



**RULE
ADOPTION
NOTICE**

**RAN-06-33
July 24, 2006**

TO: All OTP Holders and OTP Firms

FROM: Office of the General Counsel

**SUBJECT: Quarterly Options
(File No. SR-NYSEArca-2006-45)**

On July 12, 2006, the NYSE Arca, Inc. (“Exchange”) filed with the Securities and Exchange Commission (“Commission”) a proposed rule change to allow for the trading of options that expire on the last business day of the calendar quarter. On July 17, 2006 the Exchange filed Amendment No 1 to the proposal. The proposed rule change and amendment were effective upon filing.

The following is the text of the rule change. Questions regarding this bulletin may be directed to Glenn Gsell at 415-835-4805 or Arturo Hurtado at 415-393-4067

EXHIBIT 5

Text of the Proposed Rule Change:¹

Rules of NYSE Arca, Inc.

Rule 5

Option Contracts Traded on the Exchange

Rule 5.10. Applicability, Definitions and References

(a) -- No change.

(b) *Definitions.* Unless the context indicates otherwise, the following terms as used in this Section 3 shall have the meanings specified below.

(1) through (25) -- No change.

¹ New text is underscored. Deleted text is bracketed.

(26) The term “Quarterly Options Series” means, for the purposes of this Rule 5, a series in an index options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

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Rule 5.15. Position Limits for Broad-Based Index Options

(a) through (d) -- No change.

(e) Positions in One Week Option[s] Series and Quarterly Options Series shall be aggregated with positions in options contracts on the same index.

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Rule 5.16. Position Limits for Industry (Narrow-Based) Index Options

(a) through (c) -- No change.

(d) Positions in One Week Option Series and Quarterly Options Series shall be aggregated with positions in options contracts on the same index.

(e) through (g) -- No change.

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Rule 5.19. Terms of Index Option Contracts

(a) General

(1) through (2) -- No change.

(3) *Expiration Months.* Index Option contracts may expire at three (3) month intervals or in consecutive months. The Exchange may list up to six (6) months at any one time, but will not list index options that expire more than twelve (12) months out.

One Week Option Series Pilot Program. Notwithstanding the preceding restriction, after an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Friday that is a business day ("One Week Option Opening Date") series of options on that class that expire at the close of business on the next Friday that is a business day ("One Week Option Expiration Date"). If the Exchange is not open for business on a Friday, the One Week Option Opening Date will be the first business day immediately prior to that Friday. Similarly, if the Exchange is not open for business on a Friday, the One Week Option Expiration Date will be the first business day immediately prior to that Friday. One Week Option Series shall be P.M. settled, except

for One Week Option Series on indexes. One Week Option Series on indexes shall be A.M. settled.

The Exchange may select up to five currently listed option classes on which One Week Option Series may be opened on any One Week Option Opening Date. In addition, to the five-option class restriction, the Exchange also may list One Week Option Series on any option classes that are selected by other securities exchanges that employ a similar Pilot Program under their respective rules. For each index option class eligible for participation in the One Week Option Series Pilot Program, the Exchange may open up to five One Week Option Series index options for each expiration date in that class. The strike price of each One Week Option Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the calculated value of the underlying index value at about the time the One Week Option Series is opened for trading on the Exchange. No One Week Option Series on an index option class may expire in the same week during which any A.M. settled monthly option series on the same index class expire.

The Exchange may continue to list One Week Option Series until the One Week Option Series Pilot Program expires on July 12, 2007.

Quarterly Options Series Pilot Program. Notwithstanding the restriction in this Rule 5.19(a)(3) above, for a one-year pilot period, the Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter ("Quarterly Options Series"). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either index options or options on exchange traded funds. In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar pilot program under their respective rules. The one-year pilot will commence the day the Exchange first initiates trading in a Quarterly Options Series or July 24, 2006, whichever is earlier.

The Exchange will list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange is trading Quarterly Options Series in the month of May 2006, it will list series that expire at the end of the second, third and fourth quarters of 2006, as well as the first and fourth quarters of 2007. Following the second quarter 2006 expiration, the Exchange will add series that expire at the end of the second quarter of 2007.

The Exchange will not list a One Week Option Series on an options class whose expiration coincides with that of a Quarterly Options Series on that same options class.

Quarterly Options Series shall be P.M. settled.

The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the

Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying security on the preceding day. The Exchange may open for trading additional Quarterly Options Series of the same class if the current index value of the underlying index moves substantially from the exercise price of those Quarterly Options Series that already have been opened for trading on the Exchange. The exercise price of each Quarterly Options Series opened for trading on the Exchange shall be reasonably related to the current index value of the underlying index to which such series relates at or about the time such series of options is first opened for trading on the Exchange. The term “reasonably related to the current index value of the underlying index” means that the exercise price is within thirty percent (30%) of the current index value. The Exchange may also open for trading additional Quarterly Options Series that are more than thirty percent (30%) away from the current index value, provided that demonstrated customer interest exists for such series, as expressed by institutional, corporate, or individual customers or their brokers. Market Makers trading for their own account shall not be considered when determining customer interest under this provision.

The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

(4) through (7) -- No change.

(b) through (e) -- No change.

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Rule 6 Options Trading

Rule 6.1. Applicability, Definitions and References

(a) -- No change.

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

(1) - (16) -- No change.

(17) *Expiration Date* -- The term “expiration date” in respect of an option contract or Exchange-Traded Fund Share means 2:00 P.M. on the Saturday immediately following the third Friday of the expiration month. For a One Week Option Series the term “expiration date” shall mean the close of business on the next Friday that is a business day. If a Friday is not a business day, the “expiration date” shall be the close of business on the first business day immediately prior to that Friday. For a Quarterly Options

Series, the term “expiration date” shall mean the close of business on the last business day of a calendar quarter.

(18) - (41) -- No change.

(42) Quarterly Options Series. The term “Quarterly Options Series” means a series in an options class that is approved for listing and trading on the Exchange in which the series is opened for trading on any business day and that expires at the close of business on the last business day of a calendar quarter.

(c) through (e) -- No change.

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Rule 6.4. Series of Options Open for Trading

(a) After a particular class of options (call option contracts or put option contracts relating to a specific underlying stock, Exchange-Traded Fund Share or calculated index) 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. For One Week Option Series, the Exchange will fix a specific expiration date and exercise price, as provided in Commentary .07 below. For Quarterly Options Series, the Exchange will fix a specific expiration date and exercise price, as provided in Commentary .08 below. Except for One Week Option Series and Quarterly Options Series, at the commencement of trading on the Exchange of a particular class of options, series of options therein having four different expiration months will normally be opened. Additional series of options of the same class may be opened for trading on the Exchange at or about the time a prior series expires. The exercise price of each series of options opened for trading on the Exchange shall be fixed at a price per share which is reasonably close to the price per share at which the underlying stock or Exchange-Traded Fund Share is traded in the primary market at or about the time such series of options is first opened for trading on the Exchange. Additional series of options of the same class may be opened for trading on the Exchange as the market price of the underlying stock or Exchange-Traded Fund Share moves substantially from the initial exercise price or prices. The opening of a new series of options on the Exchange shall not affect any other series of options of the same class previously opened. Commentary .07 will govern the procedures for opening One Week Option Series. Commentary .08 will govern the procedures for opening Quarterly Options Series.

(b) through (e) -- No change.

Commentary:

.01 through .07 -- No change.

.08 Quarterly Options Series Pilot Program. For a one-year pilot period, the Exchange may list and trade options series that expire at the close of business on the last business day of a calendar quarter (“Quarterly Options Series”). The Exchange may list Quarterly Options Series for up to five (5) currently listed options classes that are either index options or options on exchange traded funds. In addition, the Exchange may also list Quarterly Options Series on any options classes that are selected by other securities exchanges that employ a similar pilot program under their respective rules. The one-year pilot will commence the day the Exchange first initiates trading in a Quarterly Options Series or July 24, 2006, whichever is earlier.

The Exchange will list series that expire at the end of the next consecutive four (4) calendar quarters, as well as the fourth quarter of the next calendar year. For example, if the Exchange is trading Quarterly Options Series in the month of May 2006, it will list series that expire at the end of the second, third and fourth quarters of 2006, as well as the first and fourth quarters of 2007. Following the second quarter 2006 expiration, the Exchange will add series that expire at the end of the second quarter of 2007.

The Exchange will not list a One Week Option Series on an options class whose expiration coincides with that of a Quarterly Options Series on that same options class.

The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two strike prices above and two strike prices below the value of the underlying security at about the time that a Quarterly Options Series is opened for trading on the Exchange. The Exchange shall list strike prices for a Quarterly Options Series that are within \$5 from the closing price of the underlying security on the preceding day. Additional Quarterly Options Series of the same class may be opened for trading on the Exchange when the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when the market price of the underlying security moves substantially from the initial exercise price or prices. To the extent that any additional strike prices are listed by the Exchange, such additional strike prices shall be within \$5 from the closing price of the underlying on the preceding day. The opening of new Quarterly Options Series shall not affect the series of options of the same class previously opened.

The interval between strike prices on Quarterly Options Series shall be the same as the interval for strike prices for series in that same options class that expire in accordance with the normal monthly expiration cycle.

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