

RAN-01-17
March 12, 2001

TO: All PCX Member and Member Organizations

FROM: Department of Regulatory Policy

SUBJECT: Options on Exchange-Traded Fund Shares
(File No. SR-PCX-01-12)

On February 28, 2001 the SEC approved an Exchange rule amendment to allow for the listing and trading of options and FLEX options on Exchange-Traded Fund Shares. Exchange-Traded Fund Shares are exchange-listed securities representing interests in open-end unit investment trusts or open-end management investment companies that hold securities based on an index or portfolio of securities. The rule amendment sets forth general listing, maintenance, and margin criteria that each Exchange-Traded Fund Share must meet before being approved for trading. This filing allowed the Exchange to list and begin trading options on the Nasdaq – 100 Index Tracking Stock (Symbol: QQQ) on February 29, 2001.

Following is the text of the rule amendment. Questions regarding this notice may be addressed to Hassan Abedi, Attorney, at (415) 393-5958.

EXHIBIT A

Text of the Rule Change:¹

Rule 2 Capital Requirements, Focus Report, Margins

Rules 2.1 – 2.15 – No change.

Margin Requirements

Rule 2.16(a) – (c) – No change.

Other Provisions

Rule 2.16(d)(1) – No change.

(A) – (C) – No change.

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

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

Notwithstanding the margin required below, the minimum margin on any put or call issued, guaranteed or carried "short" in a customer's account may be reduced by any "out-of-the-money amount" (as defined in

¹ New text is underscored and deleted text is in brackets.

this subparagraph (D)(i) below), but shall not be less than 100% of the current market value of the option plus the percentage of the current market value of the underlying security or index specified in column III of this subsection D(i) below.

I	II	III	IV
Security or Index	Initial and/or Maintenance Margin Required	Minimum Margin Required	Underlying Component Value

(1) – (10) – No change.

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

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

Remainder of subsections (D)(i) through (iii) of Rule 2.16(d)(1) – No change.

(E) – (M) – No change.

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Rule 3 Listings

Rules 3.1 – 3.5 – No change.

Options

Rule 3.6(a) – (c) – No change.

Commentary:

.01 - .05 – No change.

.06 Securities deemed appropriate for options trading shall include shares or other securities (“Exchange-Traded Fund Shares”) that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent an interest in a registered investment company organized as an open-end management investment company, a unit investment trust or a similar entity which holds securities constituting or otherwise based on or representing an investment in an index or portfolio of securities, provided:

(a)

(i) the Exchange-Traded Fund Shares meet the criteria and guidelines for underlying securities set forth in Rule 3.6(a); or

(ii) the Exchange-Traded Fund Shares must be available for creation or redemption each business day in cash or in kind from the investment company at a price related to the net asset value. In addition, the investment company shall provide that fund shares may be created even though some or all of the securities needed to be deposited have not been received by the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the shares as soon as possible and such undertaking has been secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the fund which underlies the option as described in the fund or unit trust prospectus; and

(b)

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

(ii) stocks for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index; and

(iii) stocks for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index.

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Withdrawal of Approval of Underlying Securities

Rule 3.7(a) – (b) – No change.

Commentary:

.01 - .09 – No change.

.10 Absent exceptional circumstances, securities initially approved for options trading pursuant to Commentary .06 under Rule 3.6 (such securities are defined and referred to in that Commentary as “Exchange-Traded Fund shares”) shall not be deemed to meet the Exchange’s requirements for continued approval, and the exchange shall not open for trading any additional series of option contracts of the class covering such Exchange-Traded Fund Shares, whenever the Exchange-Traded Fund Shares are delisted and trading in the Shares is suspended on a national securities exchange, or the Exchange-Traded Fund Shares are no longer traded as national market securities through the facilities of a national securities association. In addition, the exchange shall consider the suspension of opening transactions in any series of options of the class covering Exchange-Traded Fund Shares in any of the following circumstances:

(1) In accordance with the terms of paragraphs 1 through 4 of Commentary .01 of this Rule 3.7 in the case of options covering Exchange-Traded Fund Shares when such options were approved pursuant to paragraph (a)(i) of Commentary .06 of Rule 3.6.

(2) Following the initial twelve-month period beginning upon the commencement of trading of the Exchange-Traded Fund Shares on a national securities exchange or as national market securities through the facilities of a national market association there are fewer than 50 record and/or beneficial holders of Exchange-Traded Fund Shares for 30 more consecutive trading days;

(3) The value of the index or portfolio of securities on which the Exchange-Traded Fund Shares are based is no longer calculated or available; or

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

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Rule 6 Options Trading

Rules Principally Applicable to Trading of Options Contracts

Business Conduct

Applicability, Definitions and References

Rule 6.1(a) – No change.

(b) *Definitions.*

(1) – (7) – No change.

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

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

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

(11) - No Change.

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

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

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

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

(16) – No Change.

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

(18) – (23) – No change.

(24) *Covered*-The term "covered" in respect of a short position in a call option contract means that the writer's obligation is secured by a "specific deposit" or an "escrow deposit" meeting the condition of Rule 610(f) or 610(h), respectively, of the Rules of the Options Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), a long position either in the underlying security or in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or less than the exercise price of the option contract in such short position. The term "covered" in respect of a short position in a put option contract means that the writer holds in the same account as the short position, on a share-for-share basis (if the underlying security is a stock or an Exchange-Traded Fund Share), a long position in an option contract of the same class of options where the exercise price of the option contract in such long position is equal to or greater than the exercise price of the option contract in such short position.

(25) – No change.

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

(27) – (31) – No Change.

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

Option Contracts to Be Traded

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

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Series of Options Open for Trading

Rule 6.4(a). After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock or Exchange-Traded Fund Share) has been approved for listing and trading on the Exchange, the Exchange shall from time to time open for trading series of options therein. Prior to the opening of trading in any series of options, the Exchange shall fix the expiration month and exercise price of option contracts included in each such series. At the commencement of trading on the Exchange of a particular class of options relating to an underlying stock or Exchange-Traded Fund Share, series of options therein having three different expiration months will normally be opened, the first such expiration month being within approximately three months thereafter, the second such month being approximately three months after the first and the third being approximately three months after the second. Additional series of options of the same class may be opened for trading on the Exchange at or about the time a prior series expires and the expiration month of each such series shall normally be approximately nine months following the opening of such series. The exercise price of each series of options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock or Exchange-Traded Fund Share is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange. Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying stock or Exchange-Traded Fund Share moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened.

(b) – (c) – No change.

(d) Unless otherwise provided in the rules of the Exchange, the Exchange may open for trading with respect to any class of stock or Exchange-Traded Fund Share option series that expire twelve (12) to thirty-nine (39) months from the time they are opened for trading, and stock index options that expire twelve (12) to thirty-six (36) months from the time they are opened for trading. The Exchange may open for trading up

to six such extended far term expiration months for any index or equity option class. The Exchange rules regarding strike price interval, bid/ask differentials and continuity shall not apply to such series until the time to expiration is less than twelve months for index options, and less than nine months for equity options. When open for trading, trading in such option series shall commence either when there is buying or selling interest, or forty minutes prior to the close of trading for the day, whichever occurs first. Quotations will not be posted for extended far term option series until trading in such series is commenced on the day.

(e) The Exchange may open for trading up to six extended far term expiration months for any index, Exchange-Trade Fund Share, or equity option class. The Exchange rules regarding strike price interval, bid/ask differentials and continuity shall not apply to such series until the time to expiration is less than twelve months for index options, and less than nine months for equity options or Exchange-Traded Fund Shares. When open for trading, trading in such option series shall commence either when there is buying or selling interest, or forty minutes prior to the close of trading for the day, whichever occurs first. Quotations will not be posted for extended far term option series until trading in such series is commenced on the day.

Commentary:

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

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

.03 For a twelve-month pilot program period ending July 17, 1998, the Exchange may select a limited number of its listed options on individual stocks or Exchange-Traded Fund Shares for which the interval of strike prices will be \$2.50 where the strike price is greater than \$25 but less than \$50. In addition to those options selected by the Exchange, the strike price interval may be \$2.50 in any multiply traded option once another exchange trading that option selects such options, as part of this pilot program.

Position Limits

Rule 6.8(a) – No change.

Commentary:

.01 - .04 – No change.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

.07 Equity Hedge Exemption. The Exchange may exempt position and exercise limits for options on underlying stocks and Exchange-Traded Fund Shares in the following positions where each option contract is "hedged", respectively, by 100 shares of the underlying stock or securities convertible into such stock or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract:

- (i) Long Stock and Short Call
- (ii) Long Stock and Long Put
- (iii) Short Stock and Long Call
- (iv) Short Stock and Short Put

Position limits for any class of options on underlying stocks and Exchange-Traded Fund Shares may not exceed three times the established position limits for such class. This restriction also applies to positions for which an exemption has been granted pursuant to Rule 6.8 Commentaries .03 or .04.

.08 – No change.

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Limit on Uncovered Short Positions

Rule 6.10. Whenever the Exchange shall determine in light of current conditions in the Exchange options market or in the markets for underlying stocks or Exchange-Traded Fund Shares that there are outstanding an excessive number of uncovered short positions in options contracts of a given class dealt in on the Exchange or that an excessively high percentage of outstanding short positions in option contracts of a given class dealt in on the Exchange are uncovered, the Exchange may prohibit any further opening writing transactions in option contracts of that class unless the resulting short position will be covered, and it may prohibit the uncovering of any existing covered short position in option contracts of one or more series of options of that class, as it deems appropriate in the interests of maintaining a fair and orderly market in such option contracts or in the underlying stocks or Exchange-Traded Fund Shares, or otherwise deems advisable in the public interest or for the protection of investors. The Exchange may exempt transactions of Market Makers from restriction, imposed under this Section and it shall rescind such restrictions upon its determination that they are no longer appropriate.

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Other Restrictions on Exchange Option Transactions and Exercises

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

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Delivery and Payment

Rule 6.26. Delivery of the shares of underlying security or Exchange-Traded Fund Share upon the exercise of an option contract and payment of the aggregate exercise price in respect thereof, shall be effected in accordance with the Rules of the Options Clearing Corporation. As promptly as practicable after the exercise of an option contract by a customer, the member organization shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract, or to deposit

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

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Obligations of Market Makers

Rule 6.37(a) – No Change.

(b) (1) – No Change.

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

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

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

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

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

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

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

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

(c) *In Classes of Option Contracts Other Than Those to Which Appointed.* With respect to classes of option contracts other than those to which his Primary Appointment extends, pursuant to Rule 6.35 a Market Maker should not engage in transactions for an account in which he has an interest which are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in paragraph (b) of this section with respect to those classes of option contracts to which his appointment does extend. Whenever a Market Maker enters the trading crowd for a class of options in which he does not hold a Primary Appointment in other than a floor brokerage capacity, he shall fulfill the obligations established by paragraph (b) of this section. In addition, when present anywhere on the Options Trading Floor, with regard to all securities or Exchange-Traded Fund Shares traded on the trading floor, a Market Maker is expected to undertake the obligations specified in paragraph (b) of this Section in response to a demand therefore from the Order Book Official that the performance of such obligations by other Market Makers required supplementation. Furthermore, Market Makers should not:

(1) Congregate in a particular class of option contract; or

(2) Individually or as a group, intentionally or unintentionally, dominate the market in option contracts of a particular class; or

(3) Effect purchases or sales on the floor of the Exchange except in a reasonable and orderly manner.

(d) – No Change.

Commentary:

.01 - .10 No Change.

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Trading Practices and Procedures

Certain Types of Orders Defined

Rule 6.62(a) – (c) – No change.

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

(e) – (f) – No change.

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

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

(i) – (j) – No change.

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Trading Rotations

Rule 6.64(a) – (b) – No Change.

Commentary:

.01 Trading rotations may be employed at the opening and at the close, of the Exchange each business day, as determined by the Options Floor Trading Committee. Trading rotations, when held, shall be conducted by the Order Book Official acting in such class of options. The rotations shall be conducted in the following manner:

(a) *Opening Rotations.* The opening rotation, when used, shall be held promptly following the opening of the underlying security or Exchange-Traded Fund Share on the principal market where it is traded. As a rule, an Order Book Official acting in more than one class of options should open them in the same order in which opening transactions are reported in the underlying securities or Exchange-Traded Fund Shares. In conducting each such opening rotation, the Order Book Official should first open the one or more series of options of a given class having the nearest expiration, then proceed to series of options having the next most distant expiration, and so forth, until all series have been opened. Except as otherwise provided by the Options Floor Trading Committee, if both puts and calls covering the same underlying security or Exchange-Traded Fund Share are traded, the Order Book Official shall determine which type of option should open first, and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions.

(b) *Closing Rotations.* Transactions may be effected in a class of options after 1:02 p.m. (Pacific Time) if they occur during a trading rotation. Such a trading rotation may be employed in connection with the opening or reopening of trading in the underlying security or Exchange-Traded Fund Share after 12:30 p.m. (Pacific Time) or due to the declaration of a "fast market" pursuant to Options Floor Procedure Advice G-9. The decision to employ a trading rotation after 12:30 p.m. shall be publicly announced on the trading floor prior to the commencement of such rotation. No more than one trading rotation may be commenced after 1:02 p.m. If a trading rotation is in progress and Floor Officials determine that a final trading rotation is needed to assure a fair and orderly close, the rotation in progress shall be halted and a final rotation begun as promptly as possible after 1:02 p.m. Any trading rotation conducted after 1:02 p.m. may not begin until ten minutes after news of such rotation is disseminated.

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

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

(c) – No change.

.02 - .04 - No change.

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Trading Halts and Suspensions

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

- (1) trading in the underlying stock or Exchange-Traded Fund Share has been halted or suspended in the primary market;
- (2) the opening of such underlying stock or Exchange-Traded Fund Share in the primary market has been delayed because of unusual circumstances;
- (3) the Exchange has been advised that the issuer of the underlying stock or Exchange-Traded Fund Share is about to make all important announcement affecting such issuer; or
- (4) other unusual conditions or circumstances are present.

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

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

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

- (1) *No last sale and/or quotation dissemination either by the Exchange or by OPRA.* At the outset, a time-critical review by two Floor Officials and a senior Exchange Official (the "group") will be made of the circumstances causing the failure of dissemination. If it is believed by the group that the dissemination will resume in less than 15 minutes, trading ordinarily will continue and a message will be given to the news wire services announcing the dissemination difficulty. If it is believed by this group that the dissemination problem will extend beyond 15 minutes, the two Floor Officials, in their discretion, may impose a halt on all trading in affected securities or Exchange-Traded Fund Shares. In any event, two Floor Officials may permit trading to continue for more than 15 minutes after a

failure of dissemination only with the concurrence of a senior Exchange Official. Trading may resume upon a determination by the group that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading. Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

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

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

(4) – (5) – No Change.

(6) *Over-the-counter quote dissemination halt.* Two Floor Officials, in their discretion, may halt trading in options overlying over-the-counter securities or Exchange-Traded Fund Shares affected by such a quote dissemination halt upon first notification of the dissemination halt. Trading may resume upon a determination by two Floor Officials that the conditions that led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading, Generally the Exchange will notify member firms and the news wire services of the resumption of trading.

(7) – No Change.

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

Commentary:

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

.02 - .03 – No Change.

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Meaning of Premium Bids and Offers

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

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

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Rule 8 Other Securities

Rules 8.1-8.17. Reserved.

Flexible Exchange Options

Applicability and Definitions

Rule 8.100(a) – No change.

(1) – No change.

(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) – (4) – No change.

(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) – (10) – No change.

(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) – (18) – No change.

Rule 8.101(a) – (b) – No change.

Terms of FLEX Options

Rule 8.102(a) – (b) – No change.

(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) – (3) – No change.

(d) – (e) – No change.

(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 amount or percentage of the price 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) – No change.

Rules 8.103 – 8.115 – No change.