index option that is subject to Rules 8.100 et seq.

(7) The term "FLEX Post Official" means the Exchange employee designated to perform the FLEX post functions set forth in Rule 8.112.

(8) The term "FLEX Quote" means (A) FLEX bids and offers entered by Market Makers and (B) orders to purchase and orders to sell FLEX Options entered by Floor Brokers, in each case in response to a Request for Quotes.

(9) The term "Index Multiplier" means the monetary amount, stated in terms of the settlement currency specified in the contract, by which the current index value is to be multiplied to arrive at the value required to be delivered to the holder of a call or by the holder of a put upon valid exercise of the option. The Exchange has established the following Index Multipliers for FLEX Index Options on domestic indexes: U.S. Dollars--\$100; Canadian Dollars--\$100; Japanese Yen--10,000Y; Deutsche Marks--200DM; British Pounds--100pounds; Swiss Francs--200SF; French Francs--500F; E.C.U.--100ECU.

(10) The term "Non-FLEX Options" means an option contract that is not a FLEX Option.

(11) The term "Non-FLEX Equity Option" means a Non-FLEX Option that is an option on a specified underlying equity security or Exchange-Traded Fund Share.

(12) The term "Non-FLEX Index Option" means a Non-FLEX Option that is an index option.

(13) The term "Request for Quotes" means the initial request supplied by a Submitting Member to initiate FLEX bidding and offering.

(14) The term "Request Response Time" means the minimum period of time established by the Exchange during which Exchange members participating in FLEX Options may provide FLEX Quotes in response to a Request for Quotes.

(15) The term "Series of FLEX Options" means in the case of FLEX Index Options, all such options contracts of the same class having the same exercise price, exercise style, exercise settlement value, expiration date, and index multiplier, and denominated in the same settlement currency, and, in the case of FLEX Equity Options, all such option contracts of the same class having the same exercise price, exercise style and expiration date.

(16) The term "Submitting Member" means an Exchange member (who is deemed eligible by the Exchange to trade FLEX Options) who initiates FLEX Option bidding and offering by submitting a FLEX Request for Quotes.

(17) The term "Underlying Equivalent Value" in respect of a given number of FLEX Index Options means the aggregate underlying monetary value of a FLEX Option derived by multiplying the index multiplier by the current index value times the given number of FLEX Index Options.

(18) The term "Market Maker" shall include Lead Market Makers.

(c) The Automatic Execution System shall not be available for transactions in FLEX Options.

(d) The following rules shall not apply to transactions in FLEX Options: Rule 6.76 (Priority on Split Price Transactions) and Rule 6.80 (Accommodation Transactions).

**Adopted:** July 13, 1994. **Approved:** February 14, 1996; September 17, 1997; February 28, 2001 (PCX-01-12).

### **Hours of Trading**

Rule 8.101(a). FLEX transactions may be effected during normal Exchange options trading hours on any business day; provided, however, that the Board of Governors, in its discretion at any time, may determine to narrow or otherwise restrict the time set for FLEX options trading.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996; June 19, 1996.

### **Trading Rotations**

Rule 8.101(b). There shall be no trading rotations in FLEX Options.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

### **Terms of FLEX Options**

Rule 8.102(a). Option series will not be pre-established for FLEX trading. The terms of a particular FLEX contract shall be established through the Request for Quotes process and the bidding and offering mechanics detailed in this Rule. The applicable index multiplier in the case of the U.S. dollar-denominated FLEX Index Options shall be the same multiplier that applies to Non-FLEX Options.

(b) Every FLEX Request for Quotes and every FLEX contract shall contain one element, as designated by the parties to the contract, from each of the following contract term categories:

(1) Underlying security in the case of FLEX Equity Options and underlying index in the case of FLEX Index Options;

(2) Type (put, call or spread);

(3) Exercise Style (American, European or Capped);

(4) Expiration date (specified as to day, month and year, except that a FLEX Option may not expire on any day that falls on or within two business days of a third Friday-of-the-month expiration day for any non-FLEX option);

(5) Exercise Prices (specified as described in Rule 8.102(e)(2) for FLEX Index Options and in Rule 8.102(f)(2) for FLEX Equity Options);

(c) In addition to the terms listed in paragraph (b) of this Rule, every Request for Quotes shall contain the following additional transaction specifications:

(1) Quote Type and Form Sought (i.e., specify whether bid, offer, or both is sought; and whether the quote, which must be stated in the currency designated in the Request for Quotes, is to be submitted as a specific dollar amount, or in the case of a FLEX Equity Option, as a percentage of the underlying stock or Exchange-Traded Fund Share price, or in the case of a FLEX Index Option, as a percentage of the Underlying Equivalent Value, and whether such price is contingent on specified factors in other related markets);

(2) Submitting Member Crossing Intention (specify any intention to cross in compliance with Exchange Rules); and

(3) Request Response Time Interval (to be specified in minutes, provided that the length of the interval must fall within the time ranges established by the Exchange).

(d) Every FLEX Request for Quotes and every responsive FLEX Quote, as applicable, must satisfy the following contract and transaction specifications:

(1) The maximum term shall be three years for any FLEX Equity Option, provided, however, that a Submitting Member may request a longer term to a maximum of five years, and upon assessment by the FLEX Post Official that sufficient liquidity exists among Equity FLEX Qualified Market-Makers, such request will be granted. The maximum term shall be five years for any FLEX Index Option;

(2) The minimum value size for an opening transaction (other than FLEX Quotes responsive to FLEX Request for Quotes) in any FLEX series in which there is no open interest at the time the Request for Quotes is submitted will be the lessor of 250 contracts or the number of contracts overlying \$1 million Underlying Equivalent Value in the case of FLEX Equity Options and \$10 million Underlying Equivalent Value in the case of FLEX Index Options;

(3) The minimum value size for a transaction in any currently-opened FLEX series shall be 100 contracts for opening transactions and 25 contracts for closing transactions in the case of FLEX Equity Options and \$1 million Underlying Equivalent Value in the case of FLEX Index Options, or in either case the remaining underlying size or Underlying Equivalent Value on a closing transaction, whichever is less; and

(4) The minimum value size for FLEX Quotes responsive to a Request for Quotes shall be 25 contracts in the case of FLEX Equity Options and \$1 million Underlying Equivalent Value in the case of FLEX Index Options, or in either case the remaining underlying size or Underlying Equivalent Value on a closing transaction, whichever is less; provided, however, that FLEX Appointed Market Makers must provide a FLEX Quote in response to every Request for Quotes respecting a class of FLEX Index Options to which they are appointed of \$10 million Underlying Equivalent Value or the dollar amount indicated in the Request for Quotes, whichever is less.

**(e) Special Terms for FLEX Index Options**

(1) FLEX Index Options are limited to transactions in options on:

- (A) the Wilshire Small Cap Index
- (B) the PCX Technology Index.
- (C) the Dow Jones Co. Taiwan Index.
- (D) the Morgan Stanley Emerging Growth Index.

(2) Exercise prices shall be specified in terms of (A)(i) a specific index value number, (ii) a method for fixing such a number at the time a FLEX Quote is accepted, or (iii) a percentage of index value calculated as of the open or close of trading on the Exchange on the trade date; and (B) the cap interval in the case of a European-Capped style option

(3) Exercise Settlement Value shall be specified, for use in setting the exercise settlement amount, as the index value reported at the close or at the open of trading on the Exchange or as a specified average, provided that any average index value must conform to the averaging parameters established by the Exchange.

(4) FLEX Index Options shall be designated for settlement in U.S. Dollars, Canadian Dollars, British Pounds, Japanese Yen, Deutsche Marks, Swiss Francs, French Francs or European Currency Units only and shall settle in the designated currency.

**(f) Special Terms for FLEX Equity Options**

(1) FLEX Equity Option transactions are limited to transactions in options on underlying securities or Exchange-Traded Fund Shares that have been approved by the Exchange in accordance with Rule 3.6.

(2) Exercise prices and premiums may be stated in dollar amounts of the underlying security or Exchange-Traded Fund Shares, rounded to the nearest minimum tick or, in the case of exercise prices, to the nearest one-eighth of a dollar.

(3) Exercise settlement shall be by physical delivery of the underlying security or Exchange-Traded Fund Shares.

(4) FLEX Equity Options shall be subject to the exercise by exception provisions of Rule 805 of the Options Clearing Corporation.

(5) Exercise prices and premiums may be stated in dollar amounts of the underlying security, rounded to the nearest minimum tick or, in the case of exercise prices, to the nearest .10.

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**FLEX Trading Procedures and Principles**

Rule 8.103(a). **Initiating a FLEX Request for Quotes.**

(1) To initiate a FLEX transaction, a Submitting Member shall submit to the FLEX Market Maker a Request for Quotes, utilizing for that purpose the forms, formats and procedures established by the Exchange.

(2) On receipt of a Request for Quotes in proper form, the FLEX Market Maker shall cause the terms and specifications of the Request for Quotes to be immediately displayed at the post. Such communication shall be made over facilities maintained or approved by the Exchange for that purpose, including any off-floor communications networks approved by the Exchange.

**(b) FLEX Bidding and Offering in Response to Requests for Quotes.**

(1) Members may enter at the FLEX post FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the Request Response Time.

(2) Each FLEX Quote shall refer to the identifier assigned to the Request for Quotes, or to such other reference indicator as the Exchange determines appropriate from time to time.

(3) All FLEX Quotes may be entered, modified or withdrawn at any point during the Request Response Time. At the Expiration of the Request Response Time, the BBO shall be identified in accordance with the price and time priority principles set forth in Rule 8.103(e).

**(c) Formation of Contracts Following the Processing of Initial Quotes.**

(1) At the expiration of the Request Response Time, the BBO shall be visibly displayed both at the post and on such market data systems as are available.

(2) If the Submitting Member has not indicated an intention to cross or act as principal with respect to any part of the FLEX trade, such Member shall promptly accept or reject the displayed BBO; provided, however, that if such Submitting Member either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX participating members (other than the Submitting Member) will have an opportunity during the BBO Improvement Interval, in which to match, or improve (as applicable), the BBO. At the expiration of any such BBO Improvement Interval. The Submitting Member must promptly accept or reject the BBO(s).

(3) If the Submitting Member has indicated an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the Submitting Member must indicate at the post the price at which the member expects to trade. In these circumstances, the Submitting Member may participate with all other FLEX-participating members in attempting to improve or match the BBO during the BBO Improvement Interval. At the expiration of

the BBO Improvement Interval, the Submitting Member must promptly accept or reject the BBO(s).

(4) The Submitting Member has no obligation to accept any FLEX bid or offer.

(5) Whenever, following the completion of FLEX bidding and offering responsive to a given Request for Quotes, the Submitting Member rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the Request for Quotes, members may accept the entire order or the unfilled balance of the BBO.

(d) **Quote Acceptance and Rejection.** Acceptance of the BBO(s) will take place when each party to the FLEX transaction signs a Trade Sheet, which will create a binding contract.

(e) **Priority of Bids and Offers.** Quote priorities are based on price and time as set forth below. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder.

(1) **Bids.** The highest bid shall have priority, but where the two or more best bids are submitted at the same price, the bid(s) submitted first in time will have priority, and where the two or more best bids are submitted at the same time and at the same price, priority will be given to such of those bid(s) as were submitted by FLEX Appointed Market Maker(s) appointed to FLEX Index Options on that underlying index or by FLEX Qualified Market Makers appointed to FLEX Equity Options of that class.

(2) **Offers.** The lowest offer shall have priority, but where the two or more best offers are submitted at the same price, the offer(s) submitted first in time will have priority, and where the two or more best offers are submitted at the same time and at the same price, priority will be given to such of those offer(s) as were submitted by FLEX Appointed Market Maker(s) appointed to FLEX Index Options on that underlying index or by FLEX Qualified Market Makers appointed to FLEX Equity Options of that class.

(3) Notwithstanding the foregoing Subsections (1) and (2) of this Rule, whenever the Submitting Member has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the following priority principles will apply:

(A) In the event that the Submitting Member has matched the BBO, the Submitting Member will be have priority to execute the contra side of the trade that is the subject of the Request for Quotes, but only to the extent of the largest of 1/2 of the trade, \$1 million Underlying Equivalent Value, or the remaining Underlying Equivalent Value on a closing transaction valued at less than \$1 million in the case of FLEX Index Options; and

(B) In the event that the Submitting Member has improved the BBO by at least the MPV and any other FLEX-participating member matches the improved

BBO, the Submitting Member will have priority to execute the contra side, but only to the extent of the largest of 2/3 of the trade, \$1 million Underlying Equivalent Value, or the remaining Underlying Equivalent Value on a closing transaction valued at less than \$1 million in the case of FLEX Index Options, or 25% of the trade in the case of FLEX Equity Options.

(f) **Crossing Limitations.** A Submitting Member may effect crossing transactions only on public customer orders or orders respecting the Submitting Member's firm propriety account.

(g) **Incremental Changes for Bids and Offers.** Changes in decimal bids and offers for FLEX Index Options in the designated currency shall meet or exceed the following minimums (or such other minimums as the Options Floor Trading Committee sets from time to time to ensure fair and orderly markets): U.S. Dollars--\$.01; Canadian Dollars--\$.01; Japanese Yen--.01Y; Deutsche Marks--.01DM; French Francs--.01F; Swiss Francs--.01F; British Pounds--.01 pounds; European Currency Units--.01ECU.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996; June 19, 1996; August 19, 1996; September 27, 2000 (PCX-00-23).

### **Discretionary Transactions**

Rule 8.104. Notwithstanding Rule 6.48, a Floor Broker may be given discretion with respect to the number of FLEX contracts to be purchased or sold. Such discretion must be granted by the customer in clear terms in a manner approved by the Exchange and must be reflected in a contemporaneously-prepared, time-stamped document prepared by the Floor Broker, one copy of which shall be promptly sent to the customer and one copy of which shall be maintained by the Floor Broker for the full term of the FLEX contract or the time required by SEC Rule 17a-4 under the Securities Exchange Act of 1934, whichever period is longer.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

RULES 8.105--8.106 [Reserved]

### **Position Limits for FLEX Index Options**

Rule 8.107(a). **FLEX Index Options.** In determining compliance with Rule 7.6, FLEX Index Options shall be subject to FLEX contract position limitations fixed by the Exchange. In no event shall those limits exceed in the aggregate 200,000 contracts on the same side of the market.

(b) At the close of trading two business days prior to the last day of trading of the calendar quarter, positions in p.m. settled FLEX Index Options (i.e., options having a settlement value that is determined by the level of the index at the close of trading on the last trading day before expiration) shall be aggregated with positions in Quarterly Index Options on the same index with the same expiration shall be subject to the position limits set forth in Rule 7.6(a).

(c) There shall be no position limits for FLEX Equity Options. However, every Member or Member Organization (other than a Market Maker) that maintains a position on the same side of the market in excess of the standard position limit established pursuant to Rule 6.8 for Non-FLEX Equity Options overlying the same underlying issue on behalf of its own account or for the account of a customer shall report information on such FLEX Equity Option position, positions in any related instrument, the purpose or strategy for the position, and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX Equity Option position in excess of the standard position limit established for Non-FLEX Equity Options overlying the same underlying issue, the Exchange may, pursuant to its authority under Exchange Rule 2.16(a), consider imposing additional margin upon the account maintaining such under-hedged position. It should be noted that the clearing firm carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirement.

(d) **Aggregation of Positions.** Except as provided in Rule 8.107(b), FLEX Option positions shall not be aggregated with positions in Non-FLEX Options, and positions in FLEX Index Options on a given index shall not be aggregated with options on any stocks included in the index or with FLEX Index Options positions on another index.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996; September 9, 1997; December 31, 1998.

### **Exercise Limits**

Rule 8.108(a). Exercise limits for FLEX Options shall be equivalent to the FLEX position limits prescribed in Rule 8.107.

(b) The minimum value size for FLEX Equity Option exercises shall be 100 contracts or the remaining size of the position, whichever is less.

(c) The minimum value size for FLEX Index Option exercises shall be \$1 million Underlying Equivalent Value or the remaining Underlying Equivalent Value of the position, whichever is less.

(d) FLEX Options shall not be taken into account when calculating exercise limits for non-FLEX option contracts.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

### **Appointment of FLEX Market Makers and Market-Making Obligations**

Rule 8.109(a). A registered Market Maker may apply on a form prescribed by the Exchange to be a "FLEX Appointed Market Maker" in one or more classes of FLEX Index Options and for settlement in one or more currencies, or to be a "FLEX Qualified Market Maker"

in one or more classes of FLEX Equity Options. From among the applicants, the Exchange shall appoint two or more FLEX Appointed Market Makers to each FLEX Index Option of a given class and settlement currency, and three or more FLEX Qualified Market Makers to each FLEX Equity Option of a given class. In making such appointments and in taking other action with respect to FLEX Appointed Market Makers or FLEX Qualified Market Makers, the Exchange shall take into account the following factors: (1) the preference of the registrants; (2) the maintenance and enhancement of competition among Market Makers; and (3) the assurance that the Market Maker will have adequate financial resources. Notwithstanding the foregoing, the Exchange may determine to solicit applications from registered Market Makers to be FLEX Appointed Market Makers in one or more specified classes of FLEX Equity Options, and from among such applicants may appoint two or more FLEX Appointed Market Makers to such classes of FLEX Equity Options in lieu of appointing FLEX Qualified Market Makers to such classes.

(b) A FLEX Appointed Market Maker shall have an obligation to enter a FLEX Quote in response to any Request for Quotes on any FLEX Option of the class to which the Market Maker is appointed. Except as provided in Rule 8.109(c), a FLEX Qualified Market Maker may, but shall not be obligated to, enter a FLEX Quote in response to a Request for Quotes on a FLEX Equity Option of the class in which he or she is qualified. Every FLEX Quote entered by a FLEX Appointed Market Maker or a FLEX Qualified Market Maker shall meet or exceed the minimum size parameters set forth in Rule 8.102(d)(4) and shall be entered within the indicated Request Response Time plus any applicable BBO Improvement Interval. Unless withdrawn or modified during the Request Response Time, such Quotes shall be considered firm for the duration of the Request Response Time and, in the event the Quote is the BBO, the BBO Improvement Interval.

(c) A FLEX Post Official may call upon FLEX Qualified Market Makers appointed in a class of FLEX Equity Options to make FLEX Quotes in response to a specific Request for Quotes in that class of FLEX Equity Options whenever in the opinion of the FLEX Post Official the interests of a fair, orderly and competitive market are best served by such action and shall make such a call upon FLEX Qualified Market Makers whenever no FLEX Quotes are made in response to a specific Request for Quotes.

(d) FLEX Appointed Market Makers need not provide continuous FLEX Quotes or quote a minimum bid-offer spread in FLEX Options.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996; June 19, 1996.

RULES 8.110--8.111 [Reserved].

### **FLEX Post Official**

Rule 8.112(a). The Exchange may at any time designate an Exchange employee to act as a FLEX Post Official in one or more classes of FLEX Options. The FLEX Post Official shall perform the functions set forth in paragraph (b) of this Rule. The Exchange may also designate other qualified employees to assist the FLEX Post Official as the need arises.

(b) A FLEX Post Official is responsible for (1) reviewing the conformity of FLEX Requests for Quotes and FLEX Quotes to the terms and specifications contained in Rule 8.102; (2) posting FLEX Requests for Quotes for dissemination; (3) determining the BBO; (4) ensuring that FLEX contracts are executed in conformance with the priority principles set forth in Rule 8.103; and (5) calling upon FLEX Qualified Market Makers to make FLEX Quotes in specific classes of FLEX Equity Options as provided in paragraph (c) of Rule 8.109.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

### **Market Maker Account Equity**

Rule 8.113(a). No Market Maker shall effect any FLEX Index Option transaction unless such Market Maker has demonstrated to the satisfaction of the Financial Compliance Department that the net liquidating equity maintained in the Market Maker's individual or joint accounts with any one clearing member in which transactions in FLEX Index Options will be conducted is at least \$100,000. Joint account equity may not be combined with the Market Maker's individual account equity for this purpose unless the participants in the joint account and in the individual accounts all trade for the same broker-dealer through those accounts. Failure to remain in compliance with the foregoing requirements shall be grounds for suspension or termination of a Market Maker's authorization to effect transactions in any class of FLEX Index Options, except for closing transactions and except as otherwise determined by the Exchange in unusual circumstances. A Market Maker or its clearing member, as applicable, shall inform the Financial Compliance Department immediately whenever such Market Maker ceases to remain in compliance with these requirements.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

### **FLEX Appointed Market Maker Financial Requirements**

Rule 8.114. A FLEX Appointed Market Maker shall be required to maintain at least \$1 million net liquidating equity and/or \$1 million net capital, as applicable. As used herein, the term "net capital" shall mean a net capital amount computed in accordance with the requirements of Securities and Exchange Commission Rule 15c3-1 under the Securities Exchange Act of 1934. A FLEX Appointed Market Maker or its clearing member, as applicable, shall immediately inform the Financial Compliance Department whenever such Market Maker fails to be in compliance with such requirements. The Exchange may waive the financial requirements of this Rule in unusual circumstances.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

### **Letter of Guarantee**

Rule 8.115(a). No Market Maker shall effect any transaction in FLEX Options unless one or more Letter(s) of Guarantee has been issued by a Clearing Member and filed with the Exchange pursuant to Rule 6.36(a) accepting financial responsibility for all FLEX transactions

made by the Market Maker and such letter has not been revoked under Rule 6.36(c). Upon approval by the Options Clearing Corporation and filing with the Exchange, an existing Letter of Guarantee may be amended specifically to include FLEX transactions.

(b). No Floor Broker shall act as such in respect of FLEX Option contracts unless one or more Letters of Authorization has been issued by a Clearing Member and filed with the Exchange under Rule 6.45(a) specifically accepting responsibility for the clearance of FLEX Option transactions of the Floor Broker and such letter has not been revoked under Rule 6.45(c). Upon approval by the Options Clearing Corporation and filing with the Exchange, an existing Letter of Authorization may be amended to include FLEX Option transactions.

**Adopted:** July 13, 1994. **Approved:** February 14, 1996.

### **Buy-Write Option Unitary Derivatives (“BOUNDS”)**

#### **Applicability**

Rule 8.200(a). Rules 8.200 et seq. are applicable only to Buy-Write Option Unitary Derivatives ("BOUNDS"). Except to the extent that specific rules in this section govern, or unless the context otherwise requires, the provisions of the Constitution and all other rules and policies of the Board of Governors shall be applicable to the trading of BOUNDS. Pursuant to the provisions of Rule 4.1(e), BOUNDS are included within the definition of "security" or "securities" as such terms are used in the Constitution and Rules of the Exchange. For purposes of Rule 3, BOUNDS are designated as Tier I securities.

Compliance with Rules 6.6 and 6.8 shall be determined as set forth in Rules 8.204 and 8.205.

**Adopted.** January 11, 1996.

#### **Definitions**

(b) The following terms are used in the Rules, shall, unless the context otherwise indicates, have the meanings herein specified.

(1) The term "Buy-Write Option Unitary Derivatives" ("BOUND") means a security issued, or subject to issuance, by the Options Clearing Corporation pursuant to the By-Laws and Rules of the Options Clearing Corporation which give holders and writers thereof such rights and obligations as may be provided for the By-Laws and Rules of the Options Clearing Corporation.

(2) The term "underlying security" in respect of a BOUND contract means the security that is required to be delivered if the closing price of such security at expiration of the BOUND is less than or equal to the strike price of the BOUND.

(3) The term "strike price" in respect of a BOUND contract means a stated price per share for the underlying security which price shall be the basis for determining the manner of settlement for each BOUND contract on the specified expiration date. Any reference to the term "exercise price" in Rule 6 shall, when applied to BOUNDS, refer to the strike price of a BOUND.

(4) The term "LEAP" shall mean a long-term option listed on the Exchange pursuant to Rule 6.4(d).

**Adopted.** January 11, 1996.

### **BOUND Contracts to be Traded**

Rule 8.201. The Exchange may from time to time approve for listing and trading on the Exchange BOUND contracts in respect of underlying securities which have been selected in accordance with Rule 3.6. Only BOUND contracts approved by the Exchange and currently open for trading on the Exchange may be purchased or sold on the Exchange. All such BOUND contracts shall be designated as to expiration month, expiration year, strike price and underlying stock.

**Adopted.** January 11, 1996.

### **Rights and Obligations of Holders and Sellers**

Rule 8.202. Subject to the provisions of Rules 6.9 and 6.11, the rights and obligations of holders and sellers of BOUNDS dealt in on the Exchange shall be as set forth in the By-Laws and Rules of the Options Clearing Corporation.

**Adopted.** January 11, 1996.

### **BOUND Expiration Schedule, Series of BOUNDS Open for Trading, Strike Prices**

Rule 8.203(a). After the Exchange has approved for listing and trading BOUND contracts relating to a specific underlying security, the Exchange shall from time to time open for trading additional BOUND contracts in respect of such underlying securities. Prior to opening of trading in such BOUNDS, the Exchange shall fix the expiration month, expiration year, and strike price of such BOUND contracts. The Exchange may list BOUND contracts having the same number of months from the time they are listed until expiration as provided in Rule 6.4(d). There may be up to twenty expiration months.

(b) Strike price interval, bid/ask differential and continuity rules applicable to transactions in put and call options shall not apply to transactions in BOUNDS until the time to expiration is less than nine months. Further, BOUNDS will open for trading either when there is buying or selling interest, or 40 minutes prior to the close, whichever occurs first. No quotations need to be posted for such BOUNDS until they are opened for trading.

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

(d) BOUND contracts are subject to adjustments in accordance with the By-Laws and Rules of the Options Clearing Corporation.

**Adopted.** January 11, 1996.

### **Position Limits**

Rule 8.204. Position limits relating to BOUNDS shall be governed by the provisions of Rule 6.8 except that, for purposes of determining BOUND position limits, the holder of a long BOUND shall be considered to be short a put on the underlying security, and the seller of a BOUND shall be considered to be long a put on the underlying security. In determining compliance with position limits, positions in BOUNDS and put and call options shall be aggregated.

**Adopted.** January 11, 1996.

### **Reporting of BOUNDS Positions**

Rule 8.205. Positions in BOUNDS shall be reported pursuant to Rule 6.6 with the minimum position in an account to be reported being 200 BOUNDS. In computing and reporting reportable positions under Rule 6.6 and this Rule, positions in BOUNDS and put and call options on the same underlying security shall be aggregated on the basis of a long BOUND equaling one short put option and a short BOUND equaling one long put option.

**Adopted.** January 11, 1996.

## **PORTFOLIO DEPOSITARY RECEIPTS**

### **Portfolio Depositary Receipts**

Rule 8.300(a). Definitions.

- (1) Portfolio Depositary Receipt. The term “Portfolio Depositary Receipt” means a security (a) that is based on a unit investment trust (“Trust”) that holds the securities that comprise an index or portfolio underlying a series of Portfolio Depositary Receipts; (b) that is 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) that, 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) that pays holders a periodic cash payment corresponding to the regular cash dividends or distributions declared with respect to the component securities of the stock index or portfolio of securities underlying the Portfolio Depositary Receipts, less certain expenses and other charges as set forth in the Trust prospectus.

- (2) Reporting Authority. The term “Reporting Authority” in respect of a particular series of Portfolio Depositary Receipts means the Exchange, an institution (including the Trustee for a series of Portfolio Depositary Receipts), or a reporting service designated by the Exchange or by the exchange that lists a particular series of Portfolio Depositary Receipts (if the Exchange is trading such series pursuant to unlisted trading privileges) as the official source for calculating and reporting information relating to such series, including, but not limited to, any current index or portfolio value; the current value of the portfolio of securities required to be deposited to the Trust in connection with the issuance of Portfolio Depositary Receipts; the amount of any dividend equivalent payment or cash distribution to holders of Portfolio Depositary Receipts, net asset value, or other information relating to the creation, redemption or trading of Portfolio Depositary Receipts.

(b) Applicability. This Rule is applicable only to Portfolio Depositary Receipts. Except to the extent inconsistent with this Rule, or unless the context otherwise requires, the provisions of the Constitution and all other rules and policies of the Board of Governors are applicable to the trading on the Exchange of such securities. Portfolio Depositary Receipts are included within the definition of “security” or “securities” as such terms are used in the Constitution and Rules of the Exchange.

(c) Members and Member Organizations shall provide to all purchasers of a series of Portfolio Depositary Receipts a written description of the terms and characteristics of such securities, in a form approved by the Exchange, not later than the time a confirmation of the first transaction in such series is delivered to such purchaser. In addition, Members and Member Organizations shall include such a written description with any sales material relating to a series of Portfolio Depositary Receipts that is provided to customers or the public. Any other written materials provided by a Member or Member Organization to customers or the public making specific reference to a series of Portfolio Depositary Receipts as an investment vehicle must include a statement in substantially the following form: “A circular describing the terms and characteristics of the [the series of Portfolio Depositary Receipts] is available from your broker. It is recommended that you obtain and review such circular before purchasing [the series of Portfolio Depositary Receipts]. In addition, upon request you may obtain from your broker or prospectus for [the series of Portfolio Depositary Receipts].”

A Member or Member Organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase a series of Portfolio Depositary Receipts for such omnibus account will be deemed to constitute

agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to Members and Member Organizations under this rule.

Upon request of a customer, a Member or Member Organization shall also provide a prospectus for the particular series of Portfolio Depositary Receipts.

(d) Designation of an Index or Portfolio. The trading of Portfolio Depositary Receipts based on one or more stock indexes or securities portfolios, whether by listing or pursuant to unlisted trading privileges, shall be considered on a case-by-case basis. The Portfolio Depositary Receipts based on each particular stock index or portfolio shall be designated as a separate series and shall be identified by a unique symbol. The stocks that are included in an index or portfolio on which Portfolio Depositary Receipts are based shall be selected by the Exchange or by such other person as shall have a proprietary interest in and authorized use of such index or portfolio, and may be revised from time to time as may be deemed necessary or appropriate to maintain the quality and character of the index or portfolio.

(e) Initial and Continued Listing and/or Trading. A Trust upon which a series of Portfolio Depositary Receipts is based will be traded on the Exchange, whether by listing or pursuant to unlisted trading privileges, subject to the following criteria:

- (1) Commencement of Trading – For each Trust, the Exchange will establish a minimum number of Portfolio Depositary Receipts required to be outstanding at the time of commencement of trading on the Exchange.
- (2) Continued Trading – Following the initial twelve-month period following formation of a Trust and commencement of trading on the Exchange, the Exchange will consider the suspension of trading in or removal from listing of or termination of unlisted trading privileges for a Trust upon which a series of Portfolio Depositary Receipts is based under any of the following circumstances:
  - (A) if the Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Portfolio Depositary Receipts for 30 or more consecutive trading days; or
  - (B) if the value of the index or portfolio of securities on which the Trust is based is no longer calculated or available; or
  - (C) if such other event shall occur or condition exists which in the opinion of the Exchange, makes further dealings on the Exchange inadvisable.

Upon termination of a Trust, the Exchange requires that Portfolio Depositary Receipts issued in connection with such Trust be removed from Exchange listing or have their unlisted trading privileges terminated. A Trust may terminate in accordance with the provisions of the Trust prospectus, which may provide for termination if the value of securities in the Trust falls below a specified amount.

- (3) Term – The stated term of the Trust shall be as stated in the Trust prospectus. However, a Trust may be terminated under such earlier circumstances as may be specified in the Trust prospectus.
- (4) Trustee – The trustee must be a trust company or banking institution having substantial capital and surplus and the experience and facilities for handling corporate trust business. In cases where, for any reason, an individual has been appointed as a trustee, a qualified trust company or banking institution must be appointed co-trustee.
- (5) Voting – Voting rights shall be as set forth in the Trust prospectus. The trustee of a Trust may have the right to vote all of the voting securities of such Trust.

### **Limitation of Exchange Liability**

Rule 8.300(f). Neither the Exchange, the Reporting Authority nor any agent of the Exchange shall have any liability for damages, claims, losses or expenses caused by any errors, omissions, or delays in calculating or disseminating any current index or portfolio value, the current value of the portfolio of securities required to be deposited to the Trust; the amount of any dividend equivalent payment or cash distribution to holders of Portfolio Depositary Receipts; net asset value; or other information relating to the creation, redemption or trading of Portfolio Depositary Receipts, resulting from any negligent act or omission by the Exchange, or the Reporting Authority, or any agent of the Exchange, or any act, condition or cause beyond the reasonable control of the Exchange or its agent, or the Reporting Authority, including, but not limited to, an act of God; fire; flood; extraordinary weather conditions; war; insurrection; riot; strike; accident; action of government; communications or power failure; equipment or software malfunction; or any error, omission or delay in the reporting of transactions in one or more 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 Portfolio Depositary Receipts or any underlying index or data included therein and the Exchange makes no express or implied warranties, and disclaims all warranties of merchantability or fitness for a particular purpose with respect to Portfolio Depositary Receipts or any underlying index or data included therein. This limitation of liability shall be in addition to any other limitation contained in the Exchange's Constitution and Rules.

Approved: December 19, 1998.

### **Nasdaq-100 Index**

Rule 8.300(g). The Nasdaq Stock Market, Inc. ("Nasdaq") has licensed the use of the Nasdaq-100 Index® for certain purposes in connection with trading in a particular series of Portfolio Depositary Receipts on the Exchange (Nasdaq-100 Shares<sup>SM</sup>). Nasdaq and their affiliates do not guarantee the accuracy and/or completeness of the Nasdaq-100 Index or any data included therein. Nasdaq, the Exchange and their affiliates make no warranty, express or implied, as to results to be obtained by any person or entity from the use of the Nasdaq-100 Index or any data included therein in connection with the rights licensed or for any other use.

Nasdaq, the Exchange and their affiliates make no express or implied warranties, and disclaim all warranties of merchantability or fitness for a particular purpose with respect to the Nasdaq-100 Index or any data included therein. Without limiting any of the foregoing, in no event shall Nasdaq, the Exchange and their affiliates have any liability for any lost profits or special, punitive, incidental, indirect or consequential damages, even if notified of the possibility of such damages. In addition, Nasdaq, the Exchange and their affiliates shall have no liability for any damages, claims, losses or expenses caused by any errors or delays in calculating or disseminating the Nasdaq-100 Index.

*Commentary:*

.01 The Exchange will trade, pursuant to unlisted trading privileges, Portfolio Depositary Receipts based on the Standard and Poor's Corporation's S&P 500 Index, known as SPDRs.

.02 The Exchange will trade, pursuant to unlisted trading privileges, Portfolio Depositary Receipts based on the S&P MidCap 400 Index, known as MidCap SPDRs.

.03 The Exchange will trade, pursuant to unlisted trading privileges, Portfolio Depositary Receipts based on the Nasdaq-100 Index, known as Nasdaq-100 Shares.

Approved: August 5, 1999 (PCX-99-26).]