

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 208	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4		File No.* SR - 2012 - * 030	Amendment No. (req. for Amendments *)
Proposed Rule Change by NASDAQ OMX BX, Inc. Pursuant to Rule 19b-4 under the Securities Exchange Act of 1934				
Initial * <input checked="" type="checkbox"/>	Amendment * <input type="checkbox"/>	Withdrawal <input type="checkbox"/>	Section 19(b)(2) * <input checked="" type="checkbox"/>	Section 19(b)(3)(A) * <input type="checkbox"/>
			Section 19(b)(3)(B) * <input type="checkbox"/>	
			Rule	
Pilot <input type="checkbox"/>	Extension of Time Period for Commission Action * <input type="checkbox"/>	Date Expires * <input type="text"/>	<input type="checkbox"/> 19b-4(f)(1)	<input type="checkbox"/> 19b-4(f)(4)
			<input type="checkbox"/> 19b-4(f)(2)	<input type="checkbox"/> 19b-4(f)(5)
			<input type="checkbox"/> 19b-4(f)(3)	<input type="checkbox"/> 19b-4(f)(6)
Exhibit 2 Sent As Paper Document <input type="checkbox"/>		Exhibit 3 Sent As Paper Document <input type="checkbox"/>		
Description Provide a brief description of the proposed rule change (limit 250 characters, required when Initial is checked *). Establishment of an Options Market				
Contact Information Provide the name, telephone number and e-mail address of the person on the staff of the self-regulatory organization prepared to respond to questions and comments on the proposed rule change.				
First Name *	Edith	Last Name *	Hallahan	
Title *	Principal Associate General Counsel			
E-mail *	Edith.hallahan@nasdaqomx.com			
Telephone *	(215) 496-5179	Fax	<input type="text"/>	
Signature Pursuant to the requirements of the Securities Exchange Act of 1934, has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized officer.				
Date	04/30/2012			
By	Edward S. Knight	Executive Vice President and General Counsel		
	(Name *)	(Title *)		
NOTE: Clicking the button at right will digitally sign and lock this form. A digital signature is as legally binding as a physical signature, and once signed, this form cannot be changed.		Edward S Knight,		

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

For complete Form 19b-4 instructions please refer to the EFFS website.

Form 19b-4 Information (required)

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The self-regulatory organization must provide all required information, presented in a clear and comprehensible manner, to enable the public to provide meaningful comment on the proposal and for the Commission to determine whether the proposal is consistent with the Act and applicable rules and regulations under the Act.

Exhibit 1 - Notice of Proposed Rule Change (required)

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The Notice section of this Form 19b-4 must comply with the guidelines for publication in the Federal Register as well as any requirements for electronic filing as published by the Commission (if applicable). The Office of the Federal Register (OFR) offers guidance on Federal Register publication requirements in the Federal Register Document Drafting Handbook, October 1998 Revision. For example, all references to the federal securities laws must include the corresponding cite to the United States Code in a footnote. All references to SEC rules must include the corresponding cite to the Code of Federal Regulations in a footnote. All references to Securities Exchange Act Releases must include the release number, release date, Federal Register cite, Federal Register date, and corresponding file number (e.g., SR-[SRO]-xx-xx). A material failure to comply with these guidelines will result in the proposed rule change being deemed not properly filed. See also Rule 0-3 under the Act (17 CFR 240.0-3)

Exhibit 2 - Notices, Written Comments, Transcripts, Other Communications

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Exhibit Sent As Paper Document

Copies of notices, written comments, transcripts, other communications. If such documents cannot be filed electronically in accordance with Instruction F, they shall be filed in accordance with Instruction G.

Exhibit 3 - Form, Report, or Questionnaire

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Exhibit Sent As Paper Document

Copies of any form, report, or questionnaire that the self-regulatory organization proposes to use to help implement or operate the proposed rule change, or that is referred to by the proposed rule change.

Exhibit 4 - Marked Copies

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The full text shall be marked, in any convenient manner, to indicate additions to and deletions from the immediately preceding filing. The purpose of Exhibit 4 is to permit the staff to identify immediately the changes made from the text of the rule with which it has been working.

Exhibit 5 - Proposed Rule Text

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The self-regulatory organization may choose to attach as Exhibit 5 proposed changes to rule text in place of providing it in Item I and which may otherwise be more easily readable if provided separately from Form 19b-4. Exhibit 5 shall be considered part of the proposed rule change.

Partial Amendment

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If the self-regulatory organization is amending only part of the text of a lengthy proposed rule change, it may, with the Commission's permission, file only those portions of the text of the proposed rule change in which changes are being made if the filing (i.e. partial amendment) is clearly understandable on its face. Such partial amendment shall be clearly identified and marked to show deletions and additions.

1. Text of the Proposed Rule Change

(a) NASDAQ OMX BX, Inc. (“BX” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹ and Rule 19b-4 thereunder,² is filing with the Securities and Exchange Commission (“Commission”) a proposal for a new options market. Specifically, BX proposes to adopt new trading rules, as explained further below, to operate a fully automated, price/time priority execution system built on the core functionality of the NASDAQ Options Market (“NOM”).

A notice of the proposed rule change for publication in the Federal Register is attached hereto as Exhibit 1 and the text of the proposed rules is attached hereto as Exhibit 5.

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The Board of Directors of the Exchange approved the submission of this proposed rule change on April 25, 2012. No other action by the Exchange is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to Edith Hallahan at 215-496-5179.

¹ 5 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

a. Purpose

The purpose of the proposed rule change is to operate a new options market, identical to (but separate from) the NASDAQ Options Market (“NOM”). The new market, called NASDAQ OMX BX Options, or BX Options, will be all-electronic with no physical trading floor and is described more fully below.

BX is a registered national securities exchange and a self-regulatory organization (“SRO”). BX is a wholly-owned subsidiary of The NASDAQ OMX Group, Inc. BX will operate the BX Options market.

BX's history dates back to the 1830s. For many years, the Boston Stock Exchange (“BSE”) listed the securities of companies in the Boston area, but then, in more recent years, BSE traded securities mainly on an unlisted trading privileges (“UTP”) basis with a trading floor and an automated order delivery and execution system. As such, the BSE was an active competitor among the equities markets, pioneering a system of competing specialists and remote competing specialists. BSE partnered with various investors to form Boston Options Exchange (“BOX”) to trade options, which launched in 2004.³ In 2008, BSE merged into a subsidiary of The NASDAQ OMX Group, Inc. creating NASDAQ OMX BX. BX re-launched an equities marketplace utilizing state of

³ The NASDAQ OMX Group, Inc. does not own BOX, which has operated as a facility of BX and is currently pursuing its own status as a national securities exchange and SRO. Going forward, once BOX becomes an exchange, BX will no longer provide regulatory services to BOX. See Securities Exchange Act Release No. 66242 (January 26, 2012), 77 FR 4841 (January 31, 2012) (BOX Options Exchange LLC; Notice of Filing of Application, as amended, for Registration as a National Securities Exchange under Section 6 of the Act).

the art NASDAQ technology, having closed its floor-based market, and today competes with many other markets in trading NMS stocks.

Consistent with that storied history as a long-time competitor in the U.S. markets, BX now proposes to launch an options market. BX Options will leverage the technology and infrastructure that have helped spawn the success of both NOM and NASDAQ OMX PHLX LLC (“PHLX”). Accordingly, BX believes that it can compete effectively as an options market, recognizing that there are nine options exchanges today competing vigorously. Initially, BX Options will have the same market structure and rules as NOM, focusing on a price/time priority market. Over time, as the BX Options market secures more participants, it will introduce additional, innovative technology.

In connection with its BX Options market, BX is proposing to adopt a series of rules based on the existing rules of NOM. BX will operate an electronic trading system developed to trade options (“System” or “Trading System”) that will provide for the electronic display and execution of orders in price/time priority without regard to the status of the entities that are entering orders.

Trading System

BX’s options trading system will leverage current state of the art technology, including customer connectivity, messaging protocols, quotation and execution engine, order router, data feeds, and network infrastructure of the various markets owned by The NASDAQ OMX Group, Inc. This approach minimizes the technical effort required for existing BX members to begin trading options on the BX Options market. As a result, the BX Options market will closely resemble NOM, including, most prominently, by

offering true price/time priority across all orders and participants rather than differentiating between participant/trading interest.

Like on NOM, all trading interest entered into the System will be automatically executable. Orders entered into the System will be displayed anonymously and, as such, will trade anonymously.⁴ The BX Options market will be a participant exchange of OCC. The System will be linked to OCC for BX to transmit locked-in trades for clearance and settlement. The System will operate between the hours of 8:00 a.m. ET and market close, with all orders being available for execution from 9:30 a.m. to market close.

Minimum Quotation and Trading Increments. BX is proposing to apply the following quotation increments: (1) if the options series is trading at less than \$3.00, five cents; (2) if the options series is trading at \$3.00 or higher, ten cents; and (3) if the options series is trading pursuant to the Penny Pilot Program,⁵ one cent if the options series is trading at less than \$3.00, and five cents if the options series is trading at \$3.00 or higher, except for QQQQ, SPY and IWM, where the minimum quoting increment will be one cent for all series.⁶ In addition, BX is proposing that the minimum trading increment for options contracts traded on BX will be one cent for all series.

BX notes that allowing market participants to quote in smaller increments has been shown to reduce spreads, thereby lowering costs to investors. In addition, permitting

⁴ However, options trades are not completely anonymous through settlement. See proposed BX Options Rules Chapter VI, Section 12. Options trades are submitted to The Options Clearing Corporation (“OCC”) with contra-side OCC member information.

⁵ BX will participate in the Penny Pilot Program.

⁶ See proposed BX Options Rules, Chapter VI, Section 5.

options to be quoted in smaller increments pursuant to the Penny Pilot Program provides the opportunity for reduced spreads for a significant amount of trading volume. Although the Penny Pilot Program has contributed to the increase in quote message traffic, BX believes that its proposal is sufficiently limited such that it is unlikely to increase quotation message traffic beyond the capacity of market participants' systems and disrupt the timely receipt of information.

Opening and Halt Crosses. The BX Options System will support a single price opening or re-opening via an electronic cross.⁷ The auctions at the opening and at the resumption of trading following a halt are identical to those that exist on NOM. Since NOM commenced trading in March of 2008, several enhancements have been made to the opening and re-opening cross process. The incremental changes that have been made to NOM's opening and re-opening cross have culminated in an efficient and stable process that BX plans to replicate for BX Options.

BX Options will operate a pre-opening phase that will begin prior to the opening of the market at a time to be determined by the Exchange. Orders may be submitted, modified, and cancelled throughout the pre-opening phase. Prior to opening the market (or resuming trading in the case of a halt), BX will calculate and disseminate certain indicative information: opening price, order imbalance, and the size and direction of any imbalance.⁸ Thereafter, BX will determine via algorithm a single price at which a particular options series will open and will match via algorithm the maximum number of

⁷ See proposed BX Options Rules, Chapter VI, Section 8.

⁸ See proposed BX Options Rules, Chapter VI, Section 8.

available orders. After the cross concludes, orders will be cancelled, routed, or posted depending on the instructions on the orders and open trading will commence.

Order Types. The System will make available to Participants various order types, including Limit Orders, Minimum Quantity Orders, Market Orders, Price Improving Orders, Intermarket Sweep Orders, One-cancels-the-other Orders, All-or-none Orders and Post-Only Orders, with characteristics and functionality similar to what is currently approved for use on NOM.⁹

“Limit Orders” are orders to buy or sell options at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

“Minimum Quantity Orders” are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel (“IOC”).

“Market Orders” are orders to buy or sell at the best price available at the time of execution.

“Price Improving Orders” are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display will be displayed at the appropriate minimum price variation in that security (rounding down to the proper increment for buys, up to the proper increment for sells). The non-displayed price of a Price Improving Order is therefore not included

⁹ See proposed BX Options Rules, Chapter VI, Section 1(d).

in the National Best Bid and Offer (“NBBO”) and not subject to trade-through protection, although it is available to trade against eligible incoming orders.

“Intermarket Sweep Orders” or “ISOs” are limit orders that are designated as ISOs in the manner prescribed by BX and are executed within the System at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Chapter XII, Section 1. ISOs are not eligible for routing as set out in Chapter VI, Section 11.¹⁰ Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering Participant to execute against the full displayed size of any protected bid or offer (as defined in Chapter XII, Section 1) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an ISO (as defined in Chapter XII, Section 1). These additional routed orders must be identified as ISOs.

“One-cancels-the-other” shall mean an order entered by a Market Maker that consists of a buy order and a sell order treated as a unit; the full execution of one of the orders causes the other to be canceled.

“All-or-none” shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-none Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-none Orders received prior to the opening cross or after market close will be rejected.

¹⁰ Intermarket Sweep Orders or ISOs can have a time-in-force of Day or Immediate or Cancel; ISOs that are marked as Day lose the Immediate or Cancel designation once posted on the BX Options book. If an entering firm cancel/replaces that resting Day ISO order, the replacement order cannot be marked as ISO. If the replacement is marked as ISO, it will be rejected.

“Post-Only Orders” are orders that will not remove liquidity from the System. Post-Only Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market. Post-Only Orders are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if a Post-Only Order would lock or cross an order on the System, the order will be re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers); and (ii) if a Post-Only Order would not lock or cross an order on the System but would lock or cross the NBBO as reflected in the protected quotation of another market center, the order will be handled pursuant to Chapter VI, Section 7(b)(3)(C). Post-Only Orders received prior to the opening cross or after market close will be rejected. Post-Only Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel.

Time-in-Force Designations. Participants entering orders into the System may designate such orders to remain in force and available for display and/or potential execution for varying periods of time.¹¹ Unless cancelled earlier, once these time periods expire, the order (or the unexecuted portion thereof) is returned to the entering Participant.

“Immediate Or Cancel” or “IOC” orders are orders that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) will be canceled and returned to the entering Participant. IOC Orders will be available for entry from 8:00 a.m. until market close and

¹¹ See proposed BX Options Rules, Chapter VI, Section 1(g).

for potential execution from 9:30 a.m. until market close. IOC Orders entered between 8:00 a.m. and 9:30 a.m. ET will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable. IOC orders can be routed if designated as routable.

“DAY” orders are orders that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) will remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders will be available for entry from 8:00 a.m. until market close and for potential execution from 9:30 a.m. until market close.

“Good Til Cancelled” or “GTC” orders are orders that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) will remain available for potential display and/or execution unless cancelled by the entering Participant, or until the option expires, whichever comes first. GTC Orders will be available for entry from 8:00 a.m. until market close and for potential execution from 9:30 a.m. until market close.

“WAIT” shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering Participant.

Order Display/Matching System The System will be based upon the order display and execution functionality currently approved for use on NOM. Specifically, the System will allow Participants to enter priced limit orders to buy and sell BX Options-

listed options. Orders entered by a Participant will be displayed (price and size) on an anonymous basis in the order display service of the System. Options Participants will be permitted to enter multiple orders at single or multiple price levels.

Routing. BX Options will provide routing services to its Participants. The BX Options market will support orders that are designated to be routed to the NBBO as well as orders that will execute only within the System. Orders that are designated as routable will be routed to other options markets to be executed when BX Options is not at the NBBO, consistent with the Options Order Protection and Locked/Crossed Market Plan. The System will ensure that orders designated to only execute within the System will not create a trade through or locked or crossed market violation.¹²

Orders sent by the System to other markets generally do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its original timestamp and its priority.

The order routing process shall be available to Participants from 9:30 a.m. ET until market close and shall route orders as described below. Participants can designate orders as either available for routing or not available for routing. All routing of orders

¹² See proposed BX Options Rules, Chapter VI, Section 11.

shall comply with Chapter XII, Options Order Protection and Locked and Crossed Market Rules. The System provides a number of routing options pursuant to which orders are sent to other available market centers for potential execution, per the entering firm's instructions. Routing options may be combined with all available order types and time-in-force designations, with the exception of order types and time-in-force designations whose terms are inconsistent with the terms of a particular routing option. The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The System routing options are SEEK¹³ and SRCH.¹⁴ BX is not proposing, at this time, to route Non-System Securities, which are securities not listed on the BX Options market; the routing functionality will be limited to options listed on BX.

¹³ SEEK is a routing option pursuant to which an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm's instructions. When checking the book, the System will seek to execute at the price at which it would send the order to a destination market center. If contracts remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

¹⁴ SRCH is a routing option pursuant to which an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm's instructions. When checking the book, the System will seek to execute at the price at which it would send the order to a destination market center. If contracts remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, it will re-route.

BX Options intends to route orders in options using NASDAQ Options Services LLC (“NOS”), a broker-dealer that is a member of BX. NOS is also a member of PHLX and NASDAQ, and NOS provides routing functions for PHLX and NOM as well. BX, PHLX, NASDAQ, NOM and NOS are affiliates.¹⁵ Accordingly, the affiliate relationship between BX and NOS, its member, raises the issue of an exchange’s affiliation with a member of such exchange. Specifically, in connection with prior filings, the Commission has expressed concern that the affiliation of an exchange with one of its members raises the potential for unfair competitive advantage and potential conflicts of interest between an exchange’s self-regulatory obligations and its commercial interests.¹⁶

Because BX proposes to use NOS as its outbound routing facility, providing outbound options routing from BX to other market centers, including affiliates PHLX and NOM, BX proposes to do so under the following conditions, which are the same as those found in NOM rules:

(1) NOS shall route orders to other market centers as directed by BX. NOS will be programmed to follow the algorithm and order type instructions established in the BX Options Rules and will not have discretion to change the terms of an order or the order routing instructions.

¹⁵ In order for BX to provide outbound options routing services, its affiliates, PHLX and NASDAQ/NOM, must each file a proposed rule change to receive inbound orders from their affiliate exchange, BX.

¹⁶ See e.g., Securities Exchange Act Release No. 58135 (July 10, 2008), 73 FR 40898 (July 16, 2008)(SR-NASDAQ-2008-061)(Permitting NOS to be affiliated with PHLX).

(2) NOS will not engage in any business other than: (a) as an outbound router for BX and (b) any other activities it may engage in as approved by the Commission;¹⁷ provided, however, that immediately prior to the commencement of operations of NOS as an outbound router for the Exchange, the Exchange may use NOS to conduct a test of its routing functionality. In order to ensure that the routing functionality is operating properly prior to making it available to Participants, the Exchange proposes to use NOS to perform test trades in an actual security, prior to launch, so as to track the performance of the systems to be used by the Exchange from order entry to clearance and settlement. The test will be performed by entering buy or sell orders and then, upon execution of each, entering an offsetting sell order in the same security for the same quantity, in order to close out the test position and minimize financial impact on the Exchange. The Exchange will deliver the test orders to NOS, as the routing broker, which will route to the designated away market and receive an execution back. BX believes that this will allow it to perform adequate testing of its systems for routing member orders before such systems become operational. To the extent that the offsetting trades require the Exchange to pay out funds, the funds will be provided out of the cash accounts of the Exchange; to the extent that the trades result in a profit, the funds will be deposited in the cash accounts of the Exchange.

(3) NOS shall operate as a facility, as defined in Section 3(a)(2) of the Act, of BX.

¹⁷ NOS has been approved to provide routing services for NOM and PHLX. See Securities Exchange Act Release Nos. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009)(SR-Phlx-2009-32); and 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (order approving File Nos. SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080).

(4) For purposes of SEC Rule 17d-1, the designated examining authority of NOS shall be a self-regulatory organization unaffiliated with BX or any of its affiliates.

(5) BX shall be responsible for filing with the Commission proposed rule changes related to the operation of, and fees for services provided by, NOS and NOS shall be subject to exchange nondiscrimination requirements.

(6) The books, records, premises, officers, agents, directors and employees of NOS as a facility of BX shall be deemed to be the books, records, premises, officers, agents, directors and employees of BX for purposes of, and subject to oversight pursuant to, the Act. The books and records of NOS as a facility of BX shall be subject at all times to inspection and copying by the Commission.

(7) Use of NOS to route orders to other market centers will be optional. Parties who do not desire to use NOS must enter orders into the System as ineligible for routing.

(8) NOS shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between BX and its facilities (including NOS as its routing facility) and any other entity.

These conditions are intended to address the Commission's concerns regarding potential conflicts of interest in instances where a member firm is affiliated with an exchange.

Furthermore, BX Rule 2140(a)(1) currently provides that BX or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in, or engage in a business venture with, an Exchange member or an affiliate of an Exchange member in the absence of an effective filing under Section 19(b) of the Act. Because NOS is an Exchange member and BX now proposes to engage in the business

venture of outbound routing using NOS as its routing broker, as well as receiving inbound orders from its affiliates, NOM and PHLX through NOS, the Exchange has filed this proposed rule change under Section 19(b) of the Act .

In addition, pursuant to Rule 15c3-5 under the Act, NOS will implement certain tests designed to mitigate risks associated with providing the Exchange's members with access to such away trading centers. Pursuant to the policies and procedures developed by NOS to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NOS will seek to cancel the order if it has been routed.¹⁸

BX also proposes to accept inbound orders routed by NOS from PHLX and from NOM. As stated above respecting outbound routing to affiliates, the affiliate relationship between BX and NOS, its member, raises the issue of an exchange's affiliation with a member of such exchange, and the Commission has expressed concern that the affiliation of an exchange with one of its members raises the potential for unfair competitive advantage and potential conflicts of interest between an exchange's self-regulatory obligations and its commercial interests.¹⁹ Accordingly, BX now proposes to permit BX to accept inbound orders that NOS routes in its capacity as a facility of PHLX and NOM, subject to certain limitations and conditions:

¹⁸ See proposed BX Options Rules, Chapter VI, Section 10(5).

¹⁹ See Securities Exchange Act Release No. 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (Permitting NOS to be an affiliate). See also Securities Exchange Act Release Nos. 59153 (December 23, 2008), 73 FR 80485 (December 31, 2008)(SR-NASDAQ-2008-098); and 62736 (August 17, 2010), 75 FR 51861 (August 23, 2010) (SR-NASDAQ-2010-100).

First, BX and the Financial Industry Regulatory Authority (“FINRA”) will maintain a regulatory contract, as well as an agreement pursuant to Rule 17d–2 under the Act (“17d–2 Agreement”).²⁰ Pursuant to the regulatory contract and the 17d–2 Agreement, FINRA will be allocated regulatory responsibilities to review NOS’s compliance with certain BX rules.²¹ Pursuant to the regulatory contract, however, BX retains ultimate responsibility for enforcing its rules with respect to NOS. Second, FINRA will monitor NOS for compliance with the Exchange’s trading rules, and will collect and maintain certain related information.²² Third, FINRA will provide a report to BX’s chief regulatory officer (“CRO”), on a quarterly basis, that: (i) quantifies all alerts (of which FINRA is aware) that identify NOS as a participant that has potentially violated Commission or BX rules, and (ii) lists all investigations that identify NOS as a participant that has potentially violated Commission or BX rules. Fourth, the Exchange has in place BX Rule 2140(c), which requires NASDAQ OMX, as the holding company owning both the BX and NOS, to establish and maintain procedures and internal controls reasonably designed to ensure that NOS does not develop or implement changes to its system, based on nonpublic information obtained regarding planned changes to BX’s systems as a result of its affiliation with BX, until such information is available generally to similarly

²⁰ 17 CFR 240.17d–2.

²¹ NOS is also subject to independent oversight by FINRA, its designated examining authority, for compliance with financial responsibility requirements.

²² Pursuant to the regulatory contract, both FINRA and BX will collect and maintain all alerts, complaints, investigations and enforcement actions in which NOS (in its capacity as a facility of PHLX and NOM routing orders to BX) is identified as a participant that has potentially violated applicable Commission or BX rules. BX and FINRA will retain these records in an easily accessible manner in order to facilitate any potential review conducted by the Commission’s Office of Compliance Inspections and Examinations.

situated BX members, in connection with the provision of inbound order routing to the BX. Fifth, BX proposes that the routing of orders from NOS to BX, in NOS's capacity as a facility of PHLX and NOM, be authorized for a pilot period of one year. BX believes that the above-listed conditions protect the independence of the Exchange's regulatory responsibility with respect to NOS, and that these mitigate the aforementioned concerns about potential conflicts of interest and unfair competitive advantage.

Book Processing. All trading interest on the System will be automatically executable. The System, like NOM, will have a single execution algorithm based on price/time priority. The System and rules provide for the ranking, display, and execution of all orders in price/time priority without regard to the status of the entity entering an order. For each order, among equally-priced or better-priced trading interest, the System executes against available contra-side displayed contract amounts in full, in price/time priority.²³ Any price improvement resulting from an execution in the System will accrue to the party taking liquidity.²⁴

Acceptable Trade Range. The System will employ an Acceptable Trade Range ("ATR") feature to limit the range of prices at which an order will be allowed to execute. The ATR is calculated by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders). Upon receipt of a new order, the reference price is National Best Bid ("NBB") for sell orders and the National Best Offer ("NBO") for buy orders or the last price at which the order is posted whichever is higher for a buy order or

²³ See proposed BX Options Rules, Chapter VI, Section 10.

²⁴ See proposed BX Options Rules, Chapter VI, Section 10.

lower for a sell order. If an order reaches the outer limit of the ATR (the “Threshold Price”) without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second (“Posting Period”), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the reference price for calculating a new ATR. If the order remains unexecuted, a New ATR will be calculated and the order will execute, route, or post up to the new ATR Threshold Price. This process will repeat until the order is executed, cancelled, or posted at its limit price.²⁵

Data Feed. Like NOM, BX Options will offer two proprietary data feeds. BX Depth of Market (“BX Depth”) will be a data feed that provides quotation information for individual orders on the BX Options book, last sale information for trades executed on BX Options, and order imbalance information as set forth in BX Options Rules Chapter VI, Section 8. In addition, BX Top of Market (“BX Top”) will be a data feed that provides the BX Options best bid and offer and last sale information for trades executed on BX Options.²⁶

BX Options Participants

Like NOM, BX will have only one category of members, known as “Options Participants” or “Participants.” All BX members will be eligible to participate in BX Options provided that BX specifically authorizes them to trade in the System and they become Participants; in other words, existing BX members will be required to comply

²⁵ See proposed BX Options Rules, Chapter VI, Section 10(7).

²⁶ BX offers other data feeds with respect to its equities market data. See BX Rule 7023.

with the incremental requirements of the proposed options rules. New BX members will be required to fulfill the requirements of the BX Rule 1000 Series to become a BX member as well as the incremental requirements set forth in the proposed options rules to become a BX Participant. The proposed rules avoid, to the greatest extent possible, proposing requirements that overlap with the rules already set forth in the Rule 1000 Series of the BX Rule Manual.

Only Options Participants will be permitted to transact business on BX Options via the System.²⁷ BX will authorize any Options Participant who meets certain enumerated qualification requirements to obtain access to BX Options. Among other things, Options Participants must be registered as broker-dealers pursuant to the Act and have as the principal purpose of being an Options Participant the conduct of a securities business. Every Options Participant shall at all times maintain membership in another registered options exchange that is not registered solely under Section 6(g) of the Act or FINRA.²⁸ There will be two types of Options Participants, Options Order Entry Firms and Options Market Makers. Options Order Entry Firms (“OEFs”) will be those Options Participants representing customer orders as agent on BX Options and non-Market Maker Participants conducting proprietary trading as principal.

Options Market Makers are Options Participants registered with the Exchange as Options Market Makers and registered with BX in one or more options listed on BX.²⁹

²⁷ See proposed BX Options Rules, Chapter II.

²⁸ Pursuant to BX Rule 1002(e), members that transact business with customers shall at all times be members of FINRA.

²⁹ See proposed BX Options Rules, Chapter VII.

BX may suspend or terminate any registration of an Options Market Maker when, in BX's judgment, the interests of a fair and orderly market are best served by such action.

To become an Options Market Maker, an Options Participant is required to register by filing a written application. BX will not place any limit on the number of entities that may become Options Market Makers. BX Options Market Makers will be required to electronically engage in a course of dealing to enhance liquidity available on BX and to assist in the maintenance of fair and orderly markets.³⁰ Among other things, Options Market Makers would have to participate in the opening and maintain minimum net capital in accordance with SEC and BX Options Rules. Furthermore, Options Market Makers must maintain a two-sided market for at least one contract in at least 60% of the series in options in which the Options Market Maker is registered. To satisfy this requirement with respect to quoting a series, a Market Maker must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as BX may announce in advance. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. Market Makers shall not be required to make two-sided markets pursuant to Section 5(a)(i) of Chapter VII in any Quarterly Option Series, any adjusted option series, and any option

³⁰ Options Market Makers receive certain benefits for carrying out their duties. For example, a lender may extend credit to a broker-dealer without regard to the restrictions in Regulation T of the Board of Governors of the Federal Reserve System if the credit is to be used to finance the broker-dealer's activities as market maker on a national securities exchange. Thus, an Options Market Maker has a corresponding obligation to hold itself out as willing to buy and sell options for its own account on a regular or continuous basis to justify this favorable treatment.

series until the time to expiration for such series is less than nine months. Accordingly, the continuous quotation obligations set forth in this rule shall not apply to Market Makers respecting Quarterly Option Series, adjusted option series,³¹ and series with an expiration of nine months or greater. If a technical failure or limitation of a system of BX prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to BX Options timely and accurate quotes, the duration of such failure or limitation shall not be included in any of these calculations with respect to the affected quotes.³²

Options Market Makers must also comply with certain bid/ask differentials (quote spread parameters).³³ Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market.

BX is also proposing an order exposure requirement comparable to that which currently applies on other registered options exchanges. Specifically, as set forth in Chapter VII, Section 12, with respect to orders routed to BX, Options Participants may

³¹ An adjusted option series is an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares.

³² Substantial or continued failure by an Options Market Maker to meet any of its obligations and duties, will subject the Options Market Maker to disciplinary action, suspension, or revocation of the Options Market Maker's registration in one or more options series.

³³ See proposed BX Options Rules, Chapter VI, Section 6(d)(ii).

not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one second or (ii) the Options Participant has been bidding or offering on the Exchange for at least one second prior to receiving an agency order that is executable against such bid or offer.

Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same market maker using the same identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution.³⁴

Regulation

The BX Options market will leverage many of the structures that BX has in place to operate a national securities exchange in compliance with Section 6 of the Act. As described in more detail below, like for NOM, there will be three elements of that regulation: (1) BX will join the existing options industry agreements pursuant to Section 17(d) of the Act; (2) BX's Regulatory Services Agreement with FINRA will govern many aspects of the regulation and discipline members that participate in options trading; and (3) BX will perform options listing regulation as well as real-time and post-trade regulation of options trading. The principle here, again, is that BX will regulate its options market much the way NOM is regulated today.

Section 17(d) of the Act and the related rules thereunder permit SROs to allocate certain regulatory responsibilities to avoid duplicative oversight and regulation. Under Rule 17d-1 thereunder, the SEC designates one SRO to be the Designated Examining

³⁴ See proposed BX Options Rules, Chapter VI, Section 10(6).

Authority, or DEA, for each broker-dealer that is a member of more than one SRO. The DEA is responsible for the financial aspects of that broker-dealer's regulatory oversight. Because BX members also must be members of at least one other SRO, BX would generally not be designated as the DEA for any of its members.

Rule 17d-2 under the Act permits SROs to file with the Commission plans under which the SROs allocate among each other the responsibility to receive regulatory reports from, and examine and enforce compliance with specified provisions of the Act and rules thereunder and SRO rules by firms that are members of more than one SRO ("common members"). If such a plan is declared effective by the Commission, an SRO that is a party to the plan is relieved of regulatory responsibility as to any common member for whom responsibility is allocated under the plan to another SRO.

All of the options exchanges, FINRA, and the New York Stock Exchange ("NYSE") have entered into the Options Sales Practices Agreement, a Rule 17d-2 agreement. Under this Agreement, the examining SROs will examine firms that are common members of BX and the particular examining SRO for compliance with certain provisions of the Act, certain of the rules and regulations adopted thereunder, certain examining SRO rules, and certain BX Rules. FINRA will be the examining SRO for BX Options.

For those regulatory responsibilities that fall outside the scope of any Rule 17d-2 agreements, BX will retain full regulatory responsibility under the Act. However, BX has entered into a Regulatory Services Agreement with FINRA, pursuant to which FINRA personnel operate as agents for BX in performing certain of these functions. In addition to performing certain membership functions for the Exchange, FINRA performs

certain disciplinary and enforcement functions for the Exchange. Generally, FINRA investigates members, issue complaints, and conducts hearings pursuant to the Exchange's rules.

As is the case with NOM and BX equities, BX will supervise FINRA and continue to bear ultimate regulatory responsibility.

Finally, as it does with equities (and the same that is done for NOM by NASDAQ Regulation), BX Regulation will perform real-time surveillance of the BX Options market for the purpose of maintaining a fair and orderly market at all times. As it does with BX's equities trading and the same that is done for NOM by NASDAQ Regulation, BX Regulation will monitor BX Options trading market on a real-time basis to identify unusual trading patterns and determine whether particular trading activity requires further regulatory investigation by FINRA. BX Regulation will also conduct post-trade surveillance to determine whether the trading activity requires further investigation by FINRA.

In addition, BX Regulation will oversee the process for determining and implementing trade halts, identifying and responding to unusual market conditions, and administering BX's process for identifying and remediating "obvious errors" by and among its Options Participants.³⁵ Appeals of disciplinary hearings will be handled by the Exchange Review Council.

³⁵ BX's proposed obvious and catastrophic error rule mirrors NOM's, stating that the Exchange shall either nullify a transaction or adjust the execution price of a transaction that meets the standards of the rule, which takes into account whether the execution price of a transaction is higher or lower than the Theoretical Price for the series by a certain amount. Like on NOM, obvious error decisions can be appealed to a panel of the Market Operations Review Committee, which will be comprised minimally of representatives of one member engaged in Market

BX's disciplinary rules are set forth in the 9000 series of BX Rules; such disciplinary rules will apply to Options Participants and their associated persons. BX's Minor Rule Violation Plan ("MRVP") is set forth in Rule 9216 and related IM-9216. At this time, BX proposes to amend its MRVP to cover certain BX Options rules listed in proposed Chapter X, Section 7.

BX's MRVP specifies those uncontested minor rule violations with sanctions not exceeding \$2,500 that would not be subject to the provisions of Rule 19d-1(c)(1) under the Act³⁶ requiring that an SRO promptly file notice with the Commission of any final disciplinary action taken with respect to any person or organization. Rule 19d-1(c) allows SROs to submit for Commission approval plans for the abbreviated reporting of minor disciplinary infractions.

Any disciplinary action taken by an SRO against any person for violation of a rule of the SRO which has been designated as a minor rule violation pursuant to such a plan filed with and declared effective by the Commission will not be considered "final" for purposes of Section 19(d)(1) of the Act if the sanction imposed consists of a fine not exceeding \$2,500 and the sanctioned person has not sought an adjudication, including a hearing, or otherwise exhausted his administrative remedies.³⁷

Making and two industry representatives not engaged in Market Making. See proposed BX Options Rules, Chapter V, Section 6 and BX By-Laws Article IV, Section 4.14(d).

³⁶ 17 CFR 240.19d-1(c)(1).

³⁷ In approving BX Rule 9216, the Commission noted that the Exchange proposed that any amendments to such rule made pursuant to a rule filing submitted under Rule 19b-4 of the Act would automatically be deemed a request for Commission approval of a modification to its MRVP. Securities Exchange Act Release No. 26737 (April 17, 1989), 54 FR 16438 (April 24, 1989)(SR-BSE-88-2).

As stated above, currently, BX has in place a MRVP,³⁸ and is now proposing to amend that plan to cover options. In this regard, BX proposes to amend IM-9216, Violations Appropriate for Disposition Under Plan Pursuant to SEC Rule 19d-1(c)(2), in the BX Equity Rules. Specifically, BX proposes to add a reference to BX Options Rules, Chapter X, Section 7 - Penalty for Minor Rule Violations for Options Trading, in order to make clear that these provisions are included in BX's MRVP. The rules included in proposed Chapter X, Section 7 are similar to those of other options exchanges, and include position limit violations of Chapter III, Section 7, order entry-related violations of Chapter VII, Sections 6(a)-(c), continuous quoting required by Chapter VII, Section 6(d), various reporting obligations in Chapter III, Sections 7-10, expiring exercise declaration rules in Chapter VIII, Sections 1-3, audit trail submission and recordkeeping requirements of Chapter V, Section 7 and Chapter IX, Sections 1-3, representation of orders, Chapter VII, Section 12, trade reporting, Chapter VI, Sections 14 and 15, locked and crossed Market Violations, Chapter XII, Section 3, trade-through violations, and Chapter XII, Section 2(a), failure to timely file amendments to Form U4, Form U5 and Form BD.³⁹ Upon approval of the MRVP, BX will provide the Commission a quarterly report of actions taken on minor rule violations under the MRVP. The quarterly report will include BX's internal file number for the case, the name of the individual and/or organization, the nature of the violation, the specific rule provision violated, the sanction imposed, the number of times the rule violation has occurred, and the date of disposition. BX believes that adding these options rules to its MRVP should help it carry out its

³⁸ See BX Rule 9216(b).

³⁹ See e.g. ISE Rule 1614.

oversight and enforcement responsibilities as an SRO in cases where full disciplinary proceedings are unsuitable in view of the minor nature of the particular violation.

Accordingly, BX represents that it has the ability to discharge all regulatory functions related to its proposed options market. In connection with its regulatory functions, the Exchange represents that its regulatory oversight committee and its CRO will assume responsibility for regulating quoting and trading on BX Options and conduct by BX Options Participants. The Exchange's CRO has general supervision of the regulatory operations of the Exchange, including overseeing surveillance, examination, and enforcement functions, and administers the Regulatory Services Agreement between the Exchange and FINRA. BX's By-Laws and rules provide that it has disciplinary jurisdiction over its members so that it can enforce its members' compliance with its rules and the federal securities laws.⁴⁰ The Exchange's rules also permit it to sanction members for violations of its rules and violations of the federal securities laws by, among other things, expelling or suspending members, limiting members' activities, functions, or operations, fining or censuring members, or suspending or barring a person from being associated with a member.⁴¹ BX's Rules also provide for the imposition of fines for minor rule violations in lieu of commencing disciplinary proceedings. This framework will apply to BX Options.⁴²

⁴⁰ See e.g. Exchange By-Laws, Article XII, Section 12.2.

⁴¹ See e.g. BX Rule 8310.

⁴² BX Rules apply to Options Participants and the trading of options contracts on BX Options. See BX Options Rules, Chapter I, Section 2. Options Participants must, among other things, be an existing member or become a member of the Exchange, pursuant to the BX 1000 Rule Series, as well as maintain a membership on at least one other options exchange. See BX Options Rules, Chapter II, Sections 1 (b)(iii) and 2(f).

National Market System Plans

As discussed herein, BX is a participant in the various national market system plans for options trading established under Section 11A of the Act, because BX has been the SRO for the BOX market, which currently operates as its facility; because BOX is becoming its own, separate national securities exchange, it is pursuing its own membership in these various plans. BX plans to retain these plan memberships in order to operate BX Options. Specifically, BX is a member of the Options Order Protection and Locked/Crossed Market Plan, the Options Listings Procedures Plan (discussed below), and the Plan for the Reporting of Options Last Sale Reports and Quotation Information,⁴³ through the Options Price Reporting Authority (“OPRA”). In addition, BX is a participant in the Options Regulatory Surveillance Authority (“ORSA”) and the Plan for the Selection and Reservation of Securities Symbols. BX is transferring its status as a participant exchange in OCC to BOX and securing a membership therein.

Options Order Protection and Locked/Crossed Market Plan Rules

BX will participate in the Options Order Protection and Locked/Crossed Market Plan (“Plan”), and therefore will be required to comply with the obligations of Participants under the Plan. BX proposes to adopt rules relating to the Plan that are substantially similar to the rules in place on or proposed by all of the options exchanges that are Participants in the Plan. The Plan essentially applies the Regulation NMS price-protection provisions to the options markets. Similar to Regulation NMS, the Plan requires the Plan Participants to adopt rules “reasonably designed to prevent Trade-Throughs,” while exempting Intermarket Sweep Orders from that prohibition. The Plan’s

⁴³ See www.opradata.com.

definition of an Intermarket Sweep Order is essentially the same as under Regulation NMS. The remaining exceptions to the trade-through prohibition, discussed more specifically below, either track those under Regulation NMS or correspond to unique aspects of the options market, or both. The proposed rules in Chapter XII conform to the requirements of the Plan. Section 1 sets forth the defined terms for use under the Plan. Section 2 prohibits trade-throughs and exempts Intermarket Sweep Orders from that prohibition. Section 2 also contains additional exceptions to the trade-through prohibition that track the exceptions under Regulation NMS or correspond to exceptions on other options exchanges, or both.⁴⁴ Section 3 sets forth the general prohibition against locking/crossing other eligible exchanges as well as several exceptions that permit locked markets in limited circumstances; such exceptions have been approved by the Commission for inclusion in the rules of other options exchanges.⁴⁵ Specifically, the exceptions to the general prohibition on locking and crossing occur when (1) the locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment; (2) the locking or crossing quotation was displayed at a time when there is a Crossed Market; or (3) the Member simultaneously routed an Intermarket Sweep Order to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

Securities Traded on BX Options

BX proposes to adopt listing standards for options traded on BX (Chapter IV of proposed rules) as well as for index options (Chapter XIV) that are identical to the

⁴⁴ See e.g., NOM Rules, Chapter XII, Section 2.

⁴⁵ See e.g., NOM Rules, Chapter XII, Section 3.

approved rules of other options exchanges, including NOM.⁴⁶ These include the specific criteria for underlying securities in proposed Section 3 of Chapter IV, as well as the withdrawal of such approval. In addition, Section 6 will cover the series of options contracts open for trading, which spells out the appropriate exercise dates and strike prices. In addition, BX intends to participate in the \$2.50 Strike Price Program,⁴⁷ the \$1.00 Strike Price Program,⁴⁸ the \$5 Strike Price Program⁴⁹ and the \$.50 Strike Program⁵⁰ (“Programs”) on the same terms and conditions as the other options exchanges. BX believes that the programs will provide investors with flexibility in tailoring their options positions to meet their investment objectives while avoiding the unnecessary proliferation of illiquid options series. Sections 7 and 8 cover adjustments and long-term options, respectively. With regard to the impact on system capacity, BX has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing and trading of option series that may be listed and traded pursuant to the Programs.

BX is a member of the Options Listings Procedures Plan and will list and trade options already listed on other options exchanges. BX will gradually phase-in its listing and trading of options, beginning with a selection of actively traded options. BX will provide the specific list in an Options Trader Alert to its membership. At least initially,

⁴⁶ See NOM Rules, Chapters IV and XIV.

⁴⁷ See proposed Chapter IV, Section 6, Supplementary Material .03.

⁴⁸ See proposed Chapter IV, Section 6, Supplementary Material .02.

⁴⁹ See proposed Chapter IV, Section 6(d)(v).

⁵⁰ See proposed Chapter IV, Section 6, Supplementary Material .05.

BX does not plan to develop new options products or listing standards. BX is aware that, in the event BX determines to trade an options class not listed on another options exchange or within BX's existing listing standards, BX will be required to submit a proposed rule change to establish listing standards.

Exemptions

BX proposes to incorporate by reference as BX Options Rules certain rules of Chicago Board Options Exchange, Incorporated ("CBOE"), NYSE and FINRA. Specifically, BX proposes to incorporate by reference: (1) CBOE position and exercise limits governing position and exercise limits for equity and index options, which are cross-referenced in Chapter III, Sections 7 and 9 of the BX Options Rules and Chapter XIV, Sections 5 and 7 of the BX Options Rules, respectively; (2) the margin rules of the CBOE or the NYSE, which are referenced in Chapter XIII, Section 3 of the BX Options Rules; and (3) FINRA's rules governing communications with the public, which are referenced in Chapter XI, Section 22 of the BX Options Rules. BX will notify Participants whenever the CBOE proposes to change a position limit rule that has been incorporated by reference into the BX Options Rules.

BX proposes to incorporate by reference as BX Options Rules certain rules of the CBOE, NYSE, and FINRA such that BX members will comply with a BX rule by complying with the CBOE, NYSE, or FINRA rule referenced. In connection with its proposal to incorporate CBOE, NYSE, and FINRA rules by reference, BX requests, pursuant to Rule 240.0-12,⁵¹ an exemption under Section 36 of the Act from the rule filing requirements of Section 19(b) of the Act for changes to those BX Options Rules

⁵¹ 17 CFR 240.0-12.

that are effected solely by virtue of a change to a cross-referenced CBOE, NYSE, or FINRA rule. BX proposes to incorporate by reference categories of rules (rather than individual rules within a category) that are not trading rules. BX agrees to provide written notice to Participants prior to the launch of BX Options of the specific CBOE, NYSE, and FINRA rules that it will incorporate by reference.⁵² BX will notify Participants whenever the CBOE, NYSE or FINRA propose to change a rule that has been incorporated by reference into the BX Options Rules.

Using its authority under Section 36 of the Act, the Commission previously exempted certain SROs from the requirement to file proposed rule changes under Section 19(b) of the Act.⁵³ Each such exempt SRO agreed to be governed by the incorporated rules, as amended from time to time, but is not required to file a separate proposed rule change with the Commission each time the SRO whose rules are incorporated by reference seeks to modify its rules. In addition, each SRO incorporated by reference only regulatory rules (e.g., margin, suitability, arbitration), not trading rules, and incorporated by reference whole categories of rules (i.e., did not “cherry-pick” certain individual rules within a category). Each exempt SRO had reasonable procedures in place to provide

⁵² BX will provide such notice through a posting on the same web site location where BX posts its own rule filings pursuant to Rule 19b-4(1) under Act, within the time frame required by that Rule. The web site posting will include a link to the location on the CBOE, NYSE, or FINRA web site where those SROs' proposed rule changes are posted.

⁵³ See Securities Exchange Act Release No. 49260 (February 17, 2004), 69 FR 8500 (February 24, 2004) (Order Granting Application for Exemptions Pursuant to Section 36(a) of the Exchange Act by the American Stock Exchange LLC, the International Securities Exchange, Inc., the Municipal Securities Rulemaking Board, the Pacific Exchange, Inc., the Philadelphia Stock Exchange, Inc., and the Boston Stock Exchange, Inc.).

written notice to its members each time a change is proposed to the incorporated rules of another SRO in order to provide its members with notice of a proposed rule change that affects their interests, so that they would have an opportunity to comment on it. BX believes that this exemption is appropriate in the public interest and consistent with the protection of investors because it will promote more efficient use of Commission and SRO resources by avoiding duplicative rule filings based on simultaneous changes to identical rule text sought by more than one SRO.

No Relationship to BOX

The new BX Options market will not be related to the BOX market. Although BX is currently the SRO for the BOX market, once the BOX market is approved as a national securities exchange, it will operate as a separate SRO from BX; it will not be regulated by BX or owned by The NASDAQ OMX Group, Inc. Accordingly, The NASDAQ OMX Group, Inc. will continue to own and operate BX, including the new BX Options market.

Fees

The Exchange has proposed that Chapter XV will be titled Options Pricing, and provide that BX Options Participants may be subject to the Charges for Membership, Services and Equipment in the Rule 7000 Series as well as the fees in Chapter XV. Furthermore, Section 1, Collection of Exchange Fees and Other Claims, requires that each BX Options Participant, and all applicants for registration, shall be required to provide a clearing account number for an account at the National Securities Clearing Corporation (“NSCC”) for purposes of permitting the Exchange to debit any undisputed or final fees, fines, charges and/or other monetary sanctions or other monies due and

owing to the Exchange or other charges related to Rule 1002(c)(1). Sections 2 - 6 are reserved for the eventual transaction, routing and access fees that BX will impose and separately file as a proposed rule change. Section 7 provides that all fee disputes concerning fees which are billed by the Exchange must be submitted to the Exchange in writing and must be accompanied by supporting documentation; all fee disputes must be submitted no later than 60 days after receipt of a billing invoice. Section 8 covers the sales fee applicable when a sale in options occurs with respect to which BX is obligated to pay a fee to the SEC under Section 31 of the Act (“Sales Fee”). The Sales Fee is collected indirectly from members through their clearing firms by a designated clearing agency, as defined by the Act, on behalf of BX. The amount of the Sales Fee is equal to the Section 31 fee rate multiplied by the member's aggregate dollar amount of covered sales resulting from transactions through BX transaction execution systems during any computational period.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁵⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act⁵⁵ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest. Section 6(b)(5) also requires that the rules of an exchange not be designed to permit unfair discrimination among

⁵⁴ 15 U.S.C. 78f(b).

⁵⁵ 15 U.S.C. 78f(b)(5).

customers, issuers, brokers, or dealers. Further, BX believes that the proposal is consistent with Sections 6(b)(1) of the Act,⁵⁶ which requires, among other things, that a national securities exchange be so organized and have the capacity to carry out the purposes of the Act, and to comply and enforce compliance by its members and persons associated with its members, with the provisions of the Act, the rules and regulation thereunder, and the rules of the exchange. The BX Options market could confer important benefits on the public and market participants. In particular, BX's entry into the marketplace will provide market participants with an additional venue for executing orders in standardized options, enhance innovation, and increase competition between and among the options exchanges, resulting in better prices and executions for investors.

BX believes that because BX Options is part of BX and all BX Options Participants are BX members, the composition and selection of the BX Board of Directors will continue to satisfy the requirement in Section 6(b)(3) of the Act that the rules of the Exchange provide for the fair representation of members in the selection of directors and administration of the Exchange.⁵⁷

In addition, BX's MRVP, as proposed to be amended, is consistent with Sections 6(b)(1), 6(b)(5) and 6(b)(6) of the Act, which require, in part, that an exchange have the capacity to enforce compliance with, and provide appropriate discipline for, violations of the rules of the Commission and of the exchange.⁵⁸ In addition, because IM-9216 offers procedural rights to a person sanctioned for a violation listed in proposed Chapter X,

⁵⁶ 15 U.S.C. 78f(b)(1).

⁵⁷ 15 U.S.C. 78f(b)(3).

⁵⁸ 15 U.S.C. 78f(b)(1), 78f(b)(5) and 78f(b)(6).

Section 7, BX will provide a fair procedure for the disciplining of members and associated persons, consistent with Section 6(b)(7) of the Act.⁵⁹ This proposal to include the rules listed in Chapter X, Section 7 in BX's MRVP is consistent with the public interest, the protection of investors, or otherwise in furtherance of the purposes of the Act, as required by Rule 19d-1(c)(2) under the Act,⁶⁰ because it should strengthen BX's ability to carry out its oversight and enforcement responsibilities as an SRO in cases where full disciplinary proceedings are unsuitable in view of the minor nature of the particular violation. In requesting the proposed change to the MRVP, BX in no way minimizes the importance of compliance with BX Rules and all other rules subject to the imposition of fines under the MRVP. However, the MRVP provides a reasonable means of addressing rule violations that do not rise to the level of requiring formal disciplinary proceedings, while providing greater flexibility in handling certain violations. BX will continue to conduct surveillance with due diligence and make a determination based on its findings, on a case-by-case basis, whether a fine of more or less than the recommended amount is appropriate for a violation under the MRVP or whether a violation requires a formal disciplinary action.

4. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. BX operates in an intensely competitive global marketplace for listings, financial products, transaction services, and market data. Relying on its array of services and

⁵⁹ 15 U.S.C. 78f(b)(7).

⁶⁰ 17 CFR 240.19d-1(c)(2).

benefits, BX competes for the privilege of providing market and listing services to broker-dealers and issuers. BX's ability to compete in this environment is based in large part on the quality of its trading systems, the overall quality of its market and its attractiveness to the largest number of investors, as measured by speed, likelihood and cost of executions, as well as spreads, fairness, and transparency. With these aspects of competition as a guide, BX designed its current proposal to create, like NOM, the fastest, fairest, most transparent and most efficient trading venue available for the trading of options. The resulting system should further reduce overall trading costs and increase price competition, both pro-competitive developments. BX believes that the resulting system will have the pro-competitive effect of spurring further initiative and innovation among market centers and market participants. Market participants that disagree and do not view these developments as pro-competitive, will have the flexibility to use only those functions that improve their trading or to not use the system at all; participation in the system in whole or in part is completely voluntary. BX Options will benefit individual investors, options trading firms, and the options market generally. The entry of an innovative, low cost competitor such as BX will promote competition, further spurring existing markets to improve their own execution systems and reduce trading costs. BX Options will differentiate its market by offering innovative features in the future. BX Options will operate in a highly competitive market comprised of nine other U.S. options exchanges in which sophisticated and knowledgeable market participants can and do send order flow to competing exchanges based on many factors, including technology, functionality, reliability, fees and customer service.

5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not applicable.

7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)

Not applicable.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission

The proposed BX Options rules are substantially similar to the rules of NOM, except: (1) The NASDAQ Options Market LLC is a separate entity from The NASDAQ Stock Market LLC, a SRO, and operates as its facility;⁶¹ (2) the definition of BX Regulation includes MarketWatch and BX Officials, which is not a significant difference because it is intended to merely be thorough; and (3) two index options will not be traded upon launch, but thereafter, by a separate filing (NDX and MNX).

9. Exhibits

1. Notice of proposed rule for publication in the Federal Register.
5. Text of Proposed Rule Change.

⁶¹ BX Options will be operated by BX, which also operates an equities market, much like PHLX operates both an options and an equities market.

Exhibit 1

SECURITIES AND EXCHANGE COMMISSION
(Release No. 34- ; File No. SR-BX-2012-030)

April __, 2012

Self-Regulatory Organizations; NASDAQ OMX BX, Inc.; Notice of Filing of Proposed Rule Change Relating to the Establishment of a New Options Market, NASDAQ OMX BX Options

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹, and Rule 19b-4² thereunder, notice is hereby given that on April 30, 2012, NASDAQ OMX BX, Inc. ("Exchange" or "BX") filed with the Securities and Exchange Commission ("SEC" or "Commission") the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

BX is filing with the Commission a proposal for a new options market. Specifically, BX proposes to adopt new trading rules, as explained further below, to operate a fully automated, price/time priority execution system built on the core functionality of the NASDAQ Options Market ("NOM").

The text of the proposed rule change is available at <http://nasdaqomxbx.cchwallstreet.com/>, at BX's principal office, and at the Commission's Public Reference Room.

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to operate a new options market, identical to (but separate from) the NASDAQ Options Market (“NOM”). The new market, called NASDAQ OMX BX Options, or BX Options, will be all-electronic with no physical trading floor and is described more fully below.

BX is a registered national securities exchange and a self-regulatory organization (“SRO”). BX is a wholly-owned subsidiary of The NASDAQ OMX Group, Inc. BX will operate the BX Options market.

BX's history dates back to the 1830s. For many years, the Boston Stock Exchange (“BSE”) listed the securities of companies in the Boston area, but then, in more recent years, BSE traded securities mainly on an unlisted trading privileges (“UTP”) basis with a trading floor and an automated order delivery and execution system. As such, the BSE was an active competitor among the equities markets, pioneering a system of competing specialists and remote competing specialists. BSE partnered with various investors to form Boston Options Exchange (“BOX”) to trade options, which launched in

2004.³ In 2008, BSE merged into a subsidiary of The NASDAQ OMX Group, Inc. creating NASDAQ OMX BX. BX re-launched an equities marketplace utilizing state of the art NASDAQ technology, having closed its floor-based market, and today competes with many other markets in trading NMS stocks.

Consistent with that storied history as a long-time competitor in the U.S. markets, BX now proposes to launch an options market. BX Options will leverage the technology and infrastructure that have helped spawn the success of both NOM and NASDAQ OMX PHLX LLC (“PHLX”). Accordingly, BX believes that it can compete effectively as an options market, recognizing that there are nine options exchanges today competing vigorously. Initially, BX Options will have the same market structure and rules as NOM, focusing on a price/time priority market. Over time, as the BX Options market secures more participants, it will introduce additional, innovative technology.

In connection with its BX Options market, BX is proposing to adopt a series of rules based on the existing rules of NOM. BX will operate an electronic trading system developed to trade options (“System” or “Trading System”) that will provide for the electronic display and execution of orders in price/time priority without regard to the status of the entities that are entering orders.

³ The NASDAQ OMX Group, Inc. does not own BOX, which has operated as a facility of BX and is currently pursuing its own status as a national securities exchange and SRO. Going forward, once BOX becomes an exchange, BX will no longer provide regulatory services to BOX. See Securities Exchange Act Release No. 66242 (January 26, 2012), 77 FR 4841 (January 31, 2012) (BOX Options Exchange LLC; Notice of Filing of Application, as amended, for Registration as a National Securities Exchange under Section 6 of the Act).

Trading System

BX's options trading system will leverage current state of the art technology, including customer connectivity, messaging protocols, quotation and execution engine, order router, data feeds, and network infrastructure of the various markets owned by The NASDAQ OMX Group, Inc. This approach minimizes the technical effort required for existing BX members to begin trading options on the BX Options market. As a result, the BX Options market will closely resemble NOM, including, most prominently, by offering true price/time priority across all orders and participants rather than differentiating between participant/trading interest.

Like on NOM, all trading interest entered into the System will be automatically executable. Orders entered into the System will be displayed anonymously and, as such, will trade anonymously.⁴ The BX Options market will be a participant exchange of OCC. The System will be linked to OCC for BX to transmit locked-in trades for clearance and settlement. The System will operate between the hours of 8:00 a.m. ET and market close, with all orders being available for execution from 9:30 a.m. to market close.

Minimum Quotation and Trading Increments. BX is proposing to apply the following quotation increments: (1) if the options series is trading at less than \$3.00, five cents; (2) if the options series is trading at \$3.00 or higher, ten cents; and (3) if the

⁴ However, options trades are not completely anonymous through settlement. See proposed BX Options Rules Chapter VI, Section 12. Options trades are submitted to The Options Clearing Corporation ("OCC") with contra-side OCC member information.

options series is trading pursuant to the Penny Pilot Program,⁵ one cent if the options series is trading at less than \$3.00, and five cents if the options series is trading at \$3.00 or higher, except for QQQQ, SPY and IWM, where the minimum quoting increment will be one cent for all series.⁶ In addition, BX is proposing that the minimum trading increment for options contracts traded on BX will be one cent for all series.

BX notes that allowing market participants to quote in smaller increments has been shown to reduce spreads, thereby lowering costs to investors. In addition, permitting options to be quoted in smaller increments pursuant to the Penny Pilot Program provides the opportunity for reduced spreads for a significant amount of trading volume. Although the Penny Pilot Program has contributed to the increase in quote message traffic, BX believes that its proposal is sufficiently limited such that it is unlikely to increase quotation message traffic beyond the capacity of market participants' systems and disrupt the timely receipt of information.

Opening and Halt Crosses. The BX Options System will support a single price opening or re-opening via an electronic cross.⁷ The auctions at the opening and at the resumption of trading following a halt are identical to those that exist on NOM. Since NOM commenced trading in March of 2008, several enhancements have been made to the opening and re-opening cross process. The incremental changes that have been made to NOM's opening and re-opening cross have culminated in an efficient and stable process that BX plans to replicate for BX Options.

⁵ BX will participate in the Penny Pilot Program.

⁶ See proposed BX Options Rules, Chapter VI, Section 5.

⁷ See proposed BX Options Rules, Chapter VI, Section 8.

BX Options will operate a pre-opening phase that will begin prior to the opening of the market at a time to be determined by the Exchange. Orders may be submitted, modified, and cancelled throughout the pre-opening phase. Prior to opening the market (or resuming trading in the case of a halt), BX will calculate and disseminate certain indicative information: opening price, order imbalance, and the size and direction of any imbalance.⁸ Thereafter, BX will determine via algorithm a single price at which a particular options series will open and will match via algorithm the maximum number of available orders. After the cross concludes, orders will be cancelled, routed, or posted depending on the instructions on the orders and open trading will commence.

Order Types. The System will make available to Participants various order types, including Limit Orders, Minimum Quantity Orders, Market Orders, Price Improving Orders, Intermarket Sweep Orders, One-cancels-the-other Orders, All-or-none Orders and Post-Only Orders, with characteristics and functionality similar to what is currently approved for use on NOM.⁹

“Limit Orders” are orders to buy or sell options at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

“Minimum Quantity Orders” are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel (“IOC”).

⁸ See proposed BX Options Rules, Chapter VI, Section 8.

⁹ See proposed BX Options Rules, Chapter VI, Section 1(d).

“Market Orders” are orders to buy or sell at the best price available at the time of execution.

“Price Improving Orders” are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display will be displayed at the appropriate minimum price variation in that security (rounding down to the proper increment for buys, up to the proper increment for sells). The non-displayed price of a Price Improving Order is therefore not included in the National Best Bid and Offer (“NBBO”) and not subject to trade-through protection, although it is available to trade against eligible incoming orders.

“Intermarket Sweep Orders” or “ISOs” are limit orders that are designated as ISOs in the manner prescribed by BX and are executed within the System at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Chapter XII, Section 1. ISOs are not eligible for routing as set out in Chapter VI, Section 11.10 Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering Participant to execute against the full displayed size of any protected bid or offer (as defined in Chapter XII, Section 1) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an ISO (as defined in Chapter XII, Section 1). These additional routed orders must be identified as ISOs.

¹⁰ Intermarket Sweep Orders or ISOs can have a time-in-force of Day or Immediate or Cancel; ISOs that are marked as Day lose the Immediate or Cancel designation once posted on the BX Options book. If an entering firm cancel/replaces that resting Day ISO order, the replacement order cannot be marked as ISO. If the replacement is marked as ISO, it will be rejected.

“One-cancels-the-other” shall mean an order entered by a Market Maker that consists of a buy order and a sell order treated as a unit; the full execution of one of the orders causes the other to be canceled.

“All-or-none” shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-none Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-none Orders received prior to the opening cross or after market close will be rejected.

“Post-Only Orders” are orders that will not remove liquidity from the System. Post-Only Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market. Post-Only Orders are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if a Post-Only Order would lock or cross an order on the System, the order will be re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers); and (ii) if a Post-Only Order would not lock or cross an order on the System but would lock or cross the NBBO as reflected in the protected quotation of another market center, the order will be handled pursuant to Chapter VI, Section 7(b)(3)(C). Post-Only Orders received prior to the opening cross or after market close will be rejected. Post-Only Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel.

Time-in-Force Designations. Participants entering orders into the System may designate such orders to remain in force and available for display and/or potential

execution for varying periods of time.¹¹ Unless cancelled earlier, once these time periods expire, the order (or the unexecuted portion thereof) is returned to the entering Participant.

“Immediate Or Cancel” or “IOC” orders are orders that if after entry into the System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) will be canceled and returned to the entering Participant. IOC Orders will be available for entry from 8:00 a.m. until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between 8:00 a.m. and 9:30 a.m. ET will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable. IOC orders can be routed if designated as routable.

“DAY” orders are orders that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) will remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders will be available for entry from 8:00 a.m. until market close and for potential execution from 9:30 a.m. until market close.

“Good Til Cancelled” or “GTC” orders are orders that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) will remain available for potential display and/or execution unless cancelled by the entering Participant, or until the option expires, whichever comes first. GTC Orders will be

¹¹ See proposed BX Options Rules, Chapter VI, Section 1(g).

available for entry from 8:00 a.m. until market close and for potential execution from 9:30 a.m. until market close.

“WAIT” shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering Participant.

Order Display/Matching System The System will be based upon the order display and execution functionality currently approved for use on NOM. Specifically, the System will allow Participants to enter priced limit orders to buy and sell BX Options-listed options. Orders entered by a Participant will be displayed (price and size) on an anonymous basis in the order display service of the System. Options Participants will be permitted to enter multiple orders at single or multiple price levels.

Routing. BX Options will provide routing services to its Participants. The BX Options market will support orders that are designated to be routed to the NBBO as well as orders that will execute only within the System. Orders that are designated as routable will be routed to other options markets to be executed when BX Options is not at the NBBO, consistent with the Options Order Protection and Locked/Crossed Market Plan. The System will ensure that orders designated to only execute within the System will not create a trade through or locked or crossed market violation.¹²

Orders sent by the System to other markets generally do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System,

¹² See proposed BX Options Rules, Chapter VI, Section 11.

an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its original timestamp and its priority.

The order routing process shall be available to Participants from 9:30 a.m. ET until market close and shall route orders as described below. Participants can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Chapter XII, Options Order Protection and Locked and Crossed Market Rules. The System provides a number of routing options pursuant to which orders are sent to other available market centers for potential execution, per the entering firm's instructions. Routing options may be combined with all available order types and time-in-force designations, with the exception of order types and time-in-force designations whose terms are inconsistent with the terms of a particular routing option. The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The System routing options are SEEK¹³ and SRCH.¹⁴ BX is not proposing, at this

¹³ SEEK is a routing option pursuant to which an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm's instructions. When checking the book, the System will seek to execute at the price at which it would send the order to a destination

time, to route Non-System Securities, which are securities not listed on the BX Options market; the routing functionality will be limited to options listed on BX.

BX Options intends to route orders in options using NASDAQ Options Services LLC (“NOS”), a broker-dealer that is a member of BX. NOS is also a member of PHLX and NASDAQ, and NOS provides routing functions for PHLX and NOM as well. BX, PHLX, NASDAQ, NOM and NOS are affiliates.¹⁵ Accordingly, the affiliate relationship between BX and NOS, its member, raises the issue of an exchange’s affiliation with a member of such exchange. Specifically, in connection with prior filings, the Commission has expressed concern that the affiliation of an exchange with one of its members raises the potential for unfair competitive advantage and potential conflicts of interest between an exchange’s self-regulatory obligations and its commercial interests.¹⁶

market center. If contracts remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

¹⁴ SRCH is a routing option pursuant to which an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm's instructions. When checking the book, the System will seek to execute at the price at which it would send the order to a destination market center. If contracts remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, it will re-route.

¹⁵ In order for BX to provide outbound options routing services, its affiliates, PHLX and NASDAQ/NOM, must each file a proposed rule change to receive inbound orders from their affiliate exchange, BX.

¹⁶ See e.g., Securities Exchange Act Release No. 58135 (July 10, 2008), 73 FR 40898 (July 16, 2008)(SR-NASDAQ-2008-061)(Permitting NOS to be affiliated with PHLX).

Because BX proposes to use NOS as its outbound routing facility, providing outbound options routing from BX to other market centers, including affiliates PHLX and NOM, BX proposes to do so under the following conditions, which are the same as those found in NOM rules:

(1) NOS shall route orders to other market centers as directed by BX. NOS will be programmed to follow the algorithm and order type instructions established in the BX Options Rules and will not have discretion to change the terms of an order or the order routing instructions.

(2) NOS will not engage in any business other than: (a) as an outbound router for BX and (b) any other activities it may engage in as approved by the Commission;¹⁷ provided, however, that immediately prior to the commencement of operations of NOS as an outbound router for the Exchange, the Exchange may use NOS to conduct a test of its routing functionality. In order to ensure that the routing functionality is operating properly prior to making it available to Participants, the Exchange proposes to use NOS to perform test trades in an actual security, prior to launch, so as to track the performance of the systems to be used by the Exchange from order entry to clearance and settlement. The test will be performed by entering buy or sell orders and then, upon execution of each, entering an offsetting sell order in the same security for the same quantity, in order to close out the test position and minimize financial impact on the Exchange. The Exchange will deliver the test orders to NOS, as the routing broker, which will route to

¹⁷ NOS has been approved to provide routing services for NOM and PHLX. See Securities Exchange Act Release Nos. 59995 (May 28, 2009), 74 FR 26750 (June 3, 2009)(SR-Phlx-2009-32); and 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (order approving File Nos. SR-NASDAQ-2007-004 and SR-NASDAQ-2007-080).

the designated away market and receive an execution back. BX believes that this will allow it to perform adequate testing of its systems for routing member orders before such systems become operational. To the extent that the offsetting trades require the Exchange to pay out funds, the funds will be provided out of the cash accounts of the Exchange; to the extent that the trades result in a profit, the funds will be deposited in the cash accounts of the Exchange.

(3) NOS shall operate as a facility, as defined in Section 3(a)(2) of the Act, of BX.

(4) For purposes of SEC Rule 17d-1, the designated examining authority of NOS shall be a self-regulatory organization unaffiliated with BX or any of its affiliates.

(5) BX shall be responsible for filing with the Commission proposed rule changes related to the operation of, and fees for services provided by, NOS and NOS shall be subject to exchange nondiscrimination requirements.

(6) The books, records, premises, officers, agents, directors and employees of NOS as a facility of BX shall be deemed to be the books, records, premises, officers, agents, directors and employees of BX for purposes of, and subject to oversight pursuant to, the Act. The books and records of NOS as a facility of BX shall be subject at all times to inspection and copying by the Commission.

(7) Use of NOS to route orders to other market centers will be optional. Parties who do not desire to use NOS must enter orders into the System as ineligible for routing.

(8) NOS shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between BX and its facilities (including NOS as its routing facility) and any other entity.

These conditions are intended to address the Commission's concerns regarding

potential conflicts of interest in instances where a member firm is affiliated with an exchange.

Furthermore, BX Rule 2140(a)(1) currently provides that BX or any entity with which it is affiliated shall not, directly or indirectly, acquire or maintain an ownership interest in, or engage in a business venture with, an Exchange member or an affiliate of an Exchange member in the absence of an effective filing under Section 19(b) of the Act. Because NOS is an Exchange member and BX now proposes to engage in the business venture of outbound routing using NOS as its routing broker, as well as receiving inbound orders from its affiliates, NOM and PHLX through NOS, the Exchange has filed this proposed rule change under Section 19(b) of the Act .

In addition, pursuant to Rule 15c3-5 under the Act, NOS will implement certain tests designed to mitigate risks associated with providing the Exchange's members with access to such away trading centers. Pursuant to the policies and procedures developed by NOS to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or NOS will seek to cancel the order if it has been routed.¹⁸

BX also proposes to accept inbound orders routed by NOS from PHLX and from NOM. As stated above respecting outbound routing to affiliates, the affiliate relationship between BX and NOS, its member, raises the issue of an exchange's affiliation with a member of such exchange, and the Commission has expressed concern that the affiliation of an exchange with one of its members raises the potential for unfair competitive advantage and potential conflicts of interest between an exchange's self-regulatory

¹⁸ See proposed BX Options Rules, Chapter VI, Section 10(5).

obligations and its commercial interests.¹⁹ Accordingly, BX now proposes to permit BX to accept inbound orders that NOS routes in its capacity as a facility of PHLX and NOM, subject to certain limitations and conditions:

First, BX and the Financial Industry Regulatory Authority (“FINRA”) will maintain a regulatory contract, as well as an agreement pursuant to Rule 17d–2 under the Act (“17d–2 Agreement”).²⁰ Pursuant to the regulatory contract and the 17d–2 Agreement, FINRA will be allocated regulatory responsibilities to review NOS’s compliance with certain BX rules.²¹ Pursuant to the regulatory contract, however, BX retains ultimate responsibility for enforcing its rules with respect to NOS. Second, FINRA will monitor NOS for compliance with the Exchange’s trading rules, and will collect and maintain certain related information.²² Third, FINRA will provide a report to BX’s chief regulatory officer (“CRO”), on a quarterly basis, that: (i) quantifies all alerts (of which FINRA is aware) that identify NOS as a participant that has potentially violated Commission or BX rules, and (ii) lists all investigations that identify NOS as a participant

¹⁹ See Securities Exchange Act Release No. 57478 (March 12, 2008), 73 FR 14521 (March 18, 2008) (Permitting NOS to be an affiliate). See also Securities Exchange Act Release Nos. 59153 (December 23, 2008), 73 FR 80485 (December 31, 2008)(SR–NASDAQ–2008–098); and 62736 (August 17, 2010), 75 FR 51861 (August 23, 2010) (SR–NASDAQ–2010–100).

²⁰ 17 CFR 240.17d–2.

²¹ NOS is also subject to independent oversight by FINRA, its designated examining authority, for compliance with financial responsibility requirements.

²² Pursuant to the regulatory contract, both FINRA and BX will collect and maintain all alerts, complaints, investigations and enforcement actions in which NOS (in its capacity as a facility of PHLX and NOM routing orders to BX) is identified as a participant that has potentially violated applicable Commission or BX rules. BX and FINRA will retain these records in an easily accessible manner in order to facilitate any potential review conducted by the Commission’s Office of Compliance Inspections and Examinations.

that has potentially violated Commission or BX rules. Fourth, the Exchange has in place BX Rule 2140(c), which requires NASDAQ OMX, as the holding company owning both the BX and NOS, to establish and maintain procedures and internal controls reasonably designed to ensure that NOS does not develop or implement changes to its system, based on nonpublic information obtained regarding planned changes to BX's systems as a result of its affiliation with BX, until such information is available generally to similarly situated BX members, in connection with the provision of inbound order routing to the BX. Fifth, BX proposes that the routing of orders from NOS to BX, in NOS's capacity as a facility of PHLX and NOM, be authorized for a pilot period of one year. BX believes that the above-listed conditions protect the independence of the Exchange's regulatory responsibility with respect to NOS, and that these mitigate the aforementioned concerns about potential conflicts of interest and unfair competitive advantage.

Book Processing. All trading interest on the System will be automatically executable. The System, like NOM, will have a single execution algorithm based on price/time priority. The System and rules provide for the ranking, display, and execution of all orders in price/time priority without regard to the status of the entity entering an order. For each order, among equally-priced or better-priced trading interest, the System executes against available contra-side displayed contract amounts in full, in price/time priority.²³ Any price improvement resulting from an execution in the System will accrue to the party taking liquidity.²⁴

²³ See proposed BX Options Rules, Chapter VI, Section 10.

²⁴ See proposed BX Options Rules, Chapter VI, Section 10.

Acceptable Trade Range. The System will employ an Acceptable Trade Range (“ATR”) feature to limit the range of prices at which an order will be allowed to execute. The ATR is calculated by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders). Upon receipt of a new order, the reference price is National Best Bid (“NBB”) for sell orders and the National Best Offer (“NBO”) for buy orders or the last price at which the order is posted whichever is higher for a buy order or lower for a sell order. If an order reaches the outer limit of the ATR (the “Threshold Price”) without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second (“Posting Period”), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the reference price for calculating a new ATR. If the order remains unexecuted, a New ATR will be calculated and the order will execute, route, or post up to the new ATR Threshold Price. This process will repeat until the order is executed, cancelled, or posted at its limit price.²⁵

Data Feed. Like NOM, BX Options will offer two proprietary data feeds. BX Depth of Market (“BX Depth”) will be a data feed that provides quotation information for individual orders on the BX Options book, last sale information for trades executed on BX Options, and order imbalance information as set forth in BX Options Rules Chapter VI, Section 8. In addition, BX Top of Market (“BX Top”) will be a data feed that

²⁵ See proposed BX Options Rules, Chapter VI, Section 10(7).

provides the BX Options best bid and offer and last sale information for trades executed on BX Options.²⁶

BX Options Participants

Like NOM, BX will have only one category of members, known as “Options Participants” or “Participants.” All BX members will be eligible to participate in BX Options provided that BX specifically authorizes them to trade in the System and they become Participants; in other words, existing BX members will be required to comply with the incremental requirements of the proposed options rules. New BX members will be required to fulfill the requirements of the BX Rule 1000 Series to become a BX member as well as the incremental requirements set forth in the proposed options rules to become a BX Participant. The proposed rules avoid, to the greatest extent possible, proposing requirements that overlap with the rules already set forth in the Rule 1000 Series of the BX Rule Manual.

Only Options Participants will be permitted to transact business on BX Options via the System.²⁷ BX will authorize any Options Participant who meets certain enumerated qualification requirements to obtain access to BX Options. Among other things, Options Participants must be registered as broker-dealers pursuant to the Act and have as the principal purpose of being an Options Participant the conduct of a securities business. Every Options Participant shall at all times maintain membership in another registered options exchange that is not registered solely under Section 6(g) of the Act or

²⁶ BX offers other data feeds with respect to its equities market data. See BX Rule 7023.

²⁷ See proposed BX Options Rules, Chapter II.

FINRA.²⁸ There will be two types of Options Participants, Options Order Entry Firms and Options Market Makers. Options Order Entry Firms (“OEFs”) will be those Options Participants representing customer orders as agent on BX Options and non-Market Maker Participants conducting proprietary trading as principal.

Options Market Makers are Options Participants registered with the Exchange as Options Market Makers and registered with BX in one or more options listed on BX.²⁹ BX may suspend or terminate any registration of an Options Market Maker when, in BX's judgment, the interests of a fair and orderly market are best served by such action.

To become an Options Market Maker, an Options Participant is required to register by filing a written application. BX will not place any limit on the number of entities that may become Options Market Makers. BX Options Market Makers will be required to electronically engage in a course of dealing to enhance liquidity available on BX and to assist in the maintenance of fair and orderly markets.³⁰ Among other things, Options Market Makers would have to participate in the opening and maintain minimum net capital in accordance with SEC and BX Options Rules. Furthermore, Options Market Makers must maintain a two-sided market for at least one contract in at least 60% of the

²⁸ Pursuant to BX Rule 1002(e), members that transact business with customers shall at all times be members of FINRA.

²⁹ See proposed BX Options Rules, Chapter VII.

³⁰ Options Market Makers receive certain benefits for carrying out their duties. For example, a lender may extend credit to a broker-dealer without regard to the restrictions in Regulation T of the Board of Governors of the Federal Reserve System if the credit is to be used to finance the broker-dealer's activities as market maker on a national securities exchange. Thus, an Options Market Maker has a corresponding obligation to hold itself out as willing to buy and sell options for its own account on a regular or continuous basis to justify this favorable treatment.

series in options in which the Options Market Maker is registered. To satisfy this requirement with respect to quoting a series, a Market Maker must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as BX may announce in advance. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances. Market Makers shall not be required to make two-sided markets pursuant to Section 5(a)(i) of Chapter VII in any Quarterly Option Series, any adjusted option series, and any option series until the time to expiration for such series is less than nine months. Accordingly, the continuous quotation obligations set forth in this rule shall not apply to Market Makers respecting Quarterly Option Series, adjusted option series,³¹ and series with an expiration of nine months or greater. If a technical failure or limitation of a system of BX prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to BX Options timely and accurate quotes, the duration of such failure or limitation shall not be included in any of these calculations with respect to the affected quotes.³²

Options Market Makers must also comply with certain bid/ask differentials (quote spread parameters).³³ Options on equities (including Exchange-Traded Fund Shares), and

³¹ An adjusted option series is an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares.

³² Substantial or continued failure by an Options Market Maker to meet any of its obligations and duties, will subject the Options Market Maker to disciplinary action, suspension, or revocation of the Options Market Maker's registration in one or more options series.

³³ See proposed BX Options Rules, Chapter VI, Section 6(d)(ii).

on index options must be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, including before and during the opening.

However, respecting in-the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market.

BX is also proposing an order exposure requirement comparable to that which currently applies on other registered options exchanges. Specifically, as set forth in Chapter VII, Section 12, with respect to orders routed to BX, Options Participants may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on the Exchange for at least one second or (ii) the Options Participant has been bidding or offering on the Exchange for at least one second prior to receiving an agency order that is executable against such bid or offer.

Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same market maker using the same identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution.³⁴

Regulation

The BX Options market will leverage many of the structures that BX has in place to operate a national securities exchange in compliance with Section 6 of the Act. As described in more detail below, like for NOM, there will be three elements of that regulation: (1) BX will join the existing options industry agreements pursuant to Section

³⁴ See proposed BX Options Rules, Chapter VI, Section 10(6).

17(d) of the Act; (2) BX's Regulatory Services Agreement with FINRA will govern many aspects of the regulation and discipline members that participate in options trading; and (3) BX will perform options listing regulation as well as real-time and post-trade regulation of options trading. The principle here, again, is that BX will regulate its options market much the way NOM is regulated today.

Section 17(d) of the Act and the related rules thereunder permit SROs to allocate certain regulatory responsibilities to avoid duplicative oversight and regulation. Under Rule 17d-1 thereunder, the SEC designates one SRO to be the Designated Examining Authority, or DEA, for each broker-dealer that is a member of more than one SRO. The DEA is responsible for the financial aspects of that broker-dealer's regulatory oversight. Because BX members also must be members of at least one other SRO, BX would generally not be designated as the DEA for any of its members.

Rule 17d-2 under the Act permits SROs to file with the Commission plans under which the SROs allocate among each other the responsibility to receive regulatory reports from, and examine and enforce compliance with specified provisions of the Act and rules thereunder and SRO rules by firms that are members of more than one SRO ("common members"). If such a plan is declared effective by the Commission, an SRO that is a party to the plan is relieved of regulatory responsibility as to any common member for whom responsibility is allocated under the plan to another SRO.

All of the options exchanges, FINRA, and the New York Stock Exchange ("NYSE") have entered into the Options Sales Practices Agreement, a Rule 17d-2 agreement. Under this Agreement, the examining SROs will examine firms that are common members of BX and the particular examining SRO for compliance with certain

provisions of the Act, certain of the rules and regulations adopted thereunder, certain examining SRO rules, and certain BX Rules. FINRA will be the examining SRO for BX Options.

For those regulatory responsibilities that fall outside the scope of any Rule 17d-2 agreements, BX will retain full regulatory responsibility under the Act. However, BX has entered into a Regulatory Services Agreement with FINRA, pursuant to which FINRA personnel operate as agents for BX in performing certain of these functions. In addition to performing certain membership functions for the Exchange, FINRA performs certain disciplinary and enforcement functions for the Exchange. Generally, FINRA investigates members, issue complaints, and conducts hearings pursuant to the Exchange's rules.

As is the case with NOM and BX equities, BX will supervise FINRA and continue to bear ultimate regulatory responsibility.

Finally, as it does with equities (and the same that is done for NOM by Nasdaq Regulation), BX Regulation will perform real-time surveillance of the BX Options market for the purpose of maintaining a fair and orderly market at all times. As it does with BX's equities trading and the same that is done for NOM, BX Regulation will monitor BX Options trading market on a real-time basis to identify unusual trading patterns and determine whether particular trading activity requires further regulatory investigation by FINRA. BX Regulation will also conduct post-trade surveillance to determine whether the trading activity requires further investigation by FINRA.

In addition, BX Regulation will oversee the process for determining and implementing trade halts, identifying and responding to unusual market conditions, and

administering BX's process for identifying and remediating "obvious errors" by and among its Options Participants.³⁵ Appeals of disciplinary hearings will be handled by the Exchange Review Council.

BX's disciplinary rules are set forth in the 9000 series of BX Rules; such disciplinary rules will apply to Options Participants and their associated persons. BX's Minor Rule Violation Plan ("MRVP") is set forth in Rule 9216 and related IM-9216. At this time, BX proposes to amend its MRVP to cover certain BX Options rules listed in proposed Chapter X, Section 7.

BX's MRVP specifies those uncontested minor rule violations with sanctions not exceeding \$2,500 that would not be subject to the provisions of Rule 19d-1(c)(1) under the Act³⁶ requiring that an SRO promptly file notice with the Commission of any final disciplinary action taken with respect to any person or organization. Rule 19d-1(c) allows SROs to submit for Commission approval plans for the abbreviated reporting of minor disciplinary infractions.

Any disciplinary action taken by an SRO against any person for violation of a rule of the SRO which has been designated as a minor rule violation pursuant to such a plan

³⁵ BX's proposed obvious and catastrophic error rule mirrors NOM's, stating that the Exchange shall either nullify a transaction or adjust the execution price of a transaction that meets the standards of the rule, which takes into account whether the execution price of a transaction is higher or lower than the Theoretical Price for the series by a certain amount. Like on NOM, obvious error decisions can be appealed to a panel of the Market Operations Review Committee, which will be comprised minimally of representatives of one member engaged in Market Making and two industry representatives not engaged in Market Making. See proposed BX Options Rules, Chapter V, Section 6 and BX By-Laws Article IV, Section 4.14(d).

³⁶ 17 CFR 240.19d-1(c)(1).

filed with and declared effective by the Commission will not be considered “final” for purposes of Section 19(d)(1) of the Act if the sanction imposed consists of a fine not exceeding \$2,500 and the sanctioned person has not sought an adjudication, including a hearing, or otherwise exhausted his administrative remedies.³⁷

As stated above, currently, BX has in place a MRVP,³⁸ and is now proposing to amend that plan to cover options. In this regard, BX proposes to amend IM-9216, Violations Appropriate for Disposition Under Plan Pursuant to SEC Rule 19d-1(c)(2), in the BX Equity Rules. Specifically, BX proposes to add a reference to BX Options Rules, Chapter X, Section 7 - Penalty for Minor Rule Violations for Options Trading, in order to make clear that these provisions are included in BX’s MRVP. The rules included in proposed Chapter X, Section 7 are similar to those of other options exchanges, and include position limit violations of Chapter III, Section 7, order entry-related violations of Chapter VII, Sections 6(a)-(c), continuous quoting required by Chapter VII, Section 6(d), various reporting obligations in Chapter III, Sections 7-10, expiring exercise declaration rules in Chapter VIII, Sections 1-3, audit trail submission and recordkeeping requirements of Chapter V, Section 7 and Chapter IX, Sections 1-3, representation of orders, Chapter VII, Section 12, trade reporting, Chapter VI, Sections 14 and 15, locked and crossed Market Violations, Chapter XII, Section 3, trade-through violations, and Chapter XII, Section 2(a), failure to timely file amendments to Form U4, Form U5 and

³⁷ In approving BX Rule 9216, the Commission noted that the Exchange proposed that any amendments to such rule made pursuant to a rule filing submitted under Rule 19b-4 of the Act would automatically be deemed a request for Commission approval of a modification to its MRVP. Securities Exchange Act Release No. 26737 (April 17, 1989), 54 FR 16438 (April 24, 1989)(SR-BSE-88-2).

³⁸ See BX Rule 9216(b).

Form BD.³⁹ Upon approval of the MRVP, BX will provide the Commission a quarterly report of actions taken on minor rule violations under the MRVP. The quarterly report will include BX's internal file number for the case, the name of the individual and/or organization, the nature of the violation, the specific rule provision violated, the sanction imposed, the number of times the rule violation has occurred, and the date of disposition. BX believes that adding these options rules to its MRVP should help it carry out its oversight and enforcement responsibilities as an SRO in cases where full disciplinary proceedings are unsuitable in view of the minor nature of the particular violation.

Accordingly, BX represents that it has the ability to discharge all regulatory functions related to its proposed options market. In connection with its regulatory functions, the Exchange represents that its regulatory oversight committee and its CRO will assume responsibility for regulating quoting and trading on BX Options and conduct by BX Options Participants. The Exchange's CRO has general supervision of the regulatory operations of the Exchange, including overseeing surveillance, examination, and enforcement functions, and administers the Regulatory Services Agreement between the Exchange and FINRA. BX's By-Laws and rules provide that it has disciplinary jurisdiction over its members so that it can enforce its members' compliance with its rules and the federal securities laws.⁴⁰ The Exchange's rules also permit it to sanction members for violations of its rules and violations of the federal securities laws by, among other things, expelling or suspending members, limiting members' activities, functions, or operations, fining or censuring members, or suspending or barring a person from being

³⁹ See e.g. ISE Rule 1614.

⁴⁰ See e.g. Exchange By-Laws, Article XII, Section 12.2.

associated with a member.⁴¹ BX's Rules also provide for the imposition of fines for minor rule violations in lieu of commencing disciplinary proceedings. This framework will apply to BX Options.⁴²

National Market System Plans

As discussed herein, BX is a participant in the various national market system plans for options trading established under Section 11A of the Act, because BX has been the SRO for the BOX market, which currently operates as its facility; because BOX is becoming its own, separate national securities exchange, it is pursuing its own membership in these various plans. BX plans to retain these plan memberships in order to operate BX Options. Specifically, BX is a member of the Options Order Protection and Locked/Crossed Market Plan, the Options Listings Procedures Plan (discussed below), and the Plan for the Reporting of Options Last Sale Reports and Quotation Information,⁴³ through the Options Price Reporting Authority ("OPRA"). In addition, BX is a participant in the Options Regulatory Surveillance Authority ("ORSA") and the Plan for the Selection and Reservation of Securities Symbols. BX is transferring its status as a participant exchange in OCC to BOX and securing a membership therein.

Options Order Protection and Locked/Crossed Market Plan Rules

⁴¹ See e.g. BX Rule 8310.

⁴² BX Rules apply to Options Participants and the trading of options contracts on BX Options. See BX Options Rules, Chapter I, Section 2. Options Participants must, among other things, be an existing member or become a member of the Exchange, pursuant to the BX 1000 Rule Series, as well as maintain a membership on at least one other options exchange. See BX Options Rules, Chapter II, Sections 1 (b)(iii) and 2(f).

⁴³ See www.opradata.com.

BX will participate in the Options Order Protection and Locked/Crossed Market Plan (“Plan”), and therefore will be required to comply with the obligations of Participants under the Plan. BX proposes to adopt rules relating to the Plan that are substantially similar to the rules in place on or proposed by all of the options exchanges that are Participants in the Plan. The Plan essentially applies the Regulation NMS price-protection provisions to the options markets. Similar to Regulation NMS, the Plan requires the Plan Participants to adopt rules “reasonably designed to prevent Trade-Throughs,” while exempting Intermarket Sweep Orders from that prohibition. The Plan’s definition of an Intermarket Sweep Order is essentially the same as under Regulation NMS. The remaining exceptions to the trade-through prohibition, discussed more specifically below, either track those under Regulation NMS or correspond to unique aspects of the options market, or both. The proposed rules in Chapter XII conform to the requirements of the Plan. Section 1 sets forth the defined terms for use under the Plan. Section 2 prohibits trade-throughs and exempts Intermarket Sweep Orders from that prohibition. Section 2 also contains additional exceptions to the trade-through prohibition that track the exceptions under Regulation NMS or correspond to exceptions on other options exchanges, or both.⁴⁴ Section 3 sets forth the general prohibition against locking/crossing other eligible exchanges as well as several exceptions that permit locked markets in limited circumstances; such exceptions have been approved by the Commission for inclusion in the rules of other options exchanges.⁴⁵ Specifically, the exceptions to the general prohibition on locking and crossing occur when (1) the locking

⁴⁴ See e.g., NOM Rules, Chapter XII, Section 2.

⁴⁵ See e.g., NOM Rules, Chapter XII, Section 3.

or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment; (2) the locking or crossing quotation was displayed at a time when there is a Crossed Market; or (3) the Member simultaneously routed an Intermarket Sweep Order to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

Securities Traded on BX Options

BX proposes to adopt listing standards for options traded on BX (Chapter IV of proposed rules) as well as for index options (Chapter XIV) that are identical to the approved rules of other options exchanges, including NOM.⁴⁶ These include the specific criteria for underlying securities in proposed Section 3 of Chapter IV, as well as the withdrawal of such approval. In addition, Section 6 will cover the series of options contracts open for trading, which spells out the appropriate exercise dates and strike prices. In addition, BX intends to participate in the \$2.50 Strike Price Program,⁴⁷ the \$1.00 Strike Price Program,⁴⁸ the \$5 Strike Price Program⁴⁹ and the \$.50 Strike Program⁵⁰ ("Programs") on the same terms and conditions as the other options exchanges. BX believes that the programs will provide investors with flexibility in tailoring their options positions to meet their investment objectives while avoiding the unnecessary proliferation of illiquid options series. Sections 7 and 8 cover adjustments

⁴⁶ See NOM Rules, Chapters IV and XIV.

⁴⁷ See proposed Chapter IV, Section 6, Supplementary Material .03.

⁴⁸ See proposed Chapter IV, Section 6, Supplementary Material .02.

⁴⁹ See proposed Chapter IV, Section 6(d)(v).

⁵⁰ See proposed Chapter IV, Section 6, Supplementary Material .05.

and long-term options, respectively. With regard to the impact on system capacity, BX has analyzed its capacity and represents that it and the Options Price Reporting Authority have the necessary systems capacity to handle the additional traffic associated with the listing and trading of option series that may be listed and traded pursuant to the Programs.

BX is a member of the Options Listings Procedures Plan and will list and trade options already listed on other options exchanges. BX will gradually phase-in its listing and trading of options, beginning with a selection of actively traded options. BX will provide the specific list in an Options Trader Alert to its membership. At least initially, BX does not plan to develop new options products or listing standards. BX is aware that, in the event BX determines to trade an options class not listed on another options exchange or within BX's existing listing standards, BX will be required to submit a proposed rule change to establish listing standards.

Exemptions

BX proposes to incorporate by reference as BX Options Rules certain rules of Chicago Board Options Exchange, Incorporated ("CBOE"), NYSE and FINRA. Specifically, BX proposes to incorporate by reference: (1) CBOE position and exercise limits governing position and exercise limits for equity and index options, which are cross-referenced in Chapter III, Sections 7 and 9 of the BX Options Rules and Chapter XIV, Sections 5 and 7 of the BX Options Rules, respectively; (2) the margin rules of the CBOE or the NYSE, which are referenced in Chapter XIII, Section 3 of the BX Options Rules; and (3) FINRA's rules governing communications with the public, which are referenced in Chapter XI, Section 22 of the BX Options Rules. BX will notify

Participants whenever the CBOE proposes to change a position limit rule that has been incorporated by reference into the BX Options Rules.

BX proposes to incorporate by reference as BX Options Rules certain rules of the CBOE, NYSE, and FINRA such that BX members will comply with a BX rule by complying with the CBOE, NYSE, or FINRA rule referenced. In connection with its proposal to incorporate CBOE, NYSE, and FINRA rules by reference, BX requests, pursuant to Rule 240.0-12,⁵¹ an exemption under Section 36 of the Act from the rule filing requirements of Section 19(b) of the Act for changes to those BX Options Rules that are effected solely by virtue of a change to a cross-referenced CBOE, NYSE, or FINRA rule. BX proposes to incorporate by reference categories of rules (rather than individual rules within a category) that are not trading rules. BX agrees to provide written notice to Participants prior to the launch of BX Options of the specific CBOE, NYSE, and FINRA rules that it will incorporate by reference.⁵² BX will notify Participants whenever the CBOE, NYSE or FINRA propose to change a rule that has been incorporated by reference into the BX Options Rules.

Using its authority under Section 36 of the Act, the Commission previously exempted certain SROs from the requirement to file proposed rule changes under Section

⁵¹ 17 CFR 240.0-12.

⁵² BX will provide such notice through a posting on the same web site location where BX posts its own rule filings pursuant to Rule 19b-4(1) under Act, within the time frame required by that Rule. The web site posting will include a link to the location on the CBOE, NYSE, or FINRA web site where those SROs' proposed rule changes are posted.

19(b) of the Act.⁵³ Each such exempt SRO agreed to be governed by the incorporated rules, as amended from time to time, but is not required to file a separate proposed rule change with the Commission each time the SRO whose rules are incorporated by reference seeks to modify its rules. In addition, each SRO incorporated by reference only regulatory rules (e.g., margin, suitability, arbitration), not trading rules, and incorporated by reference whole categories of rules (i.e., did not “cherry-pick” certain individual rules within a category). Each exempt SRO had reasonable procedures in place to provide written notice to its members each time a change is proposed to the incorporated rules of another SRO in order to provide its members with notice of a proposed rule change that affects their interests, so that they would have an opportunity to comment on it. BX believes that this exemption is appropriate in the public interest and consistent with the protection of investors because it will promote more efficient use of Commission and SRO resources by avoiding duplicative rule filings based on simultaneous changes to identical rule text sought by more than one SRO.

No Relationship to BOX

The new BX Options market will not be related to the BOX market. Although BX is currently the SRO for the BOX market, once the BOX market is approved as a national securities exchange, it will operate as a separate SRO from BX; it will not be regulated by BX or owned by The NASDAQ OMX Group, Inc. Accordingly, The

⁵³ See Securities Exchange Act Release No. 49260 (February 17, 2004), 69 FR 8500 (February 24, 2004) (Order Granting Application for Exemptions Pursuant to Section 36(a) of the Exchange Act by the American Stock Exchange LLC, the International Securities Exchange, Inc., the Municipal Securities Rulemaking Board, the Pacific Exchange, Inc., the Philadelphia Stock Exchange, Inc., and the Boston Stock Exchange, Inc.).

NASDAQ OMX Group, Inc. will continue to own and operate BX, including the new BX Options market.

Fees

The Exchange has proposed that Chapter XV will be titled Options Pricing, and provide that BX Options Participants may be subject to the Charges for Membership, Services and Equipment in the Rule 7000 Series as well as the fees in Chapter XV. Furthermore, Section 1, Collection of Exchange Fees and Other Claims, requires that each BX Options Participant, and all applicants for registration, shall be required to provide a clearing account number for an account at the National Securities Clearing Corporation (“NSCC”) for purposes of permitting the Exchange to debit any undisputed or final fees, fines, charges and/or other monetary sanctions or other monies due and owing to the Exchange or other charges related to Rule 1002(c)(1). Sections 2 - 6 are reserved for the eventual transaction, routing and access fees that BX will impose and separately file as a proposed rule change. Section 7 provides that all fee disputes concerning fees which are billed by the Exchange must be submitted to the Exchange in writing and must be accompanied by supporting documentation; all fee disputes must be submitted no later than 60 days after receipt of a billing invoice. Section 8 covers the sales fee applicable when a sale in options occurs with respect to which BX is obligated to pay a fee to the SEC under Section 31 of the Act (“Sales Fee”). The Sales Fee is collected indirectly from members through their clearing firms by a designated clearing agency, as defined by the Act, on behalf of BX. The amount of the Sales Fee is equal to the Section 31 fee rate multiplied by the member's aggregate dollar amount of covered

sales resulting from transactions through BX transaction execution systems during any computational period.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act⁵⁴ in general, and furthers the objectives of Section 6(b)(5) of the Act⁵⁵ in particular, in that it is designed to prevent fraudulent and manipulative acts and practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in facilitating transactions in securities, and to remove impediments to and perfect the mechanisms of a free and open market and a national market system, and, in general, to protect investors and the public interest. Section 6(b)(5) also requires that the rules of an exchange not be designed to permit unfair discrimination among customers, issuers, brokers, or dealers. Further, BX believes that the proposal is consistent with Sections 6(b)(1) of the Act,⁵⁶ which requires, among other things, that a national securities exchange be so organized and have the capacity to carry out the purposes of the Act, and to comply and enforce compliance by its members and persons associated with its members, with the provisions of the Act, the rules and regulation thereunder, and the rules of the exchange. The BX Options market could confer important benefits on the public and market participants. In particular, BX's entry into the marketplace will provide market participants with an additional venue for executing

⁵⁴ 15 U.S.C. 78f(b).

⁵⁵ 15 U.S.C. 78f(b)(5).

⁵⁶ 15 U.S.C. 78f(b)(1).

orders in standardized options, enhance innovation, and increase competition between and among the options exchanges, resulting in better prices and executions for investors.

BX believes that because BX Options is part of BX and all BX Options Participants are BX members, the composition and selection of the BX Board of Directors will continue to satisfy the requirement in Section 6(b)(3) of the Act that the rules of the Exchange provide for the fair representation of members in the selection of directors and administration of the Exchange.⁵⁷

In addition, BX's MRVP, as proposed to be amended, is consistent with Sections 6(b)(1), 6(b)(5) and 6(b)(6) of the Act, which require, in part, that an exchange have the capacity to enforce compliance with, and provide appropriate discipline for, violations of the rules of the Commission and of the exchange.⁵⁸ In addition, because IM-9216 offers procedural rights to a person sanctioned for a violation listed in proposed Chapter X, Section 7, BX will provide a fair procedure for the disciplining of members and associated persons, consistent with Section 6(b)(7) of the Act.⁵⁹ This proposal to include the rules listed in Chapter X, Section 7 in BX's MRVP is consistent with the public interest, the protection of investors, or otherwise in furtherance of the purposes of the Act, as required by Rule 19d-1(c)(2) under the Act,⁶⁰ because it should strengthen BX's ability to carry out its oversight and enforcement responsibilities as an SRO in cases where full disciplinary proceedings are unsuitable in view of the minor nature of the

⁵⁷ 15 U.S.C. 78f(b)(3).

⁵⁸ 15 U.S.C. 78f(b)(1), 78f(b)(5) and 78f(b)(6).

⁵⁹ 15 U.S.C. 78f(b)(7).

⁶⁰ 17 CFR 240.19d-1(c)(2).

particular violation. In requesting the proposed change to the MRVP, BX in no way minimizes the importance of compliance with BX Rules and all other rules subject to the imposition of fines under the MRVP. However, the MRVP provides a reasonable means of addressing rule violations that do not rise to the level of requiring formal disciplinary proceedings, while providing greater flexibility in handling certain violations. BX will continue to conduct surveillance with due diligence and make a determination based on its findings, on a case-by-case basis, whether a fine of more or less than the recommended amount is appropriate for a violation under the MRVP or whether a violation requires a formal disciplinary action.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. BX operates in an intensely competitive global marketplace for listings, financial products, transaction services, and market data. Relying on its array of services and benefits, BX competes for the privilege of providing market and listing services to broker-dealers and issuers. BX's ability to compete in this environment is based in large part on the quality of its trading systems, the overall quality of its market and its attractiveness to the largest number of investors, as measured by speed, likelihood and cost of executions, as well as spreads, fairness, and transparency. With these aspects of competition as a guide, BX designed its current proposal to create, like NOM, the fastest, fairest, most transparent and most efficient trading venue available for the trading of options. The resulting system should further reduce overall trading costs and increase price competition, both pro-competitive developments. BX believes that the resulting

system will have the pro-competitive effect of spurring further initiative and innovation among market centers and market participants. Market participants that disagree and do not view these developments as pro-competitive, will have the flexibility to use only those functions that improve their trading or to not use the system at all; participation in the system in whole or in part is completely voluntary. BX Options will benefit individual investors, options trading firms, and the options market generally. The entry of an innovative, low cost competitor such as BX will promote competition, further spurring existing markets to improve their own execution systems and reduce trading costs. BX Options will differentiate its market by offering innovative features in the future. BX Options will operate in a highly competitive market comprised of nine other U.S. options exchanges in which sophisticated and knowledgeable market participants can and do send order flow to competing exchanges based on many factors, including technology, functionality, reliability, fees and customer service.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within 45 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the Exchange consents, the Commission shall: (a) by order approve or disapprove such proposed rule change, or (b) institute proceedings to determine whether the proposed rule change should be disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

Electronic comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-BX-2012-030 on the subject line.

Paper comments:

- Send paper comments in triplicate to Elizabeth M. Murphy, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BX-2012-030. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on

official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-BX-2012-030 and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.⁶¹

Kevin M. O'Neill
Deputy Secretary

⁶¹ 17 CFR 200.30-3(a)(12).

Exhibit 5

Additions are underlined; deletions are bracketed.

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Rules of NASDAQ OMX BX**Equity Rules**

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IM-9216. Violations Appropriate for Disposition Under Plan Pursuant to SEC Rule 19d-1(c)(2)

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• BX Options Market Rules, Chapter X, Section 7 - Penalty for Minor Rule Violations for Options Trading

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Options Rules**Chapter I General Provisions****Sec. 1 Definitions**

(a) With respect to these BX Options Rules, the following terms shall have the meanings specified in this Section 1. A term defined elsewhere in the Rules of the Exchange shall have the same meaning with respect to this Chapter I, unless otherwise defined below.

(1) The term "aggregate exercise price" means the exercise price of an options contract multiplied by the number of units of the underlying security covered by the options contract.

(2) The term "American-style option" means an options contract that, subject to the provisions of Chapter VIII, Section 1 of these BX Options Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, may be exercised at any time from its commencement time until its expiration.

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

- (4) The term "bid" means a limit order to buy one or more options contracts.
- (5) The term "Board" means the Board of Directors of NASDAQ OMX BX, Inc.
- (6) The term "BX" means NASDAQ OMX BX, Inc.
- (7) The term "BX Options" means the BX Options Market, an options trading facility of the Exchange under Section 3(a)(2) of the Exchange Act.
- (8) The term "BX Options Book" means the electronic book of orders maintained by the BX Options Trading System.
- (9) The term "BX Options Market Maker" or "Options Market Maker" means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VII of these Rules.
- (10) The terms "BX Options Order Entry Firm" or "Order Entry Firm" or "OEF" mean those Options Participants representing as agent Customer Orders on BX Options and those non-Market Maker Participants conducting proprietary trading.
- (11) The term "BX Options Rules" or "Rules of BX Options" means the Rules of the BX Options Market.
- (12) The term "BX Options Transaction" means a transaction involving an options contract that is effected on or through BX Options or its facilities or systems.
- (13) The term "BX Regulation" means the department of BX that supervises and administers the regulatory functions of BX, including the administration of any regulatory services agreements with another self-regulatory organization to which BX is a party and including MarketWatch and Surveillance.
- (14) The term "BX Rules" means the Rules of NASDAQ OMX BX, Inc.
- (15) The term "call" means an options contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of shares of the underlying security covered by the options contract.
- (16) The term "class of options" means all options contracts of the same type and style covering the same underlying security.
- (17) The term "Clearing Corporation" means The Options Clearing Corporation.
- (18) The term "Clearing Participant" means a Participant that is self-clearing or a Participant that clears BX Options Transactions for other Participants of BX Options.
- (19) The term "closing purchase transaction" means a BX Options Transaction that reduces or eliminates a short position in an options contract.

(20) The term "closing writing transaction" means a BX Options Transaction that reduces or eliminates a long position in an options contract.

(21) The term "covered short position" means (i) an options position where the obligation of the writer of a call option is secured by a "specific deposit" or an "escrow deposit" meeting the conditions of Rules 610(f) or 610(g), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or less than the exercise price of the options contract in such short position; and (ii) an options position where the writer of a put option holds in the same account as the short position, on a share-for-share basis, a long position in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or greater than the exercise price of the options contract in such short position.

(22) The term "Customer" means a Public Customer or a broker-dealer.

(23) The term "Customer Order" means an agency order for the account of a Public Customer, as defined herein or a broker-dealer.

(24) The term "discretion" means the authority of a broker or dealer to determine for a Customer the type of option, the class or series of options, the number of contracts, or whether options are to be bought or sold.

(25) The term "European-style option" means an options contract that, subject to the provisions of Chapter VIII, Section 1 of these Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on its expiration date.

(26) The term "Exchange" means NASDAQ OMX BX, Inc.

(27) The term "Exchange Act" means the Securities Exchange Act of 1934, as amended, or Rules thereunder.

(28) The term "exercise price" means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an options contract.

(29) The terms "he," "him" or "his" shall be deemed to refer to persons of female as well as male gender, and to include organizations, as well as individuals, when the context so requires.

(30) The term "index option" means an options contract that is an option on a broad-based, narrow-based or micro narrow-based index of equity securities prices.

(31) The term "individual equity option" means an options contract which is an option on an equity security.

- (32) The term "long position" means a person's interest as the holder of one or more options contracts.
- (33) The term "MarketWatch" means a unit within BX Regulation that is responsible for the real-time surveillance and regulation of the trading of options on BX Options.
- (34) The term "NBBO" means the national best bid or offer as calculated by BX Options based on market information received by BX Options from OPRA.
- (35) The term "offer" means a limit order to sell one or more options contracts.
- (36) The term "opening purchase transaction" means a BX Options Transaction that creates or increases a long position in an options contract.
- (37) The term "opening writing transaction" means a BX Options Transaction that creates or increases a short position in an options contract.
- (38) The term "options contract" means a put or a call issued, or subject to issuance by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.
- (39) The term "options market close" or "market close" means the time specified by BX Options for the cessation of trading in contracts on BX Options for options on that market day.
- (40) The term "options market open" or "market open" means the time specified by BX Options for the commencement of trading in contracts on BX Options for options on that market day.
- (41) The term "Options Participant" or "Participant" means a firm, or organization that is registered with the Exchange pursuant to Chapter II of these Rules for purposes of participating in options trading on BX Options as a "BX Options Order Entry Firm" or "BX Options Market Maker."
- (42) The term "Options Principal" means a person engaged in the management and supervision of the Options Participant's business pertaining to options contracts that has responsibility for the overall oversight of the Options Participant's options related activities on the Exchange.
- (43) The term "Options Participation Agreement" means the agreement to be executed by Options Participants to qualify to participate on BX Options.
- (44) The term "OPRA" means the Options Price Reporting Authority.
- (45) The term "order" means a firm commitment to buy or sell options contracts as defined in Section 1(d) of Chapter VI.
- (46) The term "outstanding" means an options contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.
- (47) The term "pre-opening" means the period prior to the market open on BX Options, beginning at a time specified by BX Options, during which Participants may log on to the Trading System and submit,

amend and withdraw orders, but no trading can occur.

(48) The term "primary market" means, in the case of securities listed on BX, the market that is identified as the listing market pursuant to Section X(d) of the approved national market system plan governing the trading of BX-listed securities (and thus does not mean securities listed on the BX Venture Market), and, in the case of securities listed on another national securities exchange, the market that is identified as the listing market pursuant to Section XI of the Consolidated Tape Association Plan.

(49) The term "Professional" means any person or entity that (i) is not a broker or dealer in securities, and (ii) places more than 390 orders in listed options per day on average during a calendar month for its own beneficial account(s). A Participant or a Public Customer may, without limitation, be a Professional. All Professional orders shall be appropriately marked by Participants.

(50) The term "Public Customer" means a person that is not a broker or dealer in securities.

(51) The term "Public Customer Order" means an order for the account of a Public Customer.

(52) The term "put" means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option and the Rules of the OCC, to sell to the Clearing Corporation the number of units of the underlying security covered by the options contract, at a price per unit equal to the exercise price, upon the timely exercise of such option.

(53) The term "Quarterly Option 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 expires at the close of business on the last business day of a calendar quarter.

(54) The term "quote" or "quotation" means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker's previous bid or offer, if any.

(55) The term "Responsible Person" shall mean a United States-based officer, director or management-level employee of an Options Participant, who is registered with the Exchange as an Options Principal, responsible for the direct supervision and control of associated persons of that Options Participant.

(56) The term "Rules of the Clearing Corporation" or "Rules of the OCC" means the Certificate of Incorporation, the By-Laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as may be in effect from time to time.

(57) The term "SEC" or "Commission" means the United States Securities and Exchange Commission.

(58) The term "series of options" means all options contracts of the same class of options having the same exercise price and expiration date.

(59) The term "short position" means a person's interest as the writer of one or more options contracts.

(60) The term "Short Term Option Series" means a series in an option class that is approved for listing and

trading on the Exchange in which the series is opened for trading on any Thursday or Friday that is a business day and that expires on the Friday of the next business week. If a Thursday or Friday is not a business day, the series may be opened (or shall expire) on the first business day immediately prior to that Thursday or Friday, respectively.

(61) The term "SRO" means a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act.

(62) The term "Trading System" or "System" means the automated trading system used by BX Options for the trading of options contracts.

(63) The term "type of option" means the classification of an options contract as either a put or a call.

(64) The term "uncovered" means a short position in an options contract that is not covered.

(65) The term "underlying security" means the security that the Clearing Corporation shall be obligated to sell (in the case of a call option) or purchase (in the case of a put option) upon the valid exercise of an options contract.

Sec. 2 Applicability

(a) These are the BX Rules applicable to the trading of options contracts issued by The Options Clearing Corporation through BX Options, BX's options trading facility, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading on BX Options.

(b) Except to the extent that specific BX Options Rules govern or unless the context otherwise requires, the provisions of the BX Rules shall be applicable to Options Participants and to the trading of option contracts on BX Options and, for purposes of their application with respect to Options Participants and options trading, shall be interpreted in light of the nature of options trading and the BX Options market, and the fact that options on BX Options shall be traded electronically through the Trading System. To the extent that the provisions of the BX Options Rules are inconsistent with any other provisions of the BX Rules, the BX Options Rules shall control.

(c) For the purposes of cross-referencing, interpreting and applying BX Rules to the BX Options Rules: 1) a reference to "members" of BX shall be functionally equivalent to "Participants" in BX Options, whether BX Options Market Makers, Order Entry Firms or both.

(d) For marketing and other purposes, the BX Options Market may be referred to as the "BX Options Market" or "BX Options."

(e) These Rules generally require Options Participants conducting business with the public to comply with applicable requirements of the United States federal securities laws and regulations promulgated thereunder by the Securities and Exchange Commission. To the extent that certain aspects of the federal

securities laws and regulations promulgated thereunder do not apply to non-U.S. firms conducting business with non-U.S. customers, these Rules shall be interpreted accordingly, so long as such interpretation is consistent with the maintenance of a fair and orderly options market. In such case, however, such non-U.S. Options Participants must comply with all reasonably comparable laws and regulations of their home countries or of the home countries of their customers, as applicable.

Sec. 3 Regulation of BX and its Members

BX and the Financial Industry Regulatory Authority ("FINRA") are parties to the Regulatory Services Agreement dated as of August 29, 2008, as amended ("Regulatory Contract"). Pursuant thereto, FINRA has agreed to perform certain functions described in these Rules on behalf of BX. BX Options Rules that refer to BX Regulation, BX Regulation staff, BX Options staff, and BX Options departments should be understood as also referring to FINRA staff and FINRA departments acting on behalf of BX pursuant to the Regulatory Contract.

Notwithstanding the fact that BX has entered into the Regulatory Contract with FINRA Regulation to perform some of BX's functions, BX shall retain ultimate legal responsibility for, and control of, such functions.

In addition, BX has incorporated by reference certain FINRA, Chicago Board Options Exchange ("CBOE"), and New York Stock Exchange ("NYSE") rules. BX members shall comply with these rules and interpretations as if such rules and interpretations were part of BX's rules.

Chapter II Participation

Sec. 1 Options Participation

(a) These Rules establish a new category of BX member participation called "Options Participant." Only Options Participants may transact business on BX Options via the Trading System. Options Participants may trade options for their own proprietary accounts or, if authorized to do so under applicable law, and consistent with these BX Options Rules and with applicable law and SEC rules and regulations, may conduct business on behalf of Customers.

(b) A prospective Options Participant must:

i. complete an Options Participant Application in the form prescribed by the Exchange;

ii. provide such other information as required by the Exchange;

iii. be an existing member or become a member of the Exchange, pursuant to the 1000 rules series, and continue to abide by the requirements of the 1000 Series with respect to participation in BX Options; and

iv. enter into an Options Participant Agreement in the form specified by the Exchange, agree to abide by the same as it has been or shall be from time to time amended, and pledge to abide by the Rules of the

Exchange as amended from time to time, and by all circulars, notices, directives or decisions adopted pursuant to or made in accordance with the Rules of the Exchange; and

v. be under the supervision and control of a Responsible Person.

(c) Upon completion of the application, the Exchange, or person(s) designated by the Exchange ("designee") shall consider whether to approve the application, unless there is just cause for delay. In its consideration process, the Exchange may conduct such investigation as it deems appropriate and may take such steps as it deems necessary to confirm the information provided by the applicant. Within 30 days after the Exchange or its designee has completed its consideration of an application, it shall provide written notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefore.

(d) These BX Options Rules place no limit on the number of qualifying entities that may become Options Participants. However, based on system constraints or capacity restrictions, approval of qualifying applications for Options Participants may, in limited circumstances, be temporarily deferred. To the extent that the Board places limitations on otherwise qualified applicants to act as Options Participants, such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Exchange Act.

(e) Options Participant status cannot be leased or transferred except in the event of a change in control or corporate reorganization involving an Options Participant. In such a case, Options Participant status may be transferred to a qualified affiliate or successor upon written notice to the Exchange or its designee.

(f) Every Options Participant shall file with BX Options and keep current an address where notices may be served, including current addresses of each Responsible Person, as specified in Paragraph (b)(v) of this Section 1.

Sec. 2 Requirements for Options Participation

(a) Options Participants may be corporations, partnerships, limited liability companies or sole proprietorships organized under the laws of a jurisdiction of the United States, or such other jurisdictions as the Exchange may approve.

(b) Options Participants must be Options Clearing Participants or establish a clearing arrangement with a Clearing Participant.

(c) Options Participants must have demonstrated ability to adhere to all applicable Exchange, SEC, Clearing Corporation and Federal Reserve Board policies, rules and regulations related to the trading of options, including those concerning record-keeping, reporting, finance and trading procedures and be able to satisfactorily demonstrate reasonably adequate systems capability and capacity.

(d) All associated persons of Options Participants who are not themselves Responsible Persons must be under the supervision of a U.S.-based Responsible Person.

(e) Every Options Participant shall have as the principal purpose of being a Participant the conduct of a securities business. Such a purpose shall be deemed to exist if and so long as:

i. the Participant has qualified and acts in respect of its business on BX Options as either an OEF or a Options Market Maker, or both; and

ii. all transactions effected by the Participant are in compliance with Section 11(a) of the Exchange Act and the rules and regulations adopted thereunder.

(f) Every Options Participant shall at all times maintain membership in another registered options exchange that is not registered solely under Section 6(g) of the Securities Exchange Act of 1934, or in FINRA. Options Participants that transact business with customers shall at all times be members of FINRA.

(g) Limited Principal—Registered Options and Security Futures

(1) Every member that is engaged in, or that intends to engage in transactions in security futures or options with Public Customers shall have at least one Registered Options and Security Futures Principal who shall have satisfied the requirements of this subparagraph. Every person engaged in the supervision of options and security futures sales practices, including a person designated pursuant to NASD Rule 3010(a)(2) shall be registered as a Registered Options and Security Futures Principal.

(2) Each person required by subparagraph (g)(1) to be a Registered Options and Security Futures Principal shall pass the appropriate Qualification Examination for Registered Options and Security Futures Principal, or an equivalent examination acceptable to BX, for the purpose of demonstrating an adequate knowledge of options and security futures trading generally, the Rules of BX applicable to trading of option and security futures contracts and the rules of registered clearing agencies for options and security futures, and be registered as such before engaging in the duties or accepting the responsibilities of a Registered Options and Security Futures Principal.

(3) Each person required to register and qualify as a Registered Options and Security Futures Principal must, prior to or concurrent with such registration, be or become qualified pursuant to the Rule 1030 Series, as either a General Securities Representative or a Limited Representative—Corporate Securities and a Registered Options and Security Futures Representative.

(4) A person registered solely as a Registered Options and Security Futures Principal shall not be qualified to function in a principal capacity with responsibility over any area of business activity not prescribed in subparagraph (1).

(5) Any person who is registered as a Registered Options and Security Futures Principal, or who becomes registered as a Registered Options and Security Futures Principal before a revised examination that includes security futures products is offered, must complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures before such person can

supervise security futures activities. After a revised examination that includes security futures products is offered, a person associated with a member who passes such a revised Qualification Examination for Registered Options and Security Futures Principal (or any other examination covering security futures that is acceptable to BX) is not required to complete a firm-element continuing education program that addresses security futures and a principal's responsibilities for security futures to supervise activities in such products, except as otherwise required by Rule 1120 generally or by the member firm.

(h) Limited Representative—Options and Security Futures

(1) Each person associated with a member who is included within the definition of a representative as defined in Rule 1031 may register with BX as a Limited Representative—Options and Security Futures if:

(A) such person's activities in the investment banking or securities business of the member involve the solicitation or sale of option or security futures contracts, including option contracts on government securities as that term is defined in Section 3(a)(42)(D) of the Act, for the account of a broker, dealer or public customer; and

(B) such person passes an appropriate qualification examination for Limited Representative—Options and Security Futures.

(2) Each person seeking to register and qualify as a Limited Representative—Options and Security Futures must, concurrent with or before such registration may become effective, become registered with BX or another SRO as either as a Limited Representative—Corporate Securities or Limited Representative—Government Securities.

(3) A person registered as a Limited Representative—Options and Security Futures shall not be qualified to function in any area not described in subparagraph (1)(A) hereof.

(4) Any person who is registered with BX as a Limited Representative—Options and Security Futures, or who becomes registered as a Limited Representative—Options and Security Futures before a revised examination that includes security futures is offered, must complete a firm-element continuing education program that addresses security futures. After a revised examination that includes security futures products is offered, a person associated with a member who passes such a revised Qualification Examination for Limited Representative—Options and Security Futures (or any other examination covering security futures that is acceptable to BX) is not required to complete a firm-element continuing education program that addresses security futures to act as a limited representative with regard to such products, except as otherwise required by Rule 1120 generally or by the member firm. Commentary .01. Limited Principal—Registered Options and Security Futures

Members having a single Registered Options and Security Futures Principal are required promptly to notify BX in the event such person is terminated, resigns, becomes incapacitated or is otherwise unable to perform the duties of an Options and Security Futures Principal.

Following receipt of such notification, BX will require members to agree, in writing, to refrain from engaging in any options- or security futures-related activities that would necessitate the prior or subsequent approval of an Options and Security Futures Principal including, among other things, the opening of new options or security futures accounts or the execution of discretionary orders for option or security futures contracts until such time as a new Registered Options and Security Futures Principal has been qualified.

Members failing to qualify a new Registered Options and Security Futures Principal within two weeks following the loss of their sole Registered Options and Security Futures Principal, or by the earliest available date for administration of the Registered Options and Security Futures Principal examination, whichever is longer, shall be required to cease doing an options and security futures business; provided, however, they may effect closing transactions in options and offsetting transactions in security futures to reduce or eliminate existing open options or security futures positions in their own account as well as the accounts of their customers.

Sec. 3 Persons Associated with Options Participants

(a) Persons associated with Options Participants shall be bound by the Rules of the Exchange and the Rules of the Clearing Corporation.

(b) Each Options Participant shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Options Participant who are its executive officers, directors, principal shareholders, and general partners. Such persons shall file with the Exchange a Uniform application for Securities Industry Registration or Transfer (Form U- 4).

Sec. 4 Good Standing for Options Participants

(a) To remain in good standing, all Options Participants must:

i. continue to satisfy the qualification requirements specified by the Exchange, as amended from time to time by the Exchange;

ii. comply with the Rules of the Exchange; and

iii. pay on a timely basis such participation, transaction and other fees as the Exchange and/or BX Options shall prescribe.

(b) The good standing of an Options Participant may be suspended, terminated or otherwise withdrawn, as provided in the BX 9550 Rules, if any of the conditions of Section 2 or 3 of this Chapter II are not met or the Options Participant violates any of its agreements with the Exchange and/or BX Options or any of the provisions of the Exchange Rules.

(c) Unless an Options Participant is in good standing, the Participant shall have no rights or privileges of options participation except as otherwise provided by law or the Rules, shall not hold himself or itself out

for any purpose as a Participant, and shall not deal with the Exchange and/or BX Options on any basis except as a non-Participant.

Chapter III Business Conduct

Sec. 1 Adherence to Law

No Options Participant shall engage in conduct in violation of the Exchange Act or Rules thereunder, the Rules of the Exchange or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Options Participant shall supervise persons associated with the Participant to assure compliance therewith.

Sec. 2 Conduct and Compliance with the Rules

(a) Each Options Participant shall be responsible for ensuring that all arrangements made and systems used in connection with business conducted on BX Options, and the transaction of such business itself, comply with the Options Participant's and associated persons' obligations under the Rules of the Exchange, the Rules of the Clearing Corporation and any other relevant laws, rules, interpretations and obligations. In accordance with the BX Options Rules and in connection with business conducted on BX Options, each Options Participant shall:

i. have adequate arrangements to ensure that all staff involved in the conduct of business on BX Options are suitable, adequately trained and properly supervised;

ii. be responsible for the acts and conduct of each associated person,

iii. establish its trading arrangements such that each Participant is able to meet the requirements set out in Section 1 of this Chapter and that all other relevant obligations contained in the Rules are complied with;

iv. implement suitable security measures such that only those individuals explicitly authorized by the Options Participant to trade may gain access to passwords and security keys;

v. ensure that any trading access granted to individuals (whether employees of the Options Participant or otherwise), for example by way of order routing systems, is adequately controlled and supervised, including appropriate checks before any orders are submitted to the Trading System; and

vi. ensure that accurate information is input into the System, including, but not limited to, the Options Participant's capacity.

Sec. 3 Rumors

No Options Participant or person associated with an Options Participant shall circulate, in any manner, rumors of a character which might affect market conditions in any security; provided, however, that this Section shall not prohibit discussion of unsubstantiated information, so long as its source and unverified nature are disclosed.

Sec. 4 Prevention of the Misuse of Material Nonpublic Information

(a) Every Options Participant shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Participant's business, to prevent the misuse of material nonpublic information by such Participant or persons associated with such Participant in violation of the federal securities laws or the Rules thereunder, and the Rules of the Exchange.

(b) Misuse of material nonpublic information includes, but is not limited to:

i. trading in any securities issued by a corporation, or in any related securities or related options or other derivative securities, while in possession of material nonpublic information concerning that corporation;

ii. trading in an underlying security or related options or other derivative securities, while in possession of material nonpublic information concerning imminent transactions in the underlying security or related securities; and

iii. disclosing to another person any material nonpublic information involving a corporation whose shares are publicly traded or disclosing an imminent transaction in an underlying security or related securities for the purpose of facilitating the possible misuse of such material nonpublic information.

(c) Each Options Participant shall establish, maintain and enforce the following policies and procedures as appropriate for the nature of each Participant's business:

i. All associated persons must be advised in writing of the prohibition against the misuse of material nonpublic information.

ii. Signed attestations from the Participant and all associated persons affirming their awareness of, and agreement to abide by, the aforementioned prohibitions must be maintained for at least three (3) years, the first two (2) years in an easily accessible place.

iii. Records of all brokerage accounts maintained by the Participant and all associated persons must be acquired and maintained for at least three (3) years, the first two (2) years in an easily accessible place, and such brokerage accounts must be reviewed periodically by the Participant for the purpose of detecting the possible misuse of material nonpublic information.

iv. Any business dealings the Participant may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Participant receiving, in the ordinary course of business, material nonpublic information concerning any such corporation, must be identified and documented.

(d) Participants that are required to file Form X-17A-5 under the Exchange Act or Rules thereunder, with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Participants stating that the procedures mandated by this Section have been established, enforced and maintained.

(e) Any Options Participant or associated person who becomes aware of any possible misuse of material nonpublic information must promptly notify BX Regulation.

(f) It may be considered conduct inconsistent with just and equitable principles of trade for any Participant or person associated with a Participant who has knowledge of all material terms and conditions of:

(i) an order and a solicited order,

(ii) an order being facilitated or submitted to BX Options for price improvement (e.g., price improving orders), or

(iii) orders being crossed;

the execution of which are imminent, to enter, based on such knowledge, an order to buy or sell an option for the same underlying security as any option that is the subject of the order, or an order to buy or sell the security underlying such class, or an order to buy or sell any related instrument until (a) the terms and conditions of the order and any changes in the terms and conditions of the order of which the Participant or person associated with the Participant has knowledge are disclosed, or (b) the trade can no longer reasonably be considered imminent in view of the passage of time since the order was received. The terms of an order are "disclosed" to BX Options Participants when the order is entered into the BX Options Book. For purposes of this Paragraph (f), an order to buy or sell a "related instrument" means, in reference to an index option, an order to buy or sell securities comprising 10% or more of the component securities in the index or an order to buy or sell a futures contract on an economically equivalent index.

Sec. 5 Disciplinary Action by Other Organizations

Every Options Participant shall promptly notify BX Regulation in writing of any disciplinary action, including the basis therefore, taken by any national securities exchange or registered securities association, clearing corporation, commodity futures market or government regulatory body against the Options Participant or its associated persons who are directly involved in derivatives trading, and shall similarly notify BX Regulation of any disciplinary action taken by the Options Participant itself against any of its associated persons who are directly involved in derivatives trading involving suspension, termination, the withholding of commissions or imposition of fines in excess of \$2,500, or any other significant limitation on activities.

Sec. 6 Other Restrictions on Participants

Whenever the Exchange shall find that an Options Participant has failed to perform on its contracts or is insolvent or is in such financial or operational condition or is otherwise conducting business in such a manner that it cannot safely conduct business with Customers, creditors or the Exchange, the Exchange may summarily suspend the Options Participant in accordance with Chapter X (Summary Suspension) or may impose such conditions and restrictions upon the Options Participant as the Exchange considers reasonably necessary for the protection of the Exchange, BX Options, and the Customers of such Options

Participant.

Sec. 7 Position Limits

(a) No Options Participant shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Participant has reason to believe that as a result of such transaction the Options Participant or its Customer would, acting alone or in concert with others, directly or indirectly:

i. exceed the applicable position limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange or

(ii) exceed the position limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange; or

iii. exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected.

(b) Should an Options Participant have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Participant is in excess of the applicable limit, such Options Participant shall promptly take the action necessary to bring the position into compliance.

Sec. 8 Exemptions from Position Limits

An Options Participant may rely upon any available exemptions from applicable position limits granted from time to time by another Options Exchange for any options contract traded on BX Options provided that such Options Participant (1) provides BX Regulation with a copy of any written exemption issued by another Options Exchange or a written, description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for BX Regulation to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to its trading on BX Options.

Sec. 9 Exercise Limits

(a) No Options Participant shall exercise, for any account in which it has an interest or for the account of any Customer, a long position in any options contract where such Options Participant or Customer, acting alone or in concert with others, directly or indirectly, has or will have:

(i) exceeded the applicable exercise limit fixed from time to time by the Chicago Board Options Exchange for any options contract traded on BX Options and the Chicago Board Options Exchange; or

(ii) exceed the exercise limit fixed by BX Options from time to time for any options contract traded on BX Options but not traded on the Chicago Board Options Exchange;

(iii) exceeded the applicable exercise limit fixed from time to time by another exchange for an options contract not traded on BX Options, when the Options Participant is not a member of the other exchange on which the transaction was effected.

(b) an Options Market Maker that has been granted an exemption to position limits pursuant to Section 8 of this Chapter III (Exemption to Position Limits), the number of contracts which can be exercised over a five (5) business day period shall equal the Market Maker's exempted position.

Sec. 10 Reports Related to Position Limits

Each Options Participant shall maintain and furnish to BX Regulation all reports required by the applicable rule of any Options Exchange of which it is a member with respect to reports related to position limits.

Sec. 11 Liquidation Positions

(a) Whenever BX Regulation shall find that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all options contracts or one or more classes or series traded on BX Options in excess of the applicable position limit established pursuant to Section 7 of this Chapter III (Position Limits), it may order all Options Participants carrying a position in options contracts of such classes or series for such person or persons to liquidate such positions as expeditiously as possible, consistent with the maintenance of a fair and orderly market.

(b) Whenever such an order is given, no Options Participant shall accept any order to purchase, sell or exercise any options contract for the account of the person or persons named in the order, unless and until BX Regulation expressly approves such person or persons for options transactions.

Sec. 12 Other Restrictions on Options Transactions and Exercises

(a) BX may impose such restrictions on transactions or exercises in one or more series of options of any class traded on BX Options as BX Regulation in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

i. During the effectiveness of such restrictions, no Options Participant shall, for any account in which it has an interest or for the account of any Customer, engage in any transaction or exercise in contravention of such restrictions.

ii. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, no restriction on exercise under this Section may be in effect with respect to that series of options. With respect to index options, restrictions on exercise may be in effect until the opening of business on the last business day before the expiration date.

iii. Exercises of American-style, cash-settled index options shall be prohibited during any time when

trading in such options is delayed, halted, or suspended, subject to the following exceptions:

1) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the Rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by BX Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension;

2) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the last business day prior to their expiration;

3) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern time. In addition, if trading resumes following such a trading halt pursuant to the procedure described in Section 4 of Chapter V of these Rules, exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph (a)(iii)(3) are subject to the authority of the Board to impose restrictions on transactions and exercises pursuant to paragraph (a) of this Rule; and

4) BX Options may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

(b) Whenever the issuer of a security underlying a call option traded on BX Options is engaged or proposes to engage in a public underwritten distribution ("public distribution") of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that BX Options impose restrictions upon all opening writing transactions in such options at a "discount" where the resulting short position will be uncovered ("uncovered opening writing transactions").

i. In addition to a request, the following conditions are necessary for the imposition of restrictions:

1) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;

2) the underwriters agree to notify BX Regulation upon the termination of their stabilization activities; and

3) the underwriters initiate stabilization activities in such underlying security on a national securities exchange when the price of such security is either at a "minus" or "zero minus" tick.

ii. Upon receipt of such a request and determination that the conditions listed above are met, BX Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after Participants shall have been notified and shall terminate such restrictions upon request of the underwriters or when BX Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.

iii. For purposes of paragraph (b) of this Section 12, an uncovered opening writing transaction in a call option will be deemed to be effected at a "discount" when the premium in such transaction is either:

1) in the case of a distribution of the underlying security not involving the issuance of rights and in the case of a distribution of securities exchangeable for or convertible into the underlying security, less than the amount by which the underwriters' stabilization bid for the underlying security exceeds the exercise price of such option; or

2) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters' stabilization bid in the underlying security at the subscription price exceeds the exercise price of such option.

Sec. 13 Mandatory Systems Testing

(a) Each Options Participant that BX designates as required to participate in a system test must conduct or participate in the testing of its computer systems to ascertain the compatibility of such systems with the Exchange's systems in the manner and frequency prescribed by the Exchange. BX will designate Options Participants as required to participate in a system test based on: (1) the category of the Participant (Market Maker and OEF); (2) the computer system(s) the Participant uses; and (3) the manner in which the Participant connects to the Exchange. BX will give Participants reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Participants' obligations in participating in the test.

(b) Every Options Participant required by BX to conduct or participate in testing of computer systems shall provide to the Exchange such reports relating to the testing as the Exchange may prescribe. Participants shall maintain adequate documentation of tests required by this Section 13 and results of such testing for examination by the Exchange.

(c) An Options Participant that is subject to this Section 13 and that fails to conduct or participate in the tests, fails to file the required reports, or fails to maintain the required documentation, may be subject to a summary suspension or other action taken pursuant to Chapter X of these Rules and/or a disciplinary action pursuant to the Rule 9000 Series of the Rules of the Exchange (Disciplining of Members).

Sec. 14 Limit on Outstanding Uncovered Short Positions

(a) Whenever it is determined from the reports of uncovered short positions submitted pursuant to Section 2 of Chapter IX of these Rules (Reports of Uncovered Short Positions), viewed in light of current market conditions in options and in underlying securities, that there are outstanding an excessive number of uncovered short positions in options contracts of a given class traded on BX Options or that an excessively high percentage of outstanding short positions in options contracts of a given class traded on BX Options are uncovered, BX Regulation may determine to prohibit Options Participants from any further opening writing transactions on any exchange in options contracts of that class unless the resulting short position will be covered, and BX Regulation may prohibit the uncovering of any existing covered short positions in

one or more series of options of that class, as it deems appropriate in the interest of maintaining a fair and orderly market in options contracts or in underlying securities.

(b) BX Regulation may exempt transactions of Options Market Makers from restrictions imposed under this Rule. Such restrictions shall be rescinded upon a determination that they are no longer appropriate.

Sec. 15 Significant Business Transactions of Options Clearing Participants

Significant Business Transactions of Options Clearing Participants shall be governed by this Section 15 and not by BX Rule 1017. All other Significant Business Transactions of Options Participants shall be subject to BX Rule 1017.

(a) Except as provided in paragraph (c) below, a Participant that clears Options Market Maker trades is required to notify BX Regulation in writing fifteen (15) days prior to any of the following proposed significant business transactions ("SBT"):

- i. the combination, merger or consolidation between the Participant and another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products;
- ii. the transfer from another person, market maker, broker-dealer, or customer of securities or futures accounts that are significant in size or number to the business of the Participant;
- iii. the assumption or guarantee by the Participant of liabilities of another person engaged in the business of effecting, executing, clearing or financing transactions in securities or futures products, in connection with a direct or indirect acquisition of all or substantially all of the person's assets; or
- iv. termination of the Participant's clearing business or any material part thereof.

(b) Notification of any of the following SBTs shall be made in writing to BX Regulation, not later than five (5) business days from the date on which the SBT becomes effective:

- i. the sale by the Clearing Participant of a significant part of its assets to another person;
- ii. a change in the identity of any general partner or a change in the beneficial ownership of ten percent (10%) or more of any class of the outstanding stock of any corporate general partner;
- iii. a change in the beneficial ownership of twenty percent (20%) or more of any class of the outstanding stock of the Participant or the issuance of any capital stock of the Participant; or
- iv. the acquisition by the Clearing Participant of assets of another person that would constitute a "business" that is "significant," as those terms are defined in Section 11-01 of Regulation S-X under the Exchange Act.

(c) A Clearing Participant is required to notify BX Regulation in writing thirty (30) days prior to a proposed SBT included in paragraph (a) of this Rule, and such SBT shall be subject to the prior approval

of BX Regulation, if the Participant's Market Maker clearance activities exceed, or would exceed as a result of the proposed SBT, any of the following parameters:

i. fifteen percent (15%) of cleared BX Options Market Maker contract volume for the most recent three (3) months;

ii. an average of fifteen percent (15%) of the number of BX Options Market Makers as of each month and for the most recent three (3) months; or

iii. twenty-five percent (25%) of BX Options Market Maker gross deductions (haircuts) defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Participant in relation to the aggregate of such haircuts carried by all other Clearing Participants for any month end within the most recent three (3) months.

(d) An SBT that comes within paragraph (c) of this Section 15 may be disapproved or conditioned within the thirty (30) day period if BX Regulation determines that such SBT has the potential to threaten the financial or operational integrity of Market Maker transactions. In making this determination, BX Regulation may consider, among other relevant matters, the following:

i. The effect of the proposed SBT on the capital size and structure of the resulting Clearing Participant(s), the potential for financial failure and the consequences of any such failure on the BX Options market as a whole, and the potential for increased or decreased operational efficiencies arising from the proposed transaction.

ii. The effect of the proposed SBT upon overall concentration of Market Makers, including a comparison of the following measures before and after the proposed transaction:

1) proportion of BX Options Market Maker contract volume cleared;

2) proportion of BX Options Market Makers cleared; and

3) proportion of Market Maker gross deductions (haircuts) as defined by Rule 15c3-1(a)(6) or (c)(2)(x) under the Exchange Act carried by the Clearing Participant(s) in relation to the aggregate of such deductions carried by other Participants that clear market maker transactions.

iii. The regulatory history of the affected Participants, specifically as it may indicate a tendency to financial or operational weakness.

(e) Transactions that come within paragraph (c) of this Section 15 shall be reviewed according to the following procedures:

i. A Participant must provide promptly, in writing, all information reasonably requested by BX Regulation. Any information disclosed by Participants pursuant to the requirements of this Section 15 shall be kept confidential by BX Regulation until such information is otherwise publicly disclosed and

shall be used only for purposes of reviewing the proposal.

ii. If BX Regulation determines, prior to the expiration of the thirty (30) day period, that a proposed SBT may be approved without conditions, BX Regulation shall promptly so advise the Participant.

iii. All decisions to disapprove or condition a proposed SBT or to impose extraordinary requirements shall be in writing, shall include a statement setting forth the grounds for the decision, and the Participant shall be promptly notified of any such decisions by BX Regulation.

iv. Notwithstanding any other provisions of the BX Options Rules, the Participant may appeal a decision to disapprove or condition a proposed SBT directly to the Board by filing an application for review with the Secretary of the Exchange within fifteen (15) days of the date of service of the decision. Appeal to the Board shall be the exclusive method of reviewing such a decision.

v. An appeal to the Board of a decision to disapprove or condition a proposed SBT shall not operate as a stay of that decision during the pendency of the appeal.

vi. BX Regulation shall file notice with the SEC in accordance with the provisions of Section 19(d)(1) of the Exchange Act of all final decisions to disapprove or condition a proposed SBT.

(f) BX Regulation may impose additional financial and/or operational requirements on a Participant that clears Market Maker trades at any time when it determines that the Participant's continuance in business without such requirements has the potential to threaten the financial or operational integrity of Market Maker transactions.

(g) The provisions of this Section 15 do not preclude summary action under Chapter X, Discipline and Summary Suspensions, of these Rules, or other BX Regulation action pursuant to the BX Options Rules.

(h) BX Regulation, upon approval by the Chief Regulatory Officer of BX, may exempt a Participant from the requirements of this Section 15, either generally or in respect of specific types of transactions, based on the limited proportion of Market Maker trades on BX Options that are cleared by the Participant or on the limited importance that the clearing of Market Maker trades bears to the total business of the Participant.

Chapter IV Securities Traded on BX Options

Sec. 1 Designation of Securities

Securities traded on BX Options are options contracts, each of which is designated by reference to the issuer of the underlying security, expiration month, exercise price and type (put or call).

Sec. 2 Rights and Obligations of Holders and Writers

The rights and obligations of holders and writers are set forth in the Rules of the Clearing Corporation.

Sec. 3 Criteria for Underlying Securities

(a) Underlying securities with respect to which put or call options contracts are approved for listing and trading on BX Options must meet the following criteria:

- i. The security must be registered with the SEC and be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and
- ii. the security shall be characterized by a substantial number of outstanding shares that are widely held and actively traded.

(b) In addition, BX Regulation shall from time to time establish standards to be considered in evaluating potential underlying securities for BX Options transactions. There are many relevant factors which must be considered in arriving at such a determination, and the fact that a particular security may meet the standards established by BX Regulation does not necessarily mean that it will be selected as an underlying security. BX Regulation may give consideration to maintaining diversity among various industries and issuers in selecting underlying securities. Notwithstanding the foregoing, an underlying security will not be selected unless:

- i. There are a minimum of seven (7) million shares of the underlying security which are owned by persons other than those required to report their stock holdings under Section 16(a) of the Exchange Act.
- ii. There are a minimum of 2,000 holders of the underlying security.
- iii. The issuer is in compliance with any applicable requirements of the Exchange Act or Rules thereunder.
- iv. Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve (12) months.

v. Either:

- 1) If the underlying security is a "covered security" as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous five consecutive business days preceding the date on which the Exchange submits a certificate to the Clearing Corporation for listing and trading, as measured by the closing price reported in the primary market in which the underlying security is traded; or
- 2) If the underlying security is not a "covered security," the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three (3) calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days.

(c) Securities of Restructured Companies

i. Definitions. The following definitions shall apply to the provisions of this paragraph (c):

1) "Restructuring Transaction" refers to a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction.

2) "Restructure Security" refers to an equity security that a company issues, or anticipates issuing, as the result of a Restructuring Transaction of the company.

3) "Original Equity Security" refers to a company's equity security that is issued and outstanding prior to the effective date of a Restructuring Transaction of the company.

4) "Relevant Percentage" refers to either: (i) twenty-five percent (25%), when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; or (ii) thirty-three and one-third percent (33-1/3%), when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

ii. "Share" and "Number of Shareholder" Standards. In determining whether a Restructure Security satisfies the share standard set forth in this Section 3(b)(i) (the "Share Standard") or the number of holders standard set forth in this Section 3(b)(ii) (the "Number of Shareholders Standard"), BX Regulation may rely upon the facts and circumstances that it expects to exist on the option's intended listing date, rather than on the date on which BX Regulation selects for options trading the underlying Restructure Security.

1) BX Regulation may assume that: (i) both the "Share" and "Number of Shareholders" Standards are satisfied if, on the option's intended listing date, BX Regulation expects no fewer than forty (40) million shares of the Restructure Security to be issued and outstanding; and (ii) either such Standard is satisfied if, on the option's intended listing day, BX Regulation expects the Restructure Security to be listed on an exchange or automatic quotation system that has, and is subject to, an initial listing requirement that is no less stringent than the Standard in question.

2) BX Regulation may not rely on any such assumption, however, if a reasonable BX Regulation investigation or that of another exchange demonstrates that either the Share Standard or Number of Shareholders Standard will not in fact be satisfied on an option's intended listing date.

3) In addition, in the case of a Restructuring Transaction in which the shares of a Restructure Security are issued or distributed to the holders of shares of an Original Equity Security, BX Regulation may determine that either the Share Standard or the Number of Shareholders Standard is satisfied based upon BX Regulation's knowledge of the outstanding shares or number of shareholders of the Original Equity Security.

iii. "Trading Volume" Standard. In determining whether a Restructure Security that is issued or distributed to the holders of shares of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies the trading volume standard set forth in Section 3(b)(iv) (the "Trading Volume Standard"), BX Regulation may consider the trading volume history of the Original Equity Security prior to the "ex-date" of the Restructuring Transaction if the

Restructure Security satisfies the "Substantiality Test" set forth in subparagraph (v) below.

iv. "Market Price" Standard. In determining whether a Restructure Security satisfies the market price history standard set forth in Section 3(b)(v) (the "Market Price Standard"), BX Regulation may consider the market price history of the Original Equity Security prior to the "ex-date" of the Restructuring Transaction if:

- 1) the Restructure Security satisfies the "Substantiality Test" set forth in subparagraph (v) below; and
- 2) in the case of the application of the Market Price Standard to a Restructure Security that is distributed pursuant to a public offering or a rights distribution: (i) the Restructure Security trades "regular way" on an exchange or automatic quotation system for at least the five trading days immediately preceding the date of selection; and (ii) at the close of trading on each trading day on which the Restructure Security trades "regular way" prior to the date of selection, and the opening of trading on the date of selection, the market price of the Restructure Security was at least \$7.50, or, if the Restructure Security is a "covered security," as defined in Section 3(b)(v)(1), the market price of the Restructure Security was at least \$3.00.

v. The "Substantiality Test." A Restructure Security satisfies the "Substantiality Test" if:

- 1) the Restructure Security has an aggregate market value of at least \$500 million; or
- 2) at least one of the following conditions is met:
 - (a) the aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage of the aggregate market value of the Original Equity Security;
 - (b) the aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or
 - (c) the revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.

vi. A Restructure Security's aggregate market value may be determined from "when issued" prices, if available.

vii. In calculating comparative aggregate market values for the purpose of assessing whether a Restructure Security qualifies to underlie an option, BX Regulation shall use the Restructure Security's closing price on its primary market on the last business day prior to the selection date or the Restructure Security's opening price on its primary market on the selection date and shall use the corresponding closing or opening price of the related Original Equity Security.

viii. In calculating comparative asset values and revenues, BX Regulation shall use either: (a) the issuer's

latest annual financial statements or (b) the issuer's most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.

ix. Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, BX Regulation may not rely upon the trading volume or market price history of an Original Equity Security as Paragraph (c) of this Section 3 permits for any trading day unless it relies upon both of those measures for that trading day.

x. Once BX Regulation commences to rely upon a Restructure Security's trading volume and market price history for any trading day, BX Regulation may not rely upon the trading volume and market price history of the security's related Original Equity Security for any trading day thereafter.

xi. "When Issued" Trading Prohibited. BX Regulation shall not list for trading options contracts that overlie a Restructure Security that is not yet issued and outstanding, regardless of whether the Restructure Security is trading on a "when issued" basis or on another basis that is contingent upon the issuance or distribution of shares.

(d) In considering underlying securities, BX Regulation shall ordinarily rely upon information made publicly available by the issuer and/or the markets in which the security is traded.

(e) The word "security" shall be broadly interpreted to mean any equity security, as defined in Rule 3a11-1 under the Exchange Act, which is appropriate for options trading, and the word "shares" shall mean the unit of trading of such security.

(f) Securities deemed appropriate for options trading shall include nonconvertible preferred stock issues and American Depositary Receipts ("ADRs") if they meet the criteria and standards set forth in this Section 3 and if, in the case of ADRs:

i. BX Regulation has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or

ii. the combined trading volume of the ADR and other related ADRs and securities (as defined below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share equivalent basis) at least fifty percent (50%) of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (together "other related ADRs and securities") over the three month period preceding the date of selection of the ADR for options trading; or

iii.

1) the combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market and in markets where BX Regulation has in place an effective surveillance sharing

agreement, represents (on a share equivalent basis) at least twenty percent (20%) of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three month period preceding the date of selection of the ADR for options trading.

2) the average daily trading volume for the security in the U.S. markets over the three (3) months preceding the selection of the ADR for options trading is 100,000 or more shares, and

3) the trading volume is at least 60,000 shares per day in U.S. markets on a majority of the trading days for the three (3) months preceding the date of selection of the ADR for options trading ("Daily Trading Volume Standard"); or

iv. the SEC otherwise authorizes the listing.

(g) Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries ("International Funds") if they meet the criteria and standards set forth in this Section 3 and either:

i. BX Regulation has a market information sharing agreement with the primary home exchange for each of the securities held by the fund, or

ii. the International Fund is classified as a diversified fund as that term is defined by Section 5(b) of the Investment Company Act of 1940, as amended, and the securities held by the fund are issued by issuers based in five (5) or more countries.

(h) A "market information sharing agreement" for purposes of this Section is an agreement that would permit BX Regulation to obtain trading information relating to the securities held by the fund including the identity of the Participant of the foreign exchange executing a trade. International Fund shares not meeting the criteria of paragraph (i) shall be deemed appropriate for options trading if the SEC specifically authorizes the listing thereof.

(i) Securities deemed appropriate for options trading shall include shares or other securities ("Fund Shares"), including but not limited to Partnership Units as defined in this Section 3, that are principally traded on a national securities exchange and are defined as an "NMS stock" under Rule 600 of Regulation NMS, and that (i) represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities, and that hold portfolios of securities comprising or otherwise based on or representing investments in indexes or portfolios of securities (or that hold securities in one or more other registered investment companies that themselves hold such portfolios of securities) ("Funds ") and/or financial instruments including, but not limited to, stock index futures contracts, options on futures, options on securities and indexes, equity caps, collars and floors, swap agreements, forward contracts, repurchase agreements and reverse repurchase agreements (the "Financial Instruments"), and money market instruments, including, but not limited to, U.S. government securities and repurchase agreements (the "Money Market Instruments") constituting or

otherwise based on or representing an investment in an index or portfolio of securities and/or Financial Instruments and Money Market Instruments, or (ii) represent commodity pool interests principally engaged, directly or indirectly, in holding and/or managing portfolios or baskets of securities, commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and /or non-U.S. currency ("Commodity Pool ETFs") or (iii) represent interests in a trust or similar entity that holds a specified non- U.S. currency or currencies deposited with the trust or similar entity when aggregated in some specified minimum number may be surrendered to the trust by the beneficial owner to receive the specified non-U.S. currency or currencies and pays the beneficial owner interest and other distributions on the deposited non-U.S. currency or currencies, if any, declared and paid by the trust ("Currency Trust Shares"), or (iv) represent interests in the SPDR Gold Trust or are issued by the iShares COMEX Gold Trust or iShares Silver Trust or, ETFS Gold Trust ("SGOL"); provided that all of the following conditions are met:

i. any non-U.S. component stocks of 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;

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; and

iv. the Fund Shares either (1) meet the criteria and standards set forth in paragraphs (a) and (b) of this Section 3 above; or (2) the Fund Shares are available for creation or redemption each business day in cash or in kind from the investment company, commodity pool or other entity at a price related to net asset value, and the investment company, commodity pool or other entity is obligated to provide that Fund Shares may be created even if some or all of the securities and/or cash required to be deposited have not been received by the Fund, the unit investment trust or the management investment company, provided the authorized creation participant has undertaken to deliver the securities and/or cash as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the Fund, all as described in the Fund's or unit trust's prospectus.

v. For Commodity Pool ETFs that engage in holding and/or managing portfolios or baskets commodity futures contracts, options on commodity futures contracts, swaps, forward contracts, options on physical commodities, options on non-U.S. currency and/or securities, the Exchange has entered into a comprehensive surveillance sharing agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in such commodity futures contracts and/or options on commodity futures contracts on the specified commodities or non-U.S. currency, which are utilized by the national securities exchange where the underlying Commodity Pool ETFs are listed and traded.

vi. For Currency Trust Shares, the Exchange has entered into a comprehensive surveillance sharing

agreement with the marketplace or marketplaces with last sale reporting that represent(s) the highest volume in derivatives (options or futures) on the specified non-U.S. currency, which are utilized by the national securities exchange where the underlying Currency Trust Shares are listed and traded.

(j) Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") 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 ownership of the specific deposited securities held by a trust, provided:

i. the Trust Issued Receipts (1) meet the criteria and standards for underlying securities set forth in paragraph (b) to this Rule; or (2) must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and

ii. not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.

(k) Notwithstanding the requirements set forth in Paragraphs (b)(i), (b)(ii), (b)(iv), and (b)(v) above, options may be listed for trading on BX Options if:

(i) the underlying security meets the guidelines for continued listing in Chapter IV, Section 4; and

(ii) options on such underlying security are listed and traded on at least one other national securities exchange.

BX shall employ the same procedures to qualify underlying securities pursuant to this subsection (k) as it employs in qualifying underlying securities pursuant to other subsections of this Section 3.

(l) Index-Linked Securities

i. Securities deemed appropriate for options trading shall include shares or other securities ("Equity Index-Linked Securities," "Commodity-Linked Securities," "Currency-Linked Securities," "Fixed Income Index-Linked Securities," "Futures-Linked Securities," and "Multifactor Index-Linked Securities," collectively known as "Index- Linked Securities") that are principally traded on a national securities exchange and an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934), and represent ownership of a security that provides for the payment at maturity, as described below:

(1) Equity Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an underlying index or indexes of equity securities ("Equity Reference Asset");

(2) Commodity-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more physical commodities or commodity futures, options on commodities, or other commodity derivatives or Commodity-Based Trust Shares or a basket or index of any of the foregoing ("Commodity Reference

Asset");

(3) Currency-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more currencies, or options on currencies or currency futures or other currency derivatives or Currency Trust Shares (as defined in this Section 3(i)), or a basket or index of any of the foregoing ("Currency Reference Asset");

(4) Fixed Income Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of one or more notes, bonds, debentures or evidence of indebtedness that include, but are not limited to, U.S. Department of Treasury securities ("Treasury Securities"), government-sponsored entity securities ("GSE Securities"), municipal securities, trust preferred securities, supranational debt and debt of a foreign country or a subdivision thereof or a basket or index of any of the foregoing ("Fixed Income Reference Asset");

(5) Futures-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of an index or indexes of futures contracts or options or derivatives on futures contracts ("Futures Reference Asset"); and

(6) Multifactor Index-Linked Securities are securities that provide for the payment at maturity of a cash amount based on the performance or the leveraged (multiple or inverse) performance of any combination of two or more Equity Reference Assets, Commodity Reference Assets, Currency Reference Assets, Fixed Income Reference Assets, or Futures Reference Assets ("Multifactor Reference Asset");

ii. For purposes of paragraph (1) of this Section 3, Equity Reference Assets, Commodity Reference Asset, Currency Reference Assets, Fixed Income Reference Assets, Futures Reference Assets together with Multifactor Reference Assets, collectively will be referred to as "Reference Assets."

iii. (1) The Index-Linked Securities must meet the criteria and guidelines for underlying securities set forth in subsection (b) of this Section 3; or

(2) the Index-Linked Securities must be redeemable at the option of the holder at least on a weekly basis through the issuer at a price related to the applicable underlying Reference Asset. In addition, the issuing company is obligated to issue or repurchase the securities in aggregation units for cash, or cash equivalents, satisfactory to the issuer of Index-Linked Securities which underlie the option as described in the Index-Linked Securities prospectus.

iv. BX Regulation will implement surveillance procedures for options on Index-Linked Securities, including adequate comprehensive surveillance sharing agreements with markets trading in non-U.S. components, as applicable.

(m) "Partnership Unit" means a security (a) that is issued by a partnership that invests in any combination of futures contracts, options on futures contracts, forward contracts, commodities (as defined in Section 1(a)(4) of the Commodity Exchange Act) and/or securities; and (b) that is issued and redeemed daily in

specified aggregate amounts at net asset value

Sec. 4 Withdrawal of Approval of Underlying Securities

(a) If put or call options contracts with respect to an underlying security are approved for listing and trading on BX Options, such approval shall continue in effect until such approval is affirmatively withdrawn by BX Regulation. Whenever BX Regulation determines that an underlying security previously approved for BX Options Transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, BX will not open for trading any additional series of options of the class covering that underlying security and shall prohibit any opening purchase transactions in series of options of that class previously opened to the extent it deems such action necessary or appropriate; provided, however, that where exceptional circumstances have caused an underlying security not to comply with BX's current approval maintenance requirements, regarding number of publicly held shares of publicly held principal amount, number of shareholders, trading volume or market price BX may, in the interest of maintaining a fair and orderly market or for the protection of investors, determine to continue to open additional series of option contracts of the class covering that underlying security.

(b) An underlying security will not be deemed to meet BX Regulation's requirements for continued approval whenever any of the following occur:

i. There are fewer than 6,300,000 shares of the underlying security held by persons other than those who are required to report their security holdings under Section 16(a) of the Exchange Act.

ii. There are fewer than 1,600 holders of the underlying security.

iii. The trading volume (in all markets in which the underlying security is traded) has been less than 1,800,000 shares in the preceding twelve (12) months.

iv. Reserved.

v. The underlying security ceases to be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act.

vi. If an underlying security is approved for options listing and trading under the provisions of Section 3 of this Chapter IV (Criteria for Underlying Securities), the trading volume of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including "when-issued" trading, may be taken into account in determining whether the trading volume requirement of (iii) of this paragraph (b) is satisfied.

(c) Reserved.

(d) In considering whether any of the events specified in paragraph (b) of this Section 4 have occurred with respect to an underlying security, BX Regulation shall ordinarily rely on information made publicly

available by the issuer and/or the markets in which such security is traded.

(e) If prior to the delisting of a class of options contracts covering an underlying security that has been found not to meet BX Regulation's requirements for continued approval, BX Regulation determines that the underlying security again meets BX Regulation's requirements, BX may open for trading additional series of options of that class and may lift any restriction on opening purchase transactions imposed by this Section 4.

(f) Whenever BX Regulation announces that approval of an underlying security has been withdrawn for any reason or that BX Regulation has been informed that the issuer of an underlying security has ceased to be in compliance with SEC reporting requirements, each Participant shall, prior to effecting any transaction in options contracts with respect to such underlying security for a Customer, inform such Customer of such fact and of the fact that BX Regulation may prohibit further transactions in such options contracts to the extent it shall deem such action necessary and appropriate.

(g) If an ADR was initially deemed appropriate for options trading on the grounds that fifty percent (50%) or more of the worldwide trading volume (on a share-equivalent basis) in the ADR and other related ADRs and securities takes place in U.S. markets or in markets with which BX Regulation has in place an effective surveillance sharing agreement, or if an ADR was initially deemed appropriate for options trading based on the daily trading volume standard in Section 3 of this Chapter IV (Criteria for Underlying Securities), BX may not open for trading additional series of options on the ADR unless:

i. The percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which BX Regulation has in place effective surveillance sharing agreements for any consecutive three (3) month period is either: (1) at least thirty percent (30%) without regard to the average daily trading volume in the ADR, or (2) at least fifteen percent (15%) when the average U.S. daily trading volume in the ADR for the previous three (3) months is at least 70,000 shares; or

ii. BX Regulation then has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or

iii. the SEC has otherwise authorized the listing thereof.

(h) Fund Shares approved for options trading pursuant to Section 3 of this Chapter IV will not be deemed to meet the requirements for continued approval, and BX shall not open for trading any additional series of option contracts of the class covering such Fund Shares if the security is delisted from trading as provided in subparagraph (b)(v) of this Section. In addition, BX Regulation shall consider the suspension of opening transactions in any series of options of the class covering Fund Shares in any of the following circumstances:

i. In the case of options covering Fund Shares approved pursuant to Section 3(i)(iv)(1), in accordance with the terms of subparagraphs (b)(i), (ii) and (iii) of this Section 4;

ii. In the case of options covering Fund Shares approved pursuant to Section 3(i)(iv)(2) of this Chapter IV, following the initial twelve-month period beginning upon the commencement of trading in the Fund Shares on a national securities exchange and are defined as NMS stock under Rule 600 of Regulation NMS, there were fewer than 50 record and/or beneficial holders of such Fund Shares for 30 consecutive days;

iii. the value of the index, non-U.S. currency, portfolio of commodities including commodity futures contracts, options on commodity futures contracts, swaps, forward contracts and/or options on physical commodities and/or Financial Instruments or Money Market Instruments, or portfolio of securities on which the Fund Shares are based is no longer calculated or available; or

iv. such other event occurs or condition exists that in the opinion of BX Regulation makes further dealing in such options on BX Options inadvisable.

(i) Securities initially approved for options trading pursuant to paragraph (j) of Section 3 of this Chapter IV (such securities are defined and referred to in that paragraph as "Trust Issued Receipts") shall not be deemed to meet BX Regulation's requirements for continued approval, and BX shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market securities through the facilities of a national securities association. In addition, BX Regulation shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

i. in accordance with the terms of paragraph (b) of this Section 4 in the case of options covering Trust Issued Receipts when such options were approved pursuant to subparagraph (j)(i)(1) under Section 3 of this Chapter IV;

ii. upon annual review, the Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 consecutive days;

iii. the Trust has fewer than 50,000 receipts issued and outstanding;

iv. the market value of all receipts issued and outstanding is less than \$1,000,000; or

v. such other event shall occur or condition exist that in the opinion of BX Regulation makes further dealing in such options on BX Options inadvisable.

(j) For Trust Issued Receipts approved for options trading pursuant to paragraph (j) of Section 3 of this Chapter IV that are also Holding Company Depositary Receipts ("HOLDRs"), BX will not open additional series of options overlying HOLDRs (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or (2) less than 80% of the total

number of securities held in a HOLDRs trust underlie standardized equity options.

(k) Index Linked Securities

Absent exceptional circumstances, Index-Linked Securities ("Securities") initially approved for options trading pursuant to paragraph (l) of Chapter IV, Section 3 shall not be deemed to meet BX's requirements for continued approval, and BX shall not open for trading any additional series or option contracts of the class covering such Securities whenever the underlying Securities are delisted and trading in the Securities is suspended on a national securities exchange, or the Securities are no longer an "NMS Stock" (as defined in Rule 600 of Regulation NMS under the Securities Exchange Act of 1934). In addition, BX shall consider the suspension of opening transactions in any series of options of the class covering Index-Linked Securities in any of the following circumstances:

- i. The underlying Index-Linked Security fails to comply with the terms of paragraph (l) of Chapter IV, Section 3;
- ii. In accordance with the terms of paragraph (b) of this Section 4, in the case of options covering Index-Linked Securities when such options were approved pursuant to paragraph (l) of Chapter IV, Section 3, except that, in the case of options covering Index- Linked Securities approved pursuant to paragraph (l)(iii)(2) of Chapter IV, Section 3 that are redeemable at the option of the holder at least on a weekly basis, then option contracts of the class covering such Securities may only continue to be open for trading as long as the Securities are listed on a national securities exchange and are "NMS" stock as defined in Rule 600 of Regulation NMS;
- iii. In the case of any Index-Linked Security trading pursuant to paragraph (l) of Chapter IV, Section 3, the value of the Reference Asset is no longer calculated; or
- iv. Such other event shall occur or condition exist that in the opinion of BX Regulation make further dealing in such options on BX inadvisable.

(l) Inadequate Volume Delisting.

Absent exceptional circumstances, a security initially approved for options trading may be deemed by BX not to meet the requirements for continued approval, in which case BX will not open for trading any additional series of equity option contracts of the class of options and may determine to delist the class of options if it meets the following criteria:

- i. The option has been trading on BX Options not less than six (6) months; and
- ii. BX Options average daily volume ("ADV") of the entire class of options over the last six (6) month period was less than twenty (20) contracts.

If the option is singly listed only on BX Options, BX will cease to add new series and may delist the class of options when there is no remaining open interest;

Should BX determine to delist an equity option pursuant to this subsection (l), it will provide notification of the determination to delist such option not less than three (3) days prior to the scheduled delisting date.

(m) If an option series is listed but restricted to closing transactions on another national securities exchange, the Exchange may list such series (even if such series would not otherwise be eligible for listing under the Exchange's rules), which shall also be restricted to closing transactions on the Exchange.

Sec. 5

Reserved.

Sec. 6 Series of Options Contracts Open for Trading

(a) After a particular class of options has been approved for listing and trading on BX Options by BX Regulation, BX from time to time may open for trading series of options in that class. Only options contracts in series of options currently open for trading may be purchased or written on BX Options. Prior to the opening of trading in a given series, BX will fix the expiration month, year and exercise price of that series. For Quarterly Options Series, the Exchange will fix a specific expiration date and exercise price, as provided in Supplementary Material .04.

(b) At the commencement of trading on BX Options of a particular class of options, BX Options will open a minimum of one (1) series of options in that class. The exercise price of the series will be fixed at a price per share, relative to the underlying stock price in the primary market at about the time that class of options is first opened for trading on BX Options.

(c) Additional series of options of the same class may be opened for trading on BX Options when BX deems it necessary to maintain an orderly market, to meet Customer demand or when the market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. New series of options on an individual stock may be added until the beginning of the month in which the options contract will expire. Due to unusual market conditions, BX, in its discretion, may add a new series of options on an individual stock until five (5) business days prior to expiration.

(d) The interval between strike prices of series of options on individual stocks will be:

i. \$2.50 or greater where the strike price is \$25.00 or less;

ii. \$5.00 or greater where the strike price is greater than \$25.00; and

iii. \$10.00 or greater where the strike price is greater than \$200.00, except as provided in (d)(v).

iv. The interval between strike prices of series of options on Fund Shares approved for options trading pursuant to Section 3 (i) of this Chapter IV shall be fixed at a price per share which is reasonably close to the price per share at which the underlying security is traded in the primary market at or about the same

time such series of options is first open for trading on BX Options, or at such intervals as may have been established on another options exchange prior to the initiation of trading on BX Options.

v. BX may list series in intervals of \$5 or greater where the strike price is more than \$200 in up to five (5) option classes on individual stocks or on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$5 Strike Price Program under their respective rules.

(e) BX will open at least one expiration month for each class of options open for trading on BX Options.

(f) The interval of strike prices may be \$2.50 in any multiply-traded option class to the extent permitted on BX Options by the Securities and Exchange Commission or once another exchange trading that option lists strike prices of \$2.50 on such options class.

(g) New series of equity options, options on Exchange Traded Funds, and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in Supplementary Material .01 to this Section 6.

Supplementary Material to Section 6

.01 (a) The interval between strike prices of series of options on individual stocks may be \$2.50 or greater where the strike price is \$25 or less, provided however, that BX Options may not list \$2.50 intervals below \$50 (e.g. \$12.50, \$17.50) for any class included within the \$1 Strike Price Program, as detailed below in Supplementary Material .02.

(b) For series of options on Exchange-Traded Fund Shares that satisfy the criteria set forth in Chapter IV, Section 3(i) of these Rules, the interval of strike prices may be \$1 or greater where the strike price is \$200 or less or \$5 or greater where the strike price is over \$200.

(i) \$0.50 and \$1 Intervals for Options Used to Calculate Volatility Indexes. Notwithstanding the provisions of this Rule, the Exchange may open for trading series at \$0.50 or greater strike price intervals where the strike price is less than \$75 and \$1.00 or greater strike price intervals where the strike price is between \$75 and \$150 for options that are used to calculate a volatility index.

(c) For series of options on Index Linked Securities that satisfy the criteria set forth in Chapter IV, Section 3(l), the interval of strike prices may be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(d) For series of options on Trust Issued Receipts, including Holding Company Depository Receipts (HOLDERS) that satisfy the criteria set forth in Chapter IV, Section 3(j) of these Rules, the interval of strike prices may be \$1 or greater where the strike price is \$200 or less and \$5 or greater where the strike price is more than \$200.

(e) Exceptions to the strike price intervals above are set forth in Supplementary Material to Section 6

below.

.02 \$1 Strike Price Interval Program: The interval between strike prices of series of options on individual stocks may be:

(a) \$1.00 or greater strike price intervals where the strike price is \$50 or less, but not less than \$1. Except as provided in subparagraph (c) below, the listing of \$1 strike price intervals shall be limited to option classes overlying no more than one hundred fifty (150) individual stocks (the "\$1 Strike Program") as specifically designated by BX Options. BX Options may list \$1 strike price intervals on any other option classes if those classes are specifically designated by other national securities exchanges that employ a similar \$1 Strike Program under their respective rules. If a class participates in the \$1 Strike Program, \$2.50 strike price intervals are not permitted between \$1 and \$50 for non-LEAPS and LEAPS.

(b) Initial and Additional Series. To be eligible for inclusion into the \$1 Strike Program, an underlying security must close below \$50 in the primary market on the previous trading day.

After a security is added to the \$1 Strike Program, BX Options may list \$1 strike price intervals from \$1 to \$50 according to the following parameters:

(i) If the price of the underlying stock is equal to or less than \$20, the Exchange may list series with an exercise price up to 100% above and 100% below the price of the underlying stock. However, the foregoing restriction shall not prohibit the listing of at least five (5) strike prices above and below the price of the underlying stock per expiration month in an option class. For example, if the price of the underlying stock is \$2, the Exchange would be permitted to list the following series: \$1, \$2, \$3, \$4, \$5, \$6 and \$7.

(ii) If the price of the underlying stock is greater than \$20, the Exchange may list series with an exercise price up to 50% above and 50% below the price of the underlying security up to \$50.

(iii) For the purpose of adding strikes under the \$1 Strike Program, the "price of the underlying stock" shall be measured in the same way as "the price of the underlying security" is as set forth in .06(a) of Supplemental Material to Section 6.

(iv) No additional series in \$1 strike price intervals may be listed if the underlying stock closes at or above \$50 in its primary market. Additional series in \$1 strike price intervals may not be added until the underlying stock closes again below \$50.

(v) LEAPS. For stocks in the \$1 Strike Program, the Exchange may list one \$1 strike price interval between each standard \$5 strike interval, with the \$1 strike price interval being \$2 above the standard strike for each interval above the price of the underlying stock, and \$2 below the standard strike for each interval below the price of the underlying stock ("\$2 wings"). For example, if the price of the underlying stock is \$24.50, the Exchange may list the following standard strikes in \$5 intervals: \$15, \$20, \$25, \$30 and \$35. Between these standard \$5 strikes, the Exchange may list the following \$2 wings: \$18, \$27 and \$32. In addition, the Exchange may list the \$1 strike price interval which is \$2 above the standard strike

just below the underlying price at the time of listing. In the above example, since the standard strike just below the underlying price (\$24.50) is \$20, the Exchange may list a \$22 strike. The Exchange may add additional long-term options series strikes as the price of the underlying stock moves, consistent with the OLPP.

Additional long-term option strikes may not be listed within \$1 of an existing strike until less than nine months to expiration.

A security shall remain in the \$1 Strike Program until otherwise designated by BX Options.

(c) The Exchange may list \$1 strike prices up to \$5 in any series having greater than nine (9) months until expiration (LEAPS(R)) in up to 200 option classes on individual stocks. The Exchange may not list \$1 strike price intervals within \$0.50 on an existing \$2.50 strike price in the same expiration, except that strike prices of \$2 and \$3 shall be permitted within \$0.50 of a \$2.50 strike price for classes also selected to participate in the \$0.50 Strike Program.

(d) Delisting Policy. For options classes selected to participate in the \$1 Strike Program, the Exchange will, on a monthly basis, review series that were originally listed under the \$1 Strike Program with strike prices that are more than \$5 from the current value of an options class and delist those series with no open interest in both the put and the call series having a: (i) strike higher than the highest strike price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or call series for a given expiration month. If the Exchange identifies series for delisting pursuant to this policy, the Exchange shall notify other options exchanges with similar delisting policies regarding the eligible series for delisting, and shall work jointly with such other exchanges to develop a uniform list of series to be delisted so as to ensure uniform series delisting of multiply listed options classes.

Notwithstanding the above delisting policy, the Exchange may grant member requests to add strikes and/or maintain strikes in series of options classes traded pursuant to the \$1 Strike Program that are eligible for delisting.

.03

(a) BX Options may select up to 60 options classes on individual stocks 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 BX Options, the strike price interval may be \$2.50 in any multiply-traded option once another exchange trading that option selects such option, as part of this program.

(b) In addition, on any option class that has been selected as part of the \$2.50 Strike Price Program pursuant to paragraph (a) above, the Exchange may list \$2.50 strike prices between \$50 and \$100, provided the \$2.50 strike prices between \$50 and \$100 are no more than \$10 from the closing price of the underlying stock in its primary market on the preceding day. For example, if an option class has been selected as part of \$2.50 Strike Price Program, and the underlying stock closes at \$48.50 in its primary

market, the Exchange may list the \$52.50 strike price and the \$57.50 strike price on the next business day. If an underlying security closes at \$54, the Exchange may list the \$52.50 strike price, the \$57.50 strike price, and the \$62.50 strike price on the next business day.

(c) An option class shall remain in the \$2.50 Strike Price Program until otherwise designated by the Exchange and a decertification notice is sent to the Options Clearing Corporation.

.04 Quarterly Options Series Program: The Exchange may list and trade P.M. settled 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 ("ETF"). 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 program under their respective rules.

(a) The Exchange may 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.

(b) Initial Series. 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 on the preceding day.

(c) Additional Series. 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 thirty percent (30%) above or below the closing price of the underlying ETF (or "Fund Shares") as defined in Chapter IV, Section 3(i) on the preceding day. The Exchange may also open additional strike prices of Quarterly Options Series in ETF options that are more than 30% above or below the current price of the underlying ETF 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 opening of new Quarterly Options Series shall not affect the series of options of the same class previously opened. In addition to the initial listed series, the Exchange may list up to sixty (60) additional series per expiration month for each Quarterly Options Series in ETF options.

(d) 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.

(e) Reserved.

(f) Delisting Policy. With respect to Quarterly Options Series added pursuant to the above paragraphs, the Exchange will, on a monthly basis review series that are outside of a range of five (5) strikes above and five (5) strikes below the current price of the ETF, and delist series with no open interest in both the call and the put series having a (i) strike higher than the highest price with open interest in the put and/or call series for a given expiration month; and (ii) strike lower than the lowest strike price with open interest in the put and/or the call series for a given expiration month.

Notwithstanding the above referenced delisting policy, customer requests to add strikes and/or maintain strikes in Quarterly Options Series eligible for delisting shall be granted. In connection with the above referenced delisting policy, if the Exchange identifies series for delisting, the Exchange shall notify other option exchanges with similar delisting policies regarding eligible series for delisting, and shall work with such other exchanges to develop a uniform list of series to be delisted, so as to help to ensure uniform delisting of multiply listed Quarterly Options Series in ETF options.

.05 The interval between strike prices of series of options on individual stocks may be \$0.50 or greater beginning at \$.50 where the strike price is \$5.50 or less, but only for options classes whose underlying security closed at or below \$5.00 in its primary market on the previous trading day and which have national average daily volume that equals or exceeds 1000 contracts per day as determined by The Options Clearing Corporation during the preceding three calendar months. The listing of \$0.50 strike prices shall be limited to options classes overlying no more than 20 individual stocks (the "\$0.50 Strike Program") as specifically designated by BX Options. BX Options may list \$0.50 strike prices on any other option classes if those classes are specifically designated by other securities exchanges that employ a similar \$0.50 Strike Program under their respective rules. A stock shall remain in the \$0.50 Strike Program until otherwise designated by BX Options.

.06 Range Limitations for New Option Series: Range Limitations applicable to equity options, options on Exchange Traded Funds, and options on Trust Issued Receipts opened for trading are adopted by the Exchange to codify a quote mitigation strategy in the Options Listing Procedures Plan ("OLPP").

(a) Except as provided in subparagraphs (b) through (d) below, if the price of the underlying security is less than or equal to \$20, the Exchange shall not list new option series with an exercise price more than 100% above or below the price of the underlying security. However, the foregoing restriction shall not prohibit the listing of at least three exercise prices per expiration month in an option class. If the price of the underlying security is greater than \$20, the Exchange shall not list new option series with an exercise price more than 50% above or below the price of the underlying security.

The price of the underlying security is measured by:

(i) for intra-day add-on series and next-day series additions, the daily high and low of all prices reported by all national securities exchanges;

(ii) for new expiration months, the daily high and low of all prices reported by all national securities exchanges on the day the Exchange determines to list a new series; and

(iii) for option series to be added as a result of pre-market trading, the most recent share price reported by all national securities exchanges between 8:45 a.m. and 9:30 a.m. Eastern Time

(b) The series exercise price range limitations contained in subparagraph (a) above do not apply with regard to:

(i) the listing of \$1 strike prices in option classes participating in the \$1 Strike Program.

(c) The Exchange may designate up to five option classes to which the series exercise price range may be up to 100% above and below the price of the underlying security (which underlying security price shall be determined in accordance with subparagraph (i) above). Such designations shall be made on an annual basis and shall not be removed during the calendar year unless the option class is delisted by the Exchange, in which case the Exchange may designate another option class to replace the delisted class. If a designated option class is delisted by the Exchange but continues to trade on at least one options exchange, the option class shall be subject to the limitations on listing new series set forth in this Supplementary Material .06 unless designated by another exchange.

(d) If the Exchange has designated five option classes pursuant to subparagraph (c) above, and requests that one or more additional option classes be excepted from the limitations on listing new series set forth in subparagraph (a) above, the additional option class(es) may so be designated upon the unanimous consent of all exchanges that trade such option class(es). Additionally, the Exchange may increase the percentage range for the listing of new series to more than 100% above and below the price of the underlying security for an option class, upon the unanimous consent of all exchanges that trade such option class(es).

Exceptions for an additional class or for an increase of the exercise price range shall apply to all standard expiration months existing at the time of the unanimous consent, plus the next standard expiration month to be added, and also to any nonstandard expirations that occur prior to the next standard monthly expiration.

(e) The Exchange can list an options series that is listed by another options exchange, provided that at the time such series was listed it was not prohibited under the provisions of the OLPP or the rules of the exchange that initially listed the series.

.07 Short Term Option Series: After an option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire on the Friday of the following business week that is a business day ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(a) The Exchange may select up to thirty (30) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the thirty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to twenty (20) Short Term Option Series for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(b) No Short Term Option Series may expire in the same week in which monthly option series on the same class expire or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same class.

(c) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the value of the underlying security at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security). Any strike prices listed by the Exchange shall be within thirty percent (30%) above or below the closing price of the underlying security from the preceding day.

(d) If the Exchange opens less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series 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 exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current price of the underlying security. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current price of the underlying security 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 opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(e) The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same option class that expire in accordance with the normal monthly expiration cycle.

Sec. 7 Adjustments

Options contracts shall be subject to adjustments in accordance with the Rules of the Clearing Corporation. BX will announce adjustments, and such changes will be effective for all subsequent transactions in that series at the time specified in the announcement.

Sec. 8 Long-Term Options Contracts

(a) Notwithstanding conflicting language in Section 6 of this Chapter IV (Series of Options Contracts Open for Trading), BX may list long-term options contracts that expire from twelve (12) to thirty-nine (39) months from the time they are listed. There may be up to six (6) additional expiration months. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine (9) months.

(b) After a new long-term options contract series is listed, such series will be opened for trading either when there is buying or selling interest, or forty (40) minutes prior to the close, whichever occurs first. No quotations will be posted for such options series until they are opened for trading.

Chapter V Regulation of Trading on BX Options

Sec. 1 Access to and Conduct on BX Options

(a) Access to BX Options. Unless otherwise provided in the Rules, no one but a Participant or a person associated with a Participant shall effect any BX Options Transactions.

(b) BX Options Conduct. Participants and persons employed by or associated with any Participant, while using the facilities of BX Options, shall not engage in conduct: (i) inconsistent with the maintenance of a fair and orderly market; (ii) apt to impair public confidence in the operations of the Exchange; or (iii) inconsistent with the ordinary and efficient conduct of business. Activities that shall violate the provisions of this paragraph (b) include, but are not limited to, the following:

i. failure of a Market Maker to provide quotations in accordance with Chapter VII, Section 6 of these Rules;

ii. failure of a Market Maker to bid or offer within the ranges specified by Chapter VII, Section 5 of these Rules;

iii. failure of a Participant to supervise a person employed by or associated with such Participant adequately to ensure that person's compliance with this paragraph (b).

iv. failure to maintain adequate procedures and controls that permit the Options Participant to effectively monitor and supervise the entry of orders by users to prevent the prohibited practices set forth in this paragraph (b) and Chapter III, Section 2 of these Rules;

v. failure to abide by a determination of BX Regulation;

vi. effecting transactions that are manipulative as provided in Rule 2110, 2111, 2120 or any other rule of the Exchange;

vii. refusal to provide information requested by BX Regulation; and

viii. failure to abide by the provisions of the sections of this Chapter V related to limitations on orders.

(c) Subject to the Rules, BX Options will provide access to the Trading System to Options Participants in good standing that wish to conduct business on BX Options.

(d) Pursuant to the Rules and the arrangements referred to in this Chapter V, BX Regulation may:

i. suspend an Options Participant's access to the Trading System following a warning which may be made in writing or verbally (and subsequently confirmed in writing); or

ii. terminate an Options Participant's access to the Trading System by notice in writing.

Sec. 2 MarketWatch

Personnel from MarketWatch, a unit of BX Regulation, shall monitor and surveil options trading on BX Options in order to ensure the maintenance of a fair and orderly market.

Sec. 3 Trading Halts

(a) Halts. BX Regulation may halt trading in any option contract in the interests of a fair and orderly market. The following are among the factors that shall be considered in determining whether the trading in an option contract should be halted:

i. trading in the underlying security has been halted or suspended in the primary market.

ii. the opening of such underlying security has been delayed because of unusual circumstances.

iii. occurrence of an act of God or other event outside BX Options 's control;

iv. a Trading System technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of Options Participant trading applications, or the electrical power supply to the system itself or any related system; or;

v. other unusual conditions or circumstances are present.

vi. Trading Pauses. Trading on the Exchange in any option contract shall be halted whenever trading in the underlying security has been paused by the primary listing market.

(A) Trading in such options contracts may be resumed upon a determination by the Exchange that the conditions that led to the pause are no longer present and that the interests of a fair and orderly market are best served by a resumption of trading, which in no circumstances will be before the Exchange has received notification that the underlying security has resumed trading on at least one exchange. If, however, trading has not been resumed on the primary listing market for the underlying security after ten minutes have passed since the underlying security was paused by the primary listing market, trading in such options contracts may be resumed by the Exchange if the underlying security has resumed trading on at least one exchange.

(B) During the halt, the Exchange will maintain existing orders on the book, accept orders, and process

cancels, except that Market Maker interest entered pursuant to the obligations contained in Chapter VII, Section 5 is not maintained.

(b) In the event BX Regulation determines to halt trading, all trading in the effected class or classes of options shall be halted. BX Options shall disseminate through its trading facilities and over OPRA a symbol with respect to such class or classes of options indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

(c) No Options Participant or person associated with a Participant shall effect a trade on BX Options in any options class in which trading has been halted under the provisions of this Section 3 during the time in which the halt remains in effect.

Sec. 4 Resumption of Trading After a Halt

Trading in an option that has been the subject of a halt under Section 3 of this Chapter V shall be resumed upon the determination by BX Regulation, that the conditions which 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. Trading shall resume according to the process set forth in Chapter VI, Section 8 of these rules.

Sec. 5 Unusual Market Conditions

(a) BX Options staff may determine that the level of trading activities or the existence of unusual market conditions is such that BX Options is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on BX Options. Upon making such a determination, BX Regulation shall designate the market in such option to be "fast." When a market for an option is declared fast, BX Regulation will provide notice that BX Options quotations are not firm by appending an appropriate indicator to the BX Options quotations.

(b) If a market is declared fast, BX Regulation shall have the power to do one or more of the following with respect to the class or classes involved:

i. Suspend the minimum size requirement as permitted under Chapter VII, Section 6 (Market Maker Quotations) of these Rules.

ii. Take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(c) BX Regulation will monitor the activity or conditions that caused a fast market to be declared, and shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed when BX Options determines that the conditions supporting a fast market declaration no longer exist. BX Regulation will provide notice that its quotations are once again firm by removing the indicator from the BX Options quotations.

(d) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the

procedures contained in this Section 6, then BX Regulation, shall instruct BX operations to halt trading in the class or classes so affected.

(e) BX Regulation shall instruct BX operations to halt trading in all options whenever a marketwide trading halt is initiated on the New York Stock Exchange (commonly known as a "circuit breaker") in response to extraordinary market conditions.

Sec. 6 Obvious Errors

(a) BX shall either nullify a transaction or adjust the execution price of a transaction that meets the standards provided in this Section.

(b) Definition of Obvious Error. For purposes of this Section only, an Obvious Error will be deemed to have occurred when:

(i) the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least the amount shown below:

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

(ii) the trade resulted in an execution price in a series that was, and for five seconds prior to the execution remained, quoted no bid and at least one strike price below (for calls) or above (for puts) in the same class were quoted no bid at the time of the erroneous execution (in which case the trade shall be nullified). For purposes of this subparagraph, bids and offers of the parties to the subject trade that are in any of the series in the same options class shall not be considered.

(c) Definition of Theoretical Price. For purposes of this Section only, the Theoretical Price of an option series is,

(i) If the series is traded on at least one other options exchange, the mid-point of the National Best Bid and Offer ("NBBO"), just prior to the transaction; or

(ii) If there are no quotes for comparison purposes, as determined by MarketWatch as defined in Chapter I.

(d) Obvious Error Procedure. If a party believes that it participated in a transaction that was the result of an Obvious Error, it must notify MarketWatch via written or electronic complaint within 20 minutes of the execution. Absent unusual circumstances, BX will not grant relief under this Section unless notification is made within the prescribed periods of time. A designated employee in BX Regulation that is trained in the application of this rule ("BX Official") shall administer the application of this Section.

(i) Procedures for Reviewing Trades on BX Motion. In the interest of maintaining a fair and orderly market for the protection of investors, the Chief Regulatory Officer or designee who is an officer of BX (collectively "BX officer") may, on his or her own motion or upon request, determine to review any transaction occurring on BX that is believed to be erroneous. A transaction reviewed pursuant to this provision may be nullified or adjusted only if it is determined by the BX officer that the transaction is an obvious error as provided in this Chapter V, Section 6. A transaction would be adjusted or nullified in accordance with the provision under which it is deemed an obvious error. The BX officer may be assisted by a designated employee in BX Regulation that is trained in the application of this rule for reviewing a transaction(s).

The BX officer shall act as soon as possible after receiving notification of the transaction, and ordinarily would be expected to act on the same day as the transaction occurred. In no event shall the BX officer act later than 9:30 a.m. (ET) on the next trading day following the date of the transaction in question. A party affected by a determination to nullify or adjust a transaction pursuant to this provision may appeal such determination in accordance with Chapter V, Section 6; however, a determination by a BX officer not to review a transaction, or a determination not to nullify or adjust a transaction for which a review was requested or conducted, is not appealable. If a transaction is reviewed and a determination is rendered pursuant to another provision of Chapter V, Section 6, no additional relief may be granted under this provision.

(e) Adjust or Bust. A BX Official will determine whether there was an Obvious Error as defined above. If it is determined that an Obvious Error has occurred, MarketWatch shall take one of the actions listed below. Upon taking final action, MarketWatch shall promptly notify both parties to the trade electronically or via telephone.

(i) Where each party to the transaction is an Options Participant, the execution price of the transaction will be adjusted by the BX Official to the prices provided in subparagraphs (A) and (B) below unless both parties agree to adjust the transaction to a different price or agree to bust the trade within ten (10) minutes of being notified by MarketWatch of the Obvious Error.

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

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

(ii) Where at least one party to the Obvious Error is not an Options Participant, the trade will be nullified

unless both parties agree to an adjustment price for the transaction within 30 minutes of being notified by MarketWatch of the Obvious Error.

(iii) Trades meeting the Obvious Errors definition in (b)(ii) above shall be nullified.

(iv) Mutual Agreement. The determination as to whether a trade was automatically executed at an erroneous price may be made by mutual agreement of the affected parties to a particular transaction. A trade may be nullified or adjusted on the terms that all parties to a particular transaction agree.

(f) Catastrophic Errors

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

<u>Theoretical Price</u>	<u>Minimum Amount</u>
<u>Below \$2</u>	<u>\$1</u>
<u>\$2 to \$5</u>	<u>\$2</u>
<u>Above \$5 to \$10</u>	<u>\$5</u>
<u>Above \$10 to \$50</u>	<u>\$10</u>
<u>Above \$50 to \$100</u>	<u>\$20</u>
<u>Above \$100</u>	<u>\$30</u>

(ii) Catastrophic Error Procedure. If a party believes that it participated in a transaction that qualifies as a Catastrophic Error, it must notify MarketWatch via a written or electronic complaint by 8:30 am ET, on the first trading day following the execution. For transactions in an expiring options series that take place on an expiration day, a party must notify MarketWatch by 5:00 pm ET that same day.

BX will not grant relief under this Section unless notification is made within the prescribed periods of time. Relief will not be granted if MarketWatch has previously rendered a decision with respect to the transaction in question pursuant to this Section. A BX Official, as defined in paragraph (d) above, shall administer the application of this Section.

(iii) Adjust or Bust. A BX Official will determine whether there was a Catastrophic Error as defined above. If it is determined that a Catastrophic Error has occurred, whether or not each party to the transaction is an Options Participant, MarketWatch shall adjust the execution price of the transaction, unless both parties agree to adjust the transaction to a different price, to the theoretical price (i) plus the adjustment value provided below for erroneous buy transactions, and (ii) minus the adjustment value

provided for erroneous sell transactions:

<u>Theoretical Price</u>	<u>Minimum Amount</u>
<u>Below \$2</u>	<u>\$1</u>
<u>\$2 to \$5</u>	<u>\$2</u>
<u>Above \$5 to \$10</u>	<u>\$3</u>
<u>Above \$10 to \$50</u>	<u>\$5</u>
<u>Above \$50 to \$100</u>	<u>\$7</u>
<u>Above \$100</u>	<u>\$10</u>

Upon taking final action, MarketWatch shall promptly notify both parties to the trade electronically or via telephone.

(g) Review by the Market Operations Review Committee ("MORC")

(i) A party to a transaction affected by a decision made under this section may appeal that decision to the MORC. An appeal must be made in writing, and must be received by BX within thirty (30) minutes after the person making the appeal is given the notification of the determination being appealed. The MORC may review any decision appealed, including whether a complaint was timely, whether an Obvious Error or Catastrophic Error occurred, whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price.

(ii) A MORC panel will be comprised minimally of representatives of one (1) member engaged in Market Making and two (2) industry representatives not engaged in Market Making. At no time should a review panel have more than 50% members engaged in Market Making.

(iii) The MORC, pursuant to the standards set forth in this rule, shall affirm, modify, or reverse the determination.

(iv) The decision of the MORC pursuant to an appeal, or a determination by a BX Official that is not appealed, shall be final and binding upon all parties and shall constitute final BX action on the matter in issue. Any determination by a BX Official or the MORC shall be rendered without prejudice as to the rights of the parties to the transaction to submit their dispute to arbitration.

(v) The party initiating the appeal shall be assessed a \$500.00 fee if the MORC upholds the decision of the BX Official. In addition, in instances where BX, on behalf of an Options Participant, requests a determination by another market center that a transaction is clearly erroneous, BX will pass any resulting charges through to the relevant Options Participant.

Sec. 7 Audit Trail

(a) Order Identification. When entering orders on BX Options, each Options Participant shall submit order information in such form as may be prescribed by BX in order to allow BX Options to properly prioritize and match orders and report resulting transactions to the Clearing Corporation.

(b) An Options Participant must ensure that each options order received from a Customer for execution on BX Options is recorded and time-stamped immediately. The order record must be time-stamped again on execution and also at the time of any modification or cancellation of the order by the Customer. Order records relating to BX Options must contain the following information at a minimum:

i. a unique order identification;

ii. the underlying security;

iii. opening/closing designation;

iv. the identity of the Clearing Participant;

v. Options Participant identification;

vi. Participant Capacity;

vii. identity of the individual/terminal completing the order ticket;

viii. customer identification;

ix. account identification;

x. buy/sell;

xi. contract volume;

xii. contract month;

xiii. exercise price;

xiv. put/call;

xv. price or price limit, price range or strategy price;

xvi. special instructions (e.g., GTC); and

xvii. and such other information as may be required by BX Options.

(c) An Options Participant that employs an electronic system for order routing or order management which complies with BX Options requirements will be deemed to be complying with the requirements of

this Section if the required information is recorded in electronic form rather than in written form.

(d) In addition to any related requirement under applicable securities laws, information recorded pursuant to this Section must be retained by Options Participants for a period of no less than three (3) years after the date of the transaction.

Sec. 8 Failure to Pay Premium

(a) When the Clearing Corporation shall reject a BX Options Transaction because of the failure of the Clearing Participant acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Options Participant acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Participant or to enter into a closing writing transaction in respect of the same options contract that was the subject of the rejected BX Options Transaction for the account of the defaulting Clearing Participant.

(b) Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. EST on the business day following the day the BX Options Transaction was rejected by the Clearing Corporation.

Sec. 9 Limitation of Liability

(a) Except as provided for in Rule 4626, BX Options and its affiliates shall not be liable for any losses, damages, or other claims arising out of the BX Options Trading System or its use. Any losses, damages, or other claims, related to a failure of the BX Options Trading System to deliver, display, transmit, execute, compare, submit for clearance and settlement, adjust, retain priority for, or otherwise correctly process an order, message, or other data entered into, or created by, the BX Options Trading System shall be absorbed by the member, or the member sponsoring the customer, that entered the order, message, or other data into the BX Options Trading System.

Chapter VI Trading Systems

Sec. 1 Definitions

The following definitions apply to Chapter VI for the trading of options listed on BX Options.

(a) The term "System" shall mean the automated system for order execution and trade reporting owned and operated by BX as the BX Options market. The BX Options market comprises:

(1) an order execution service that enables Participants to automatically execute transactions in System Securities; and provides Participants with sufficient monitoring and updating capability to participate in an automated execution environment;

(2) a trade reporting service that submits "locked-in" trades for clearing to a registered clearing agency for clearance and settlement; transmits last-sale reports of transactions automatically to the Options Price Reporting Authority for dissemination to the public and industry; and provides participants with

monitoring and risk management capabilities to facilitate participation in a "locked-in" trading environment;

(3) The following data feeds:

(A) BX Depth of Market (BX Depth) - A data feed that provides quotation information for individual orders on the BX Options book, last sale information for trades executed on BX Options, and Order Imbalance Information as set forth in BX Options Rules Chapter VI, Section 8.

(B) BX Top of Market (BX Top) - A data feed that provides the BX Options Best Bid and Offer and last sale information for trades executed on BX Options.

(b) The term "System Securities" shall mean all options that are currently trading on BX Options pursuant to Chapter IV above. All other options shall be "Non System Securities."

(c) The term "Participant" shall include Options Market Makers and Options Order Entry Firms that are registered to enter orders into the System.

(d) The term "Order" shall mean a single order submitted to the System by a Participant that is eligible to submit such orders.

(e) The term "Order Type" shall mean the unique processing prescribed for designated orders that are eligible for entry into the System, and shall include:

(1) Reserved.

(2) "Limit Orders" are orders to buy or sell an option at a specified price or better. A limit order is marketable when, for a limit order to buy, at the time it is entered into the System, the order is priced at the current inside offer or higher, or for a limit order to sell, at the time it is entered into the System, the order is priced at the inside bid or lower.

(3) "Minimum Quantity Orders" are orders that require that a specified minimum quantity of contracts be obtained, or the order is cancelled. Minimum Quantity Orders are treated as having a time-in-force designation of Immediate or Cancel. Minimum Quantity Orders received prior to the opening cross or after market close will be rejected.

(4) Reserved.

(5) "Market Orders" are orders to buy or sell at the best price available at the time of execution. Participants can designate that their Market Orders not executed after a pre-established period of time, as established by the Exchange, will be cancelled back to the Participant.

(6) "Price Improving Orders" are orders to buy or sell an option at a specified price at an increment smaller than the minimum price variation in the security. Price Improving Orders may be entered in increments as small as one cent. Price Improving Orders that are available for display shall be displayed at

the minimum price variation in that security and shall be rounded up for sell orders and rounded down for buy orders.

(7) Reserved.

(8) "Intermarket Sweep Order" or "ISO" are limit orders that are designated as ISOs in the manner prescribed by BX and are executed within the System by Participants at multiple price levels without respect to Protected Quotations of other Eligible Exchanges as defined in Chapter XII, Section 1. ISOs may have any time-in-force designation, are handled within the System pursuant to Chapter VI, Section 10 and shall not be eligible for routing as set out in Chapter VI, Section 11.

Simultaneously with the routing of an ISO to the System, one or more additional limit orders, as necessary, are routed by the entering party to execute against the full displayed size of any protected bid or offer (as defined in Chapter XII, Section 1) in the case of a limit order to sell or buy with a price that is superior to the limit price of the limit order identified as an intermarket sweep order (as defined in Chapter XII, Section 1). These additional routed orders must be identified as ISOs.

(9) "One-cancels-the-other" shall mean an order entered by a Market Maker that consists of a buy order and a sell order treated as a unit; the full execution of one of the orders causes the other to be canceled.

(10) "All-or-none" shall mean a market or limit order which is to be executed in its entirety or not at all. All-or-None Orders are treated as having a time-in-force designation of Immediate or Cancel. All-or-None Orders received prior to the opening cross or after market close will be rejected.

(11) "Post-Only Orders" are orders that will not remove liquidity from the System. Post- Only Orders are to be ranked and executed on the Exchange or cancelled, as appropriate, without routing away to another market. Post-Only Orders are evaluated at the time of entry with respect to locking or crossing other orders as follows: (i) if a Post-Only Order would lock or cross an order on the System, the order will be re-priced to \$.01 below the current low offer (for bids) or above the current best bid (for offers) and displayed by the System at one minimum price increment below the current low offer (for bids) or above the current best bid (for offers); and (ii) if a Post-Only Order would not lock or cross an order on the System but would lock or cross the NBBO as reflected in the protected quotation of another market center, the order will be handled pursuant to Chapter VI, Section 7(b)(3)(C). Post-Only Orders received prior to the opening cross or after market close will be rejected. Post-Only Orders may not have a time-in-force designation of Good Til Cancelled or Immediate or Cancel.

(f) The term "Order Size" shall mean the number of contracts up to 999,999 associated with the Order.

(g) The term "Time in Force" shall mean the period of time that the System will hold an order for potential execution, and shall include:

(1) Reserved.

(2) "Immediate Or Cancel" or "IOC" shall mean for orders so designated, that if after entry into the

System a marketable order (or unexecuted portion thereof) becomes non-marketable, the order (or unexecuted portion thereof) shall be canceled and returned to the entering participant. IOC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close. IOC Orders entered between the time specified by the Exchange on its website and 9:30 a.m. Eastern Time will be held within the System until 9:30 a.m. at which time the System shall determine whether such orders are marketable. IOC orders can be routed if designated as routable.

(3) "DAY" shall mean for orders so designated, that if after entry into the System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution until market close, unless canceled by the entering party, after which it shall be returned to the entering party. DAY Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(4) "Good Til Cancelled" or "GTC" shall mean for orders so designated, that if after entry into System, the order is not fully executed, the order (or unexecuted portion thereof) shall remain available for potential display and/or execution unless cancelled by the entering party, or until the option expires, whichever comes first. GTC Orders shall be available for entry from the time prior to market open specified by the Exchange on its website until market close and for potential execution from 9:30 a.m. until market close.

(5) "WAIT" shall mean for orders so designated, that upon entry into the System, the order is held for one second without processing for potential display and/or execution. After one second, the order is processed for potential display and/or execution in accordance with all order entry instructions as determined by the entering party.

(h) The term "System Book Feed" shall mean a data feed for System securities.

Sec. 2 Days and Hours of Business

(a) The System operates and shall be available to accept bids and offers and orders from the time prior to market open specified by the Exchange on its website to market close on each business day, unless modified by BX Options. Orders and bids and offers shall be open and available for execution as of 9:30 a.m. Eastern Time and shall close as of 4:00 p.m. Eastern Time except for option contracts on certain fund shares or broad-based indexes which will close as of 4:15 p.m. Eastern Time.

(b) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on individual stocks may be made on BX Options shall correspond to the normal business days and hours for business set forth in the rules of the primary market trading the securities underlying BX Options. Notwithstanding the foregoing, transactions may be effected in options contracts on Fund Shares, as defined in Chapter 4, Section 3(i); and in options contracts on exchange-traded notes including Index-Linked Securities, as defined in Chapter IV, Section 3(l), on BX Options until 4:15 p.m.

(c) BX Options shall not be open for business on any holiday observed by BX.

Sec. 3 Units of Trading

The unit of trading in each series of options traded on BX Options shall be the unit of trading established for that series by the Clearing Corporation pursuant to the Rules of the Clearing Corporation and the agreements of BX with the Clearing Corporation.

Sec. 4 Meaning of Premium Quotes and Orders

(a) General. Except as provided in paragraph (b), orders shall be expressed in terms of dollars per unit of the underlying security. For example, a bid of "5" shall represent a bid of \$500 for an options contract having a unit of trading consisting of 100 shares of an underlying security, or a bid of \$550 for an options contract having a unit of trading consisting of 110 shares of an underlying security.

(b) Special Cases. Orders for an options contract for which BX Options has established an adjusted unit of trading in accordance with Section 4 of this Chapter VI 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. For example, an offer of "3" shall represent an offer of \$300 for an options contract having a unit of trading consisting of 100 shares of an underlying security plus ten (10) rights.

Sec. 5 Minimum Increments

(a) The Board may establish minimum quoting increments for options contracts traded on BX Options. Such minimum increments established by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Section within the meaning of Section 19 of the Exchange Act and will be filed with the SEC as a rule change for effectiveness upon filing. Until such time as the Board makes a change in the increments, the following principles shall apply:

(1) If the options series is trading at less than \$3.00, five (5) cents;

(2) If the options series is trading at \$3.00 or higher, ten (10) cents; and

(3) For a pilot period scheduled to expire on June 30, 2012, if the options series is trading pursuant to the Penny Pilot program one (1) cent if the options series is trading at less than \$3.00, five (5) cents if the options series is trading at \$3.00 or higher, unless for QQQQs, SPY and IWM where the minimum quoting increment will be one cent for all series regardless of price. A list of such options shall be communicated to membership via an Options Trader Alert ("OTA") posted on the Exchange's web site.

(b) The minimum trading increment for options contracts traded on BX Options will be one (1) cent for all series.

Sec. 6 Acceptance of Quotes and Orders

All bids or offers made and accepted on BX Options in accordance with the BX Options Rules shall

constitute binding contracts, subject to applicable requirements of the Rules of the Exchange and the Rules of the Clearing Corporation.

(a) General - A System order is an order that is entered into the System for display and/or execution as appropriate. Such orders are executable against marketable contra-side orders in the System.

(1) All System Orders shall indicate whether they are a call or put and buy or sell and a price, if any. Systems Orders can be designated as Immediate or Cancel ("IOC"), Good-till-Cancelled ("GTC"), Day ("DAY") or WAIT.

(2) A System order may also be designated as a Limit Order, a Minimum Quantity Order, a Market Order, a Price Improving Order, or an All-or-None Order.

(b) Routing - All System orders entered by Participants directing or permitting routing to other market centers shall be routed for potential display and/or execution as set forth in Section 11 below.

(c) Market Order Spread Protection. System Orders that are Market Orders will be rejected if the NBBO is wider than a preset threshold at the time the order is received by the System.

Sec. 7 Entry and Display Orders

(a) Entry of Orders—Participants can enter orders into the System, subject to the following requirements and conditions:

(1) Participants shall be permitted to transmit to the System multiple orders at a single as well as multiple price levels. Each order shall indicate the amount of Reserve Size (if applicable).

(2) The System shall time-stamp an order which shall determine the time ranking of the order for purposes of processing the order.

(3) Orders can be entered into the System (or previously entered orders cancelled) from the time prior to market open specified by the Exchange on its website until market close.

(b) Display of Orders— The System will display orders submitted to the System as follows:

(1) System Book Feed—displayed orders resident in the System available for execution will be displayed via the System Book Feed.

(2) Best Priced Order Display - For each System Security, the aggregate size of all Orders at the best price to buy and sell resident in the System will be transmitted for display to the appropriate network processor.

(3) Exceptions—The following exceptions shall apply to the display parameters set forth in paragraphs (1) and (2) above:

(A) Reserved.

(B) The contract size associated with Displayed Price Improving Orders to buy (sell) are displayed at the MPV below (above) the price of the Price Improving Order. Price Improving Orders will not be permitted to create a locked or crossed market or to cause a trade through violation.

(C) Trade-Through Compliance and Locked or Crossed Markets- An order will not be executed at a price that trades through another market or displayed at a price that would lock or cross another market. An order that is designated by the member as routable will be routed in compliance with applicable Trade-Through and Locked and Crossed Markets restrictions and exceptions. An order that is designated by a member as non-routable will be re-priced in order to comply with applicable Trade-Through and Locked and Crossed Markets restrictions.

If, at the time of entry, an order that the entering party has elected not to make eligible for routing would cause a locked or crossed market violation or would cause a trade-through violation, it will be re-priced to the current national best offer (for bids) or the current national best bid (for offers) and displayed at one minimum price variance above (for offers) or below (for bids) the national best price.

Sec. 8 BX Opening and Halt Cross

(a) Definitions. For the purposes of this rule the term:

(1) "Imbalance" shall mean the number of contracts of Eligible Interest that may not be matched with other order contracts at a particular price at any given time.

(2) "Order Imbalance Indicator" shall mean a message disseminated by electronic means containing information about Eligible Interest and the price in penny increments at which such interest would execute at the time of dissemination. The Order Imbalance Indicator shall disseminate the following information:

(A) "Current Reference Price" shall mean:

(i) The single price at which the maximum number of contracts of Eligible Interest can be paired at or within the National Best Bid or Offer.

(ii) If more than one price exists under subparagraph (i), the Current Reference Price shall mean the entered price at which contracts will remain unexecuted in the cross.

(iii) If more than one price exists under subparagraph (ii), the Current Reference Price shall mean the price that is closest to the midpoint of the (1) National Best Bid or the last offer on BX Options against which contracts will be traded whichever is higher, and (2) National Best Offer or the last bid on BX Options against which contracts will be traded whichever is lower.

(B) the number of contracts of Eligible Interest that are paired at the Current Reference Price;

(C) the size of any Imbalance;

(D) the buy/sell direction of any Imbalance; and

(E) indicative prices at which the BX Opening Cross would occur if the BX Opening Cross were to occur at that time. The indicative prices shall be:

(i) The Far Clearing Price which shall be the same as the Current Reference Price, and

(ii) The Near Clearing Price which shall be the same as the Current Reference Price.

(iii) If market buy (sell) contracts would remain unexecuted, BX shall disseminate an indicator for "market buy" or "market sell".

(3) "BX Opening Cross" shall mean the process for determining the price at which Eligible Interest shall be executed at the open of trading for the day, or the open of trading for a halted option, and for executing that Eligible Interest.

(4) "Eligible Interest" shall mean any quotation or any order that may be entered into the system and designated with a time-in-force of IOC, DAY or GTC.

(5) "Market for the Underlying Security" shall mean either the primary listing market, the primary volume market (defined as the market with the most liquidity in that underlying security for the previous two calendar months), or the first market to open the underlying security, as determined by the Exchange on an issue-by-issue basis and announced to the membership on the Exchange's web site.

(b) Processing of BX Opening Cross. For the opening of trading of System securities, the Opening Cross shall occur at or after 9:30, if there is no Imbalance, the dissemination of a regular market hours quote or trade (as determined by the Exchange on a class-by-class basis) by the Market for the Underlying Security has occurred (or, in the case of index options, the Exchange has received the opening price of the underlying index), or, in the case of a trading halt, when trading resumes pursuant to Chapter V, Section 4, and a certain number (as the Exchange may determine from time to time) of other options exchanges have disseminated a firm quote on OPRA. Market hours trading shall commence or, in the case of a halted option, resume when the BX Opening Cross concludes.

(1) BX shall disseminate by electronic means an Order Imbalance Indicator every 5 seconds beginning between 9:20 and 9:28 with the default being set at 9:25 a.m. The start of dissemination shall be posted on www.nasdaqtrader.com.

(2)

(A) The BX Opening Cross shall occur at the price that maximizes the number of contracts of Eligible Interest in BX Options to be executed at or within the National Best Bid and Offer.

(B) If more than one price exists under subparagraph (A), the BX Opening Cross shall occur at the entered price at which contracts will remain unexecuted in the cross.

(C) If more than one price exists under subparagraph (B), the BX Opening Cross shall occur at the price

that is closest to the midpoint price of (1) the National Best Bid or the last offer on BX Options against which contracts will be traded whichever is higher, and (2) National Best Offer or the last bid on BX OPTIONS against which contracts will be traded whichever is lower.

(3) If the BX Opening Cross price is selected and fewer than all contracts of Eligible Interest that are available in BX Options would be executed, all Eligible Interest shall be executed at the BX Opening Cross price in price/time priority.

(4) All Eligible Interest executed in the BX Opening Cross shall be executed at the BX Opening Cross price, trade reported anonymously, and disseminated via a national market system plan. The BX Opening Cross price shall be the BX Official Opening Price for options that participate in the BX Opening Cross.

(5) If the conditions specified in (b) above have occurred, but there is an imbalance containing marketable routable interest, then one additional Order Imbalance Indicator will be disseminated, after which the cross will occur, executing the maximum number of contracts at the price provided for in subsection (b)(2) of this Section 8. Any remaining Imbalance will be canceled, posted, or routed as per the directions on the customer's order.

(c) Provided that dissemination of a regular market hours quote or trade by the Market for the Underlying Security has occurred (or, in the case of index options, the Exchange has received the opening price of the underlying index), if firm quotes are not disseminated for an option by the predetermined number of options exchanges by a specific time during the day that the Exchange shall determine from time to time, then:

(1) if an Opening Cross cannot be initiated because there are no opening quotes or orders that lock or cross each other, the option will open for trading, or

(2) if opening quotes or orders lock or cross each other such that an Opening Cross can be initiated, the Exchange will not open for trading in that option until (A) the orders that would be executed in the Opening Cross are cancelled or modified so that they no longer lock or cross each other, or (B) the number of options exchanges required under the introductory language of Section 8(b) above for the opening of trading of System securities have disseminated a firm quote on OPRA.

Sec. 9 Reserved

Sec. 10 Book Processing

System orders shall be executed through the BX Book Process set forth below:

(1) Execution Algorithm - Price/Time — The System shall execute trading interest within the System in price/time priority, meaning it will execute all trading interest at the best price level within the System before executing trading interest at the next best price. Within each price level, trading interest will be executed in time priority.

(2) Decrementation - Upon execution, an order shall be reduced by an amount equal to the size of that execution.

(3) Price Improvement - any potential price improvement resulting from an execution in the System shall accrue to the party that is removing liquidity previously posted to the Book.

(4) BX-listed options that are the subject of a trading halt initiated pursuant to Chapter V, Section 3, shall open for trading at the time specified by BX pursuant to Chapter V, Section 4. When the System opens, orders shall be added to the book in time priority and executed as described above in Subsection (1).

(5) Market Access. In addition to the Exchange Rules regarding routing to away trading centers, Nasdaq Options Services LLC, as defined in Chapter VI, Section 11(e) has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by Nasdaq Options Services to comply with Rule 15c3- 5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or Nasdaq Options Services will seek to cancel the order if it has been routed.

(6) Exception: Anti-Internalization - Quotes and orders entered by Options Market Makers using the same market participant identifier will not be executed against quotes and orders entered on the opposite side of the market by the same Market Maker using the same identifier. In such a case, the System will cancel the oldest of the quotes or orders back to the entering party prior to execution.

(7) Acceptable Trade Range.

(A) The system will calculate an Acceptable Trade Range to limit the range of prices at which an order will be allowed to execute. The Acceptable Trade Range is calculated by taking the reference price, plus or minus a value to be determined by the Exchange. (i.e., the reference price - (x) for sell orders and the reference price + (x) for buy orders). Upon receipt of a new order, the reference price is the NBB for sell orders and the NBO for buy orders or the last price at which the order is posted whichever is higher for a buy order or lower for a sell order.

(B) If an order reaches the outer limit of the Acceptable Trade Range (the "Threshold Price") without being fully executed, it will be posted at the Threshold Price for a brief period, not to exceed one second ("Posting Period"), to allow more liquidity to be collected. Upon posting, either the current Threshold Price of the order or an updated NBB for buy orders or the NBO for sell orders (whichever is higher for a buy order/lower for a sell order) then becomes the reference price for calculating a new Acceptable Trade Range. If the order remains unexecuted, a New Acceptable Trade Range will be calculated and the order will execute, route, or post up to the new Acceptable Trade Range Threshold Price. This process will repeat until the order is executed, cancelled, or posted at its limit price.

(C) During the Posting Period, the Exchange will disseminate as a quotation: (i) the Threshold Price for the remaining size of the order triggering the Acceptable Trade Range and (ii) on the opposite side of the

market, the best price will be displayed using the "non-firm" indicator message in accordance with the specifications of the network processor. Following the Posting Period, the Exchange will return to a normal trading state and disseminate its best bid and offer.

Sec. 11 Order Routing

(a) For System securities, the order routing process shall be available to Participants from 9:30 a.m. Eastern Time until market close and shall route orders as described below. Participants can designate orders as either available for routing or not available for routing. All routing of orders shall comply with Chapter XII, Options Order Protection and Locked and Crossed Market Rules.

(1) The system provides a number of routing options pursuant to which orders are sent to other available market centers for potential execution, per the entering firm's instructions. Routing options may be combined with all available order types and times-in-force, with the exception of order types and times-in-force whose terms are inconsistent with the terms of a particular routing option. The term "System routing table" refers to the proprietary process for determining the specific trading venues to which the System routes orders and the order in which it routes them. The Exchange reserves the right to maintain a different System routing table for different routing options and to modify the System routing table at any time without notice. The system routing options are:

(A) SEEK is a routing option pursuant to which an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm's instructions. When checking the book, the System will seek to execute at the price at which it would send the order to a destination market center. If contracts remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, the System will not route the order to the locking or crossing market center.

(B) SRCH is a routing option pursuant to which an order will first check the System for available contracts for execution. After checking the System for available contracts, orders are sent to other available market centers for potential execution, per the entering firm's instructions. When checking the book, the System will seek to execute at the price at which it would send the order to a destination market center. If contracts remain un-executed after routing, they are posted on the book. Once on the book, should the order subsequently be locked or crossed by another market center, it will re-route.

(b) Reserved.

(c) Priority of Routed Orders. Orders sent by the System to other markets do not retain time priority with respect to other orders in the System and the System shall continue to execute other orders while routed orders are away at another market center. Once routed by the System, an order becomes subject to the rules and procedures of the destination market including, but not limited to, order cancellation. A routed order can be for less than the original incoming order's size. If a routed order is subsequently returned, in whole or in part, that routed order, or its remainder, shall receive a new time stamp reflecting the time of

its return to the System, unless any portion of the original order remains on the System, in which case the routed order shall retain its timestamp and its priority.

(d) Options Participants whose orders are routed to away markets shall be obligated to honor such trades that are executed on away markets to the same extent they would be obligated to honor a trade executed on BX Options.

(e) BX Options shall route orders in options via Nasdaq Options Services LLC, a broker-dealer that is a member of an unaffiliated SRO which is the designated examining authority for the broker-dealer. Nasdaq Options Services LLC serves as the Routing Facility of BX Options. The sole function of the Routing Facility will be to route orders in options listed and open for trading on BX Options to away markets pursuant to BX Options rules solely on behalf of BX Options. The Routing Facility is subject to regulation as a facility of BX, including the requirement to file proposed rule changes under Section 19 of the Act.

Use of Nasdaq Options Services LLC to route orders to other market centers is optional. Parties that do not desire to use Nasdaq Options Services LLC must designate orders as not available for routing.

BX Options shall establish and maintain procedures and internal controls reasonably designed to adequately restrict the flow of confidential and proprietary information between the Exchange and its facilities (including the Routing Facility), and any other entity.

The books, records, premises, officers, directors, agents, and employees of the Routing Facility, as a facility of the Exchange, shall be deemed to be the books, records, premises, officers, directors, agents, and employees of the Exchange for purposes of and subject to oversight pursuant to the Exchange Act. The books and records of the Routing Facility, as a facility of the Exchange, shall be subject at all times to inspection and copying by the Exchange and the Commission.

(f) *Market Access.* In addition to the Exchange Rules regarding routing to away trading centers, Nasdaq Options Services has, pursuant to Rule 15c3-5 under the Act, implemented certain tests designed to mitigate risks associated with providing the Exchange's Members with access to such away trading centers. Pursuant to the policies and procedures developed by Nasdaq Options Services to comply with Rule 15c3-5, if an order or series of orders are deemed to be violative of applicable pre-trade requirements under Rule 15c3-5, the order will be rejected prior to routing and/or Nasdaq Options Services will seek to cancel the order if it has been routed.

Sec. 12 Anonymity

(a) The transaction reports produced by the System will indicate the details of the transactions, and shall not reveal contra party identities.

(b) BX shall reveal a Participant's identity in the following circumstances:

(1) when a registered clearing agency ceases to act for a participant, or the Participant's clearing firm, and the registered clearing agency determines not to guarantee the settlement of the Participant's trades;

- (2) for regulatory purposes or to comply with an order of an arbitrator or court;
- (3) if both Participants to the transaction consent;
- (4) Unless otherwise instructed by a member, BX will reveal to a member, no later than the end of the day on the date an anonymous trade was executed, when the member's Order has been decremented by another Order submitted by that same member.

Sec. 13 Transaction Price Binding

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

Sec. 14 Clearing Participant Give Up

An Options Participant must give up the name of the Clearing Participant through which the transaction will be cleared. If there is a subsequent change in identity of the Clearing Participant through whom a transaction will be cleared, the Options Participant must, as promptly as possible, report such change to BX Options.

Sec. 15 Submission for Clearance

(a) All options transactions effected on BX Options shall be submitted for clearance to the Clearing Corporation, and all such transactions shall be subject to the Rules of the Clearing Corporation. Every Clearing Participant shall be responsible for the clearance of BX Options Transactions of such Clearing Participant and of each Options Participant that gives up such Clearing Participant's name pursuant to a letter of authorization, letter of guarantee or other authorization given by such Clearing Participant to such Options Participant, which authorization must be submitted to BX.

(b) On each business day at or prior to such time as may be prescribed by the Clearing Corporation, BX Options shall furnish the Clearing Corporation a report of each Clearing Participant's matched trades.

Sec. 16 Fees and Charges

(a) *Participation Fees.* The Board in its discretion shall fix participation fees payable by Options Participants from time to time. Fees shall be payable in full on the first day of January, April, July and October on a non-refundable basis and shall be applied to the quarter beginning on that day.

(b) *Transaction Fees.* Options Participants shall pay a fee for each transaction they execute on BX Options, as may be determined by the Board in its discretion. The Board may prescribe different, or no fees for different types of transactions conducted on BX Options.

(c) *Other Fees.* In addition to the fees and charges specified in this Chapter, the Board may, from time to time, fix and impose other fees, assessments or charges to be paid to BX Options by Options Participants

or by classes of Options Participants with respect to applications, registrations, approvals, use of BX Options and Trading System facilities or other services or privileges granted.

(d) *Liability for Payment of Fees.* An Options Participant that does not pay any fees, assessments, charges, fines or other amounts due to BX Options within thirty (30) days after they have become due and payable shall be reported to the Board or its delegate which may, after giving reasonable notice to the Options Participant of such arrearages, suspend the Options Participant until payment is made or terminate the Options Participant's participation on BX Options. A person associated with an Options Participant who fails to pay any fine or other amounts due to BX Options within thirty (30) days after such amount has become due and payable and after reasonable notice of such arrearages, may be suspended from association with an Options Participant until payment is made.

Sec. 17 Message Traffic Mitigation

For the purpose of message traffic mitigation, based on BX Options 's traffic with respect to target traffic levels and in accordance with BX Options 's overall objective of reducing both peak and overall traffic:

(a) BX Options will periodically delist options with an average daily volume ("ADV") of less than 100 contracts. BX will, on a monthly basis, determine the ADV for each series listed on BX Options and delist the current series and not list the next series after expiration where the ADV is less than 100 contracts. For options series traded solely on BX Options, BX will delay delisting until there is no open interest in that options series.

(b) BX Options will implement a process by which an outbound quote message that has not been sent, but is about to be sent, will not be sent if a more current quote message for the same series is available for sending. This replace on queue functionality will be applied to all options series listed on the BX Options Market in real time and will not delay the sending of any messages.

(c) When the size associated with a bid or offer increases by an amount less than or equal to a percentage (never to exceed 20%) of the size associated with the previously disseminated bid or offer, BX Options will not disseminate the new bid or offer.

(d) All message traffic mitigation mechanisms which are used on BX Options will be identical for the OPRA "top of the book" broadcast.

Sec. 18 Order Price Protection

Order Price Protection ("OPP") is a feature of the System that prevents certain day limit, good til cancelled, and immediate or cancel orders at prices outside of pre-set standard limits from being accepted by the System. OPP applies to all options but does not apply to market orders or Intermarket Sweep Orders.

(a) OPP is operational each trading day after the opening until the close of trading, except during trading halts. The Exchange may also temporarily deactivate OPP from time to time on an intraday basis at its

discretion if it determines that volatility warrants deactivation. Participants will be notified of intraday OPP deactivation due to volatility and any subsequent intraday reactivation by the Exchange through the issuance of system status messages.

(b) OPP will reject incoming orders that exceed certain parameters according to the following algorithm:

(i) If the NBBO on the contra-side of an incoming order is greater than \$1.00, orders with a limit more than 50% through such contra-side NBBO will be rejected by the System upon receipt. For example, if the NBBO on the offer side is \$1.10, an order to buy options for more than \$1.65 would be rejected. Similarly, if the NBBO on the bid side is \$1.10, an order to sell options for less than \$0.55 will be rejected.

(ii) If the NBBO on the contra-side of an incoming order is less than or equal to \$1.00, orders with a limit more than 100% through such contra-side NBBO will be rejected by the System upon receipt. For example, if the NBBO on the offer side is \$1.00, an order to buy options for more than \$2.00 would be rejected. However, if the NBBO of the bid side of an incoming order to sell is less than or equal to \$1.00, the OPP limits set forth above will result in all incoming sell orders being accepted regardless of their limit.

Sec. 19 Risk Monitor Mechanism

(a) The System will maintain a counting program ("counting program") for each Participant. The counting program will count the number of contracts traded in an option by each Participant within a specified time period, not to exceed 15 seconds, established by each Participant (the "specified time period"). The specified time period will commence for an option when a transaction occurs in any series in such option.

(b) (i) Risk Monitor Mechanism. The system will engage the Risk Monitor Mechanism in a particular option when the counting program has determined that a Participant has traded a Specified Engagement Size (as defined below) established by such Participant during the specified time period. When such Participant has traded the Specified Engagement Size during the specified time period, the Risk Monitor Mechanism will automatically remove such Participant's orders in all series of the particular option.

(ii) Specified Engagement Size. The Specified Engagement Size is determined by the following: (A) For each series in an option, the counting program will determine the percentage that the number of contracts executed in that series represents relative to the Participant's total size at all price levels in that series ("series percentage"); (B) The counting program will determine the sum of the series percentages in the option issue ("issue percentage"); (C) Once the counting program determines that the issue percentage equals or exceeds a percentage established by the Participant ("Specified Percentage"), the number of executed contracts in the option issue equals the Specified Engagement Size.

The Specified Engagement Size will be automatically offset by a number of contracts that are executed on the opposite side of the market in the same option issue during the specified time period (the "Net Offset Specified Engagement Size"). Long call positions will only be offset by short call positions, and long put

positions will only be offset by short put positions.

The Net Offset Specified Engagement Size for each series is determined by offsetting the number of contracts executed on the opposite side of the market for each series during the specified time period. The Risk Monitor Mechanism shall be engaged once the Net Offset Specified Engagement Size is for a net number of contracts executed among all series in an option issue during the specified time period that represents an issue percentage equal to or greater than the Specified Percentage.

(c) Any marketable orders, or quotes that are executable against a Participant's quotation that are received prior to the time the Risk Monitor Mechanism is engaged will be automatically executed at the price up to the Participant's size, regardless of whether such an execution results in executions in excess of the Participant's Specified Engagement Size.

(d) The system will automatically reset the counting program and commence a new specified time period when:

(i) a previous counting period has expired and a transaction occurs in any series in such option; or

(ii) the Participant refreshes his/her quotation, in a series for which an order has been executed (thus commencing the specified time period) prior to the expiration of the specified time period.

Chapter VII Market Participants

Sec. 1 Customer Orders and Order Entry Firms

Order Entry Firms (OEFs) are those Options Participants representing as agent Customer Orders on BX Options or trading as principal on BX Options.

Sec. 2 Market Maker Registration

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

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

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

(c) These Rules place no limit on the number of qualifying entities that may become Market Makers. However, based on system constraints, capacity restrictions or other factors relevant to protecting the integrity of the BX Options Trading System, the Board or its designee may limit access to the Trading

System, for a period to be determined in the Board's discretion, pending any action required to address the issue of concern to the Board. To the extent that the Board places limitations on access to the Trading System on any Participant(s), such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Act.

Sec. 3 Continuing Market Maker Registration

(a) An Options Participant that has qualified as an Options Market Maker may register to make markets in individual options.

(b) An Options Market Maker may become registered in an option by entering a registration request via a BX approved electronic interface with BX's systems. Registration shall become effective on the day the registration request is entered.

(c) An Options Market Maker's registration in an option shall be terminated if the Market Maker fails to enter quotations in the option within five (5) business days after the Market Maker's registration in the option becomes effective.

Sec. 4 Good Standing for Market Makers

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

i. continue to meet the requirements established in SEC Rule 15c3-1(a)(6)(i), and the general membership requirements set forth in the Rule 1010 Series of the BX Rules and the requirements for Market Makers as set forth in BX Rule 4611.

ii. continue to satisfy the Market Maker qualification requirements specified by BX, as amended from time to time by BX;

iii. comply with the Rules of the Exchange as well as the Rules of the OCC and the Federal Reserve Board; and

iv. pay on a timely basis such Participation, transaction and other fees as the Exchange and BX Options shall prescribe.

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

Sec. 5 Obligations of Market Makers

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

Ordinarily, Market Makers are expected to:

i. During trading hours, a Market Maker must maintain a two-sided market, pursuant to Section 6(d)(i) of this Chapter VII, in those options in which the Market Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.

ii. Participate in opening the market pursuant to Chapter VI of these Rules.

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

iv. Compete with other Market Makers in all options in which the Market Maker is registered to trade.

v. Make markets that will be honored for the number of contracts entered into BX Options' System in all options in which the Market Maker is registered to trade.

vi. Update quotations in response to changed market conditions in all options in which the Market Maker is registered to trade.

vii. Maintain active markets in all options in which the Market Maker is registered.

viii. Honor all orders that the Trading System routes to away markets pursuant to Chapter XII of these Rules.

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

(c) If BX Regulation finds any substantial or continued failure by an Options Market Maker to engage in a course of dealings as specified in paragraph (a) of this Section, such Options Market Maker will be subject to disciplinary action or suspension or revocation of registration in one or more of the securities in which the Market Maker is registered. Nothing in this Section will limit any other power of the Board under these Rules, or procedures of BX Options with respect to the registration of a Market Maker or in respect of any violation by a Market Maker of the provisions of this Section 5.

Sec. 6 Market Maker Quotations

(a) Size Associated with Quotes. A Market Maker's bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the Market Maker is willing to buy or sell. The best bid and best offer entered by a Market Maker must have a size of at least one (1) contract.

(b) Two-Sided Quotes.

A Market Maker that enters a bid (offer) in a series of an option in which he is registered on BX Options

must enter an offer (bid).

(c) Firm Quotes.

i. All quotes and orders entered into the System by Options Participants are firm under this Rule and Rule 602 of Regulation NMS under the Exchange Act ("Rule 602") for the number of contracts specified and according to the requirements of paragraph (a) above.

ii. Market Maker bids and offers are not firm under this Rule and Rule 602:

1) for the period prior to the Opening Cross; or

2) if any of the circumstances provided in paragraph (b)(3) or (c)(4) of Rule 602 exist.

(d) Continuous Quotes. A Market Maker must enter continuous bids and offers for the options to which it is registered, as follows:

i. On a daily basis, a Market Maker must participate in the pre-opening phase and thereafter make markets consistent with the applicable quoting requirements specified in these rules, on a continuous basis in at least sixty percent (60%) of the series in options in which the Market Maker is registered.

1) To satisfy this requirement with respect to quoting a series, a Market Maker must quote such series 90% of the trading day (as a percentage of the total number of minutes in such trading day) or such higher percentage as BX may announce in advance. BX Regulation may consider exceptions to the requirement to quote 90% (or higher) of the trading day based on demonstrated legal or regulatory requirements or other mitigating circumstances.

2) Notwithstanding the foregoing, Market Makers shall not be required to make two-sided markets pursuant to Section 5(a)(i) of these rules in any Quarterly Option Series, any adjusted option series, and any option series until the time to expiration for such series is less than nine months. Accordingly, the continuous quotation obligations set forth in this rule shall not apply to Market Makers respecting Quarterly Option Series, adjusted option series, and series with an expiration of nine months or greater. For purposes of this subsection (2), an adjusted option series is an option series wherein one option contract in the series represents the delivery of other than 100 shares of underlying stock or Exchange-Traded Fund Shares.

3) If a technical failure or limitation of a system of BX prevents a Market Maker from maintaining, or prevents a Market Maker from communicating to BX Options timely and accurate quotes, the duration of such failure or limitation shall not be included in any of the calculations under this subparagraph (i) with respect to the affected quotes.

ii. Bid/ask Differentials (Quote Spread Parameters). Options on equities (including Exchange-Traded Fund Shares), and on index options must be quoted with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid, including before and during the opening. However, respecting in-

the-money series where the market for the underlying security is wider than \$5, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market.

iii. A Market Maker may be called upon by BX Regulation to submit a single bid or offer or maintain continuous bids and offers in one or more of the series in options to which the Market Maker is registered whenever, in the judgment of BX Regulation, it is necessary to do so in the interest of fair and orderly markets.

(e) Options Classes Other Than Those in Which Registered. A Market Maker shall be considered an OEF under the Rules in all classes of options listed on BX Options. The total number of contracts executed by a Market Maker in options in which it is not registered as a Market Maker shall not exceed 25 percent of the total number of all contracts executed by the Market Maker in any calendar quarter.

Sec. 7 Securities Accounts and Orders of Market Makers

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

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

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

i. Be either a Market Maker or a Clearing Participant that carries the joint account.

ii. File and keep current a completed application on such form as is prescribed by BX Regulation.

iii. Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.

iv. Not be a Market Maker registered to the same options classes to which the joint account holder is also

registered as a Market Maker.

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

Sec. 8 Letters of Guarantee

(a) Required of Each Options Participant. No Options Participant shall make any transactions on BX Options unless a Letter of Guarantee has been issued for such Participant by a Clearing Participant and filed with BX Regulation, and unless such Letter of Guarantee has not been revoked pursuant to paragraph (c) of this Section.

(b) Terms of Letter of Guarantee. A Letter of Guarantee shall provide that the issuing Clearing Participant accepts financial responsibilities for all BX Options Transactions made by the guaranteed Participant.

(c) Revocation of Letter of Guarantee. A Letter of Guarantee filed with BX Regulation shall remain in effect until a written notice of revocation has been filed with BX Regulation by the Guarantor Clearing Participant. A revocation shall in no way relieve a Clearing Participant of responsibility for transactions guaranteed prior to the effective date of such revocation.

Sec. 9 Financial Requirements for Market Makers

(a) Each Market Maker shall maintain (i) net liquidating equity in its Market Maker account of not less than \$200,000, and in conformity with such guidelines as the Board may establish from time to time, and (ii) net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each Market Maker which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation. This equity requirement, as well as all other provisions of the section (including capital maintenance requirements), applies to each Market Maker account, without regard to the number of Market Maker accounts per firm. The term "net liquidating equity" means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

(b) Each Market Maker that makes an arrangement to finance his transactions as a Market Maker must identify in writing to BX Regulation the source of the financing and its terms. BX Regulation must be informed immediately of the intention of any party to terminate or change any such arrangement.

Sec. 10 Limitations on Dealings

(a) General Rule. A Market Maker on BX Options may engage in Other Business Activities, or it may be affiliated with a broker-dealer that engages in Other Business Activities, only if there is an Information Barrier between the market making activities and the Other Business Activities. "Other Business

Activities" means:

i. conducting an investment banking or public securities business;

ii. making markets in the stocks underlying the options in which it makes markets; or

iii. functioning as an Order Entry Firm, except where such Market Maker, or broker-dealer with which such Market Maker is affiliated: (A) engages solely in proprietary trading and does not, under any circumstance, maintain customer accounts or solicit or accept orders or funds from or on behalf of customers, including broker-dealers and other securities firms, and (B) does not place or accept or utilize any order types which call for the participation of, or interaction with, public customers, including broker-dealers and other securities firms.

(b) "Information Barrier" . For the purposes of this Section, an Information Barrier is an organizational structure in which:

i. The market making functions are conducted in a physical location separate from the locations in which the Other Business Activities are conducted, in a manner that effectively impedes the free flow of communications between designated representatives of an Options Participant performing the function of a Market Maker and persons conducting the Other Business Activities. However, upon request and not on his own initiative, a designated representative of an Options Participant performing the function of a Market Maker may furnish to a person performing the function of an OEF or other persons at the same firm or an affiliated firm ("affiliated persons"), the same market or trading information, so long as the Market Maker also may make available such information to non-affiliated persons with whom the Market Maker may have the same type of business relationship. The designated representative of a Market Maker must provide such information to affiliated persons in the same manner that he would make such information available to a non-affiliated person.

ii. There are procedures implemented to prevent the use of material non-public corporate or market information in the possession of persons on one side of the barrier from influencing the conduct of persons on the other side of the barrier. These procedures, at a minimum, must provide that:

1) the designated representative of an Options Participant performing the function of a Market Maker does not take advantage of knowledge of pending transactions, order flow information, corporate information or recommendations arising from the Other Business Activities; and

2) all information pertaining to the Market Maker's positions and trading activities is kept confidential and not made available to persons on the other side of the Information Barrier, except as provided in Paragraph (b)(i) of this Section 10.

(c) Persons on one side of the barrier may not exercise influence or control over persons on the other side of the barrier, provided that:

i. the market making function and the Other Business Activities may be under common management as

long as any general management oversight does not conflict with or compromise the Market Maker's responsibilities under the Rules of the Exchange; and

ii. the same person or persons (the "Supervisor") may be responsible for the supervision of the market making and OEF functions of the same firm or affiliated firms in order to monitor the overall risk exposure of the firm or affiliated firms. While the Supervisor may establish general trading parameters with respect to both market making and other proprietary trading other than on an order-specific basis, the Supervisor may not:

1) actually perform the function of either a Market Maker or OEF;

2) provide to any person performing the function of an OEF any information relating to market making activity beyond the information that a designated representative of an Options Participant performing the function of a Market Maker may provide under subparagraph (b)(i), above; nor

3) provide a designated representative of an Options Participant performing the function of Market Maker with specific information regarding the firm's pending transactions or order flow arising out of its OEF activities.

(d) Documenting and Reporting of Information Barrier Procedures. An Options Participant implementing an Information Barrier pursuant to this Section shall submit to BX Options a written statement setting forth:

i. The manner in which it intends to satisfy the conditions in paragraph (b) of this Section, and the compliance and audit procedures it proposes to implement to ensure that the Information Barrier is maintained;

ii. The names and titles of the person or persons responsible for maintenance and surveillance of the procedures;

iii. A commitment to provide BX Regulation with such information and reports as BX Regulation may request relating to its transactions;

iv. A commitment to take appropriate remedial action against any person violating this Section or the Participant's internal compliance and audit procedures adopted pursuant to paragraph (c)(i) of this Section, and that it recognizes that BX Regulation may take appropriate remedial action, including (without limitation) reallocation of securities in which it serves as a Market Maker, in the event of such a violation;

v. Whether the Participant or an affiliate intends to clear its proprietary trades and, if so, the procedures established to ensure that information with respect to such clearing activities will not be used to compromise the Participant's Information Barrier, which procedures, at a minimum, must be the same as those used by the Participant or the affiliate to clear for unaffiliated third parties; and

vi. That it recognizes that any trading by a person while in possession of material, non-public information

received as a result of the breach of the internal controls required under this Section may be a violation of Rules 10b-5 and 14e-3 under the Exchange Act or one or more other provisions of the Exchange Act, the Rules thereunder or the Rules of the Exchange, and that BX Regulation intends to review carefully any such trading of which it becomes aware to determine whether a violation has occurred.

(e) Exchange Approval of Information Barrier Procedures. The written statement required by paragraph (d) of this Section must detail the internal controls that the Participant will implement to satisfy each of the conditions stated in that Rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If BX Regulation determines that the organizational structure and the compliance and audit procedures proposed by the Participant are acceptable under this Section, BX Regulation shall so inform the Participant, in writing. Absent BX Regulation finding a Participant's Information Barrier procedures acceptable, a Market Maker may not conduct Other Business Activities.

(f) Clearing Arrangements. Paragraph (c)(v) permits a Options Participant or an affiliate of the Options Participant to clear the Participant's Market Maker transactions if it establishes procedures to ensure that information with respect to such clearing activities will not be used to compromise the Information Barrier. In this regard:

i. The procedures must provide that any information pertaining to Market Maker securities positions and trading activities, and information derived from any clearing and margin financing arrangements, may be made available only to those employees (other than employees actually performing clearing and margin functions) specifically authorized under this Section to have access to such information or to other employees in senior management positions who are involved in exercising general managerial oversight with respect to the market making activity.

ii. Any margin financing arrangements must be sufficiently flexible so as not to limit the ability of any Market Maker to meet market making or other obligations under BX and BX Options Rules.

Sec. 11 Mass Cancellation of Trading Interest

An Options Participant may simultaneously cancel all its bids, offers, and orders in all series of options by requesting BX Options operations staff to effect such cancellation.

Sec. 12 Order Exposure Requirements

With respect to orders routed to BX Options, Options Participants may not execute as principal orders they represent as agent unless (i) agency orders are first exposed on BX Options for at least one (1) second or (ii) the Options Participant has been bidding or offering on BX Options for at least one (1) second prior to receiving an agency order that is executable against such bid or offer.

Commentary:

.01 Section 12 prevents Options Participants from executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on BX Options an opportunity to

either trade with the agency order or to trade at the execution price when the Options Participant was already bidding or offering on the book. However, the Exchange recognizes that it may be possible for an Options Participant to establish a relationship with a customer or other person to deny agency orders the opportunity to interact on BX Options and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of Section 12 for an Options Participant to be a party to any arrangement designed to circumvent Section 12 by providing an opportunity for a customer to regularly execute against agency orders handled by the Options Participant immediately upon their entry into BX Options.

.02 It will be a violation of Section 12 for an Options Participant to cause the execution of an order it represents as agent on BX Options against orders it solicited from members and non-member broker-dealers, whether such solicited orders are entered into BX Options directly by the Options Participant or by the solicited party (either directly or through another Options Participant), if the Options Participant fails to expose orders on BX Options as required by Section 12.

.03 With respect to Price Improving Orders, the exposure requirement of subsection (i) is satisfied if the order is displayed at its displayable price for one second.

.04 Prior to or after submitting an order to BX Options, an Options Participant cannot inform another Options Participant or any other third party of any of the terms of the order.

Chapter VIII Exercises and Deliveries

Sec. 1 Exercise of Options Contracts

(a) Subject to the restrictions set forth in Chapter III, Section 9 of these Rules (Exercise Limits) and to such restrictions as may be imposed pursuant to Chapter III, Section 12 of these Rules (Other Restrictions on Options Transactions and Exercises) or pursuant to the Rules of the Clearing Corporation, an outstanding options contract may be exercised during the time period specified in the Rules of the Clearing Corporation by the tender to the Clearing Corporation of an exercise notice in accordance with the Rules of the Clearing Corporation. An exercise notice may be tendered to the Clearing Corporation only by the Clearing Participant in the account of which such options contract is carried with the Clearing Corporation. Participants may establish fixed procedures as to the latest time they will accept exercise instructions from customers.

(b) Special procedures apply to the exercise of equity options on the last business day before their expiration ("expiring options"). Unless waived by The Options Clearing Corporation (also known in this Rule as the Clearing Corporation), expiring options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under Clearing Corporation Rule 805. This Rule provides that, unless contrary instructions are given, option contracts that are in-the-money by specified amounts shall be automatically exercised. In addition to the Rules of the Clearing Corporation, the following BX Options requirements apply with respect to expiring options. Option holders desiring to exercise or not exercise expiring options must either:

i. take no action and allow exercise determinations to be made in accordance with the Clearing Corporation's Ex-by-Ex procedure where applicable; or

ii. submit a "Contrary Exercise Advice" to the Options Clearing Corporation through the participant's clearing firm by the deadline specified in paragraph (d) below.

(c) Exercise cut-off time. Option holders have until 5:30 p.m. Eastern Time on the business day immediately prior to, or in the case of Quarterly Options Series on, the expiration date, to make a final decision to exercise or not exercise an expiring option. Participants may not accept exercise instructions for customer or non-customer accounts after 5:30 p.m. Eastern Time.

(d) Submission of Contrary Exercise Advices. A Contrary Exercise Advice is a communication either: (i) to not exercise an option that would be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure, or (ii) to exercise an option that would not be automatically exercised under the Clearing Corporation's Ex-by-Ex procedure.

A Contrary Exercise Advice may be submitted by a Participant by using the Clearing Corporation's ENCORE system, a Contrary Exercise Advice form of any other national securities exchange of which the firm is a Participant and where the option is listed, or such other method as BX Options may prescribe. A Contrary Exercise Advice may be canceled by filing an Advice Cancel at any time up to the submission cut-off times specified below.

For customer accounts, Participants have until 7:30 p.m. Eastern Time to submit a Contrary Exercise Advice to the Exchange.

For noncustomer accounts, Participants have until 7:30 p.m. Eastern Time to submit a Contrary Exercise Advice to the Exchange if such Participant employs an electronic submission procedure with time stamp for the submission of exercise instructions by option holders. Participants are required to manually submit a Contrary Exercise Advice by 5:30 p.m. for non-customer accounts if such Participants do not employ an electronic submission procedure with time stamp for the submission of exercise instructions by option holders.

(e) If the Clearing Corporation has waived the Ex-by-Ex procedure for an options class, Participants must either:

i. submit to the Options Clearing Corporation, a Contrary Exercise Advice, in a manner specified by OCC, within the time limits specified in paragraph (d) above if the holder intends to exercise the option; or

ii. take no action and allow the option to expire without being exercised. In cases where the Ex-by-Ex procedure has been waived, the Rules of the Clearing Corporation require that Participants wishing to exercise such options must submit an affirmative Exercise Notice to the Clearing Corporation, whether or not a Contrary Exercise Advice has been filed with BX Options.

(f) A Participant that has accepted the responsibility to indicate final exercise decisions on behalf of

another Participant or non-Participant broker-dealer shall take the necessary steps to ensure that such decisions are properly indicated to BX Options. Such Participant may establish a processing cut-off time prior to BX Options' exercise cut-off time at which it will no longer accept final exercise decisions in expiring options from option holders for whom it indicates final exercise decisions. Each Participant that indicates final exercise decisions through another broker-dealer is responsible for ensuring that final exercise decisions for all of its proprietary (including market maker) and public customer account positions are indicated in a timely manner to such broker-dealer.

(g) Notwithstanding the foregoing, Participants may make final exercise decisions after the exercise cut-off time but prior to expiration without having submitted a Contrary Exercise Advice in the circumstances listed below. A memorandum setting forth the circumstance giving rise to instructions after the exercise cutoff time shall be maintained by the Participant and a copy thereof shall be filed with BX Options no later than 12:00 noon Eastern Time on the first business day following the respective expiration. An exercise decision after the exercise cut-off time may be made:

i. in order to remedy mistakes or errors made in good faith; or

ii. where exceptional circumstances have restricted an option holder's ability to inform a Participant of a decision regarding exercise, or a Participant's ability to receive an option holder's decision by the cut-off time. The burden of establishing any of the above exceptions rests solely on the Participant seeking to rely on such exceptions.

(h) In the event BX Options provides advance notice on or before 5:30 p.m. Eastern Time on the business day immediately prior to the last business day before the expiration date indicating that a modified time for the close of trading in equity options on such last business day before expiration will occur, then the deadline to make a final decision to exercise or not exercise an expiring option shall be 1 hour 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. Eastern Time deadline found in Paragraph (c) of this Section 1. However, Participants have until 7:30 Eastern Time to deliver a Contrary Exercise Advice or Advice Cancel to BX Options for customer accounts and non-customer accounts where such Participant employs an electronic submission procedure with time stamp for the submission of exercise instructions. For non-customer accounts, Participants that do not employ an electronic procedure with time stamp for the submission of exercise instructions are required to deliver a Contrary Exercise Advice or Advice Cancel within 1 hour and 30 minutes following the time announced for the close of trading on that day instead of the 5:30 p.m. Eastern Time deadline found in Paragraph (d) of this Section 1.

(i) Modification of cut-off time.

i. BX Options may establish extended cut-off times for decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances. For purposes of this subparagraph (h)(i), an "unusual circumstance" includes, but is not limited to, increased market volatility; significant order imbalances; significant volume surges and/or

systems capacity constraints; significant spreads between the bid and offer in underlying securities; internal system malfunctions affecting the ability to disseminate or update market bids and offers and/or execute or route orders; or other similar occurrences.

ii. BX Options with at least one (1) business day prior advance notice, by 12:00 noon on such day, may establish a reduced cut-off time for the decision to exercise or not exercise an expiring option and for the submission of Contrary Exercise Advices on a case-by-case basis due to unusual circumstances; provided, however, that under no circumstances should the exercise cut-off time and the time for submission of a Contrary Exercise Advice be before the close of trading. For purposes of this subparagraph (h) (ii), an "unusual circumstance" includes, but is not limited to, a significant news announcement concerning the underlying security of an option contract that is scheduled to be released just after the close on the business day immediately prior to expiration.

(j) Submitting or preparing an exercise instruction, contrary exercise advice or advice cancel after the applicable exercise cut-off time in any expiring options on the basis of material information released after the cut-off time is activity inconsistent with just and equitable principles of trade.

(k) The failure of any Participant to follow the procedures in this Section 1 may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by BX Options.

(l) Clearing Participants must follow the procedures of the Clearing Corporation when exercising American-style cash-settled index options contracts issued or to be issued in any account at the Clearing Corporation. Options Participants must also follow the procedures set forth below with respect to American-style cash-settled index options:

i. For all contracts exercised by the Options Participant or by any customer of the Options Participant, an "exercise advice" must be delivered by the Options Participant in such form or manner prescribed by BX Regulation no later than 4:20 p.m. Eastern Time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.

ii. Subsequent to the delivery of an "exercise advice," should the Options Participant or a customer of the Options Participant determine not to exercise all or part of the advised contracts, the Options Participant must also deliver an "advice cancel" in such form or manner prescribed by BX Regulation no later than 4:20 p.m. Eastern Time, or if trading hours are extended or modified in the applicable options class, no later than five (5) minutes after the close of trading on that day.

iii. BX Regulation may determine to extend the applicable deadline for the delivery of "exercise advice" and "advice cancel" notifications pursuant to this paragraph (k) if unusual circumstances are present.

iv. No Options Participant may prepare, time stamp or submit an "exercise advice" prior to the purchase of the contracts to be exercised if the Options Participant knew or had reason to know that the contracts had not yet been purchased.

v. The failure of any Options Participant to follow the procedures in this paragraph (k) may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by BX Regulation.

vi. Preparing or submitting an "exercise advice" or "advice cancel" after the applicable deadline on the basis of material information released after such deadline, in addition to constituting a violation of this Rule, is activity inconsistent with just and equitable principles of trade.

vii. The procedures set forth in subparagraphs (i)-(ii) of this subparagraph (k) do not apply (a) on the business day prior to expiration in series expiring on a day other than a business day or (b) on the expiration day in series expiring on a business day.

viii. Exercises of American-style, cash-settled index options (and the submission of corresponding "exercise advice" and "advice cancel" forms) shall be prohibited during any time when trading in such options is delayed, halted, or suspended, subject to the following exceptions:

1) The exercise of an American-style, cash-settled index option may be processed and given effect in accordance with and subject to the rules of the Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by BX Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension.

2) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the last business day prior to their expiration.

3) Exercises of American-style, cash-settled index options shall not be prohibited during a trading halt that occurs at or after 4:00 p.m. Eastern Time. In the event of such a trading halt, exercises may occur through 4:20 p.m. Eastern Time. In addition, if trading resumes following such a trading halt (pursuant to the procedure described in Section 8 of Chapter V of these Rules (Opening the Market)), exercises may occur during the resumption of trading and for five (5) minutes after the close of the resumption of trading. The provisions of this subparagraph 3) are subject to the authority of BX Regulation to impose restrictions on transactions and exercises pursuant to Section 14 of Chapter III of these Rules (Limit on Outstanding Uncovered Short Positions).

4) BX Regulation may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.

Supplementary Material

.01 For purposes of this Section 1, the terms "customer account" and "non-customer account" have the same meaning as defined in the Clearing Corporation By-Laws Article I(C)(28) and Article I(N)(2), respectively

.02 Each Participant shall prepare a memorandum of every exercise instruction received showing the time when such instruction was so received. Such memoranda shall be subject to the requirements of SEC Rule

17a-4(b).

.03 Reserved.

.04 Each Participant shall establish fixed procedures to insure secure time stamps in connection with their electronic systems employed for the recording of submissions to exercise or not exercise expiring options.

.05 The filing of a Contrary Exercise Advice required by this Section 1 does not serve to substitute as the effective notice to the Clearing Corporation for the exercise or non-exercise of expiring options.

Sec. 2 Allocation of Exercise Notices

(a) Each Options Participant shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in such Options Participant's customers' accounts. The allocation shall be on a "first in, first out," or automated random selection basis that has been approved by BX Regulation, or on a manual random selection basis that has been specified by BX Regulation. Each Options Participant shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' account, explaining its manner of operation and the consequences of that system.

(b) Each Options Participant shall report its proposed method of allocation to BX Regulation and obtain BX Regulation's prior approval thereof, and no Options Participant shall change its method of allocation unless the change has been reported to and approved by BX Regulation. The requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another SRO having comparable standards pertaining to methods of allocation.

(c) Each Options Participant shall preserve for a three-year period sufficient work papers and other documentary materials relating to the allocation of exercise notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

Sec. 3 Delivery and Payment

(a) Delivery of the underlying security upon the exercise of an options contract, and payment of the aggregate exercise price in respect thereof, shall be in accordance with the Rules of the Clearing Corporation.

(b) As promptly as possible after the exercise of an options contract by a customer, the Options Participant shall require the customer to make full cash payment of the aggregate exercise price in the case of a call options contract, or to deposit the underlying security in the case of a put options contract, or to make the required margin deposit in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, the provisions of Chapter XIII of these Rules, and the applicable regulations of the Federal Reserve Board.

(c) As promptly as practicable after the assignment to a customer of an exercise notice the Options Participant shall require the customer to deposit the underlying security in the case of a call options

contract if the underlying security is not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put options contract, or in either case to deposit the required margin in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, the provisions of Chapter XIII of these Rules, and the applicable regulations of the Federal Reserve Board.

Chapter IX Records, Reports and Audits

Sec. 1 Maintenance, Retention and Furnishing of Books, Records and Other Information

(a) Each Options Participant shall make, keep current and preserve such books and records as BX Regulation may prescribe pursuant to the Rules of the Exchange and as may be prescribed by the Exchange Act and the rules and regulations thereunder.

(b) No Options Participant shall refuse to make available to BX Regulation such books, records or other information as may be called for under the Rules of the Exchange or as may be requested in connection with an investigation by BX Regulation.

(c) All Options Participants shall prepare and make available all books and records as required by the Rules of the Exchange in English and U.S. dollars.

Sec. 2 Reports of Uncovered Short Positions

(a) Upon request of BX Regulation, each Options Participant shall submit a report of the total uncovered short positions in each options contract of a class dealt in on BX Options showing:

i. positions carried by such Options Participant for its own account and

ii. positions carried by such Options Participant for the accounts of Customers;

iii. provided that the Options Participant shall not report positions carried for the accounts of other Options Participants where such other Options Participants report the positions themselves.

(b) Such report shall be submitted not later than the second business day following the date the request is made.

Sec. 3 Financial Reports and Audits

Each Options Participant shall submit to BX Regulation answers to financial questionnaires, reports of income and expenses and additional financial information in the type, form, manner and time prescribed by the Exchange or BX Regulation under the Rules of the Exchange.

Sec. 4 Automated Submission of Trade Data

(a) An Options Participant shall submit requested trade data elements, in such automated format as may be

prescribed by BX Regulation from time to time, in regard to a transaction(s) that is the subject of the particular request for information.

(b) If the transaction was a proprietary transaction effected or caused to be effected by the Options Participant for any account in which such Participant, or any person associated with the Options Participant, is directly or indirectly interested, the Participant shall submit or cause to be submitted, any or all of the following information as requested by BX Regulation:

i. Clearing house number or alpha symbol as used by the Options Participant submitting the data;

ii. Clearing house number(s) or alpha symbol(s) as may be used from time to time, of the Options Participant(s) on the opposite side of the transaction;

iii. Identifying symbol assigned to the security and where applicable for the options month and series symbols;

iv. Date transaction was executed;

v. Number of option contracts for each specific transaction and whether each transaction was an opening or closing purchase or sale, as well as:

1) the number of shares traded or held by accounts for which options data is submitted;

2) where applicable, the number of shares for each specific transaction and whether each transaction was a purchase, sale or short sale;

vi. Transaction price;

vii. Account number; and

viii. Market center where transaction was executed.

(c) If the transaction was effected or caused to be effected by the Options Participant for any Customer, such Options Participant shall submit or cause to be submitted any or all the following information as requested by BX Regulation:

i. Data elements (i) through (viii) of paragraph (b) above;

ii. If the transaction was effected for a Public Customer, customer name, address(es), branch office number, representative number, whether the order was discretionary, solicited or unsolicited, date the account was opened and employer name and tax identification number(s); and

iii. If the transaction was effected for a Participant broker-dealer customer, whether the broker-dealer was acting as a principal or agent on the transaction or transactions that are the subject of BX Regulation's request.

(d) In addition to the above trade data elements, an Options Participant shall submit such other information in such automated format as may be prescribed by BX Regulation, as may from time to time be required.

(e) BX Regulation may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (b) and (c) above be submitted to BX Regulation in an automated format.

Sec. 5 Regulatory Cooperation

(a) BX Regulation may enter into agreements that provide for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and other regulatory purposes, with domestic and foreign self-regulatory organizations, as well as associations and contract markets and the regulators of such markets.

(b) No Options Participant, partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange or BX Regulation shall refuse to appear and testify before another exchange or self-regulatory organization in connection with a regulatory investigation, examination or disciplinary proceeding or refuse to furnish documentary materials or other information or otherwise impede or delay such investigation, examination or disciplinary proceeding if the Exchange or BX Regulation requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange or BX Regulation pursuant to paragraph (a) of this Section, including but not limited to Participants and affiliates of the Intermarket Surveillance Group. The requirements of this paragraph (b) shall apply regardless whether the Exchange or BX Regulation has itself initiated a form investigation or disciplinary proceeding.

(c) Whenever information is requested by BX Regulation pursuant to this Section, the Options Participant or person associated with a Participant from whom the information is requested shall have the same rights and procedural protections in responding to such request as such Participant or person would have in the case of any other request for information initiated by BX Regulation pursuant to BX Regulation's investigative powers.

Sec. 6 Risk Analysis of Market Maker Accounts

(a) Each Clearing Participant that clears or guarantees the transactions of Market Makers pursuant to Chapter VII, Section 8 of these Rules (Letters of Guarantee), shall establish and maintain written procedures for assessing and monitoring the potential risks to the Participant's capital over a specified range of possible market movements of positions maintained in such Market Maker accounts and such related accounts as BX Regulation shall from time to time direct.

i. Current procedures shall be maintained as current and filed with BX Regulation.

ii. The procedures shall specify the computations to be made, the frequency of computations, the records

to be reviewed and maintained and the position(s) within the organization responsible for the risk management.

(b) Each affected Participant shall at a minimum assess and monitor its potential risk of loss from options Market Maker accounts each business day as of the close of business the prior day through use of a BX Regulation-approved computerized risk analysis program, which shall comply with at least the minimum standards specified below and such other standards as from time to time may be prescribed by BX Regulation:

i. The estimated loss to the Clearing Participant for each Market Maker account (potential account deficit) shall be determined given the impact of broad market movements in reasonable intervals over a range from negative fifteen percent (15%) to positive fifteen percent (15%).

ii. The Participant shall calculate volatility using a method approved by BX Regulation, with volatility updated at least weekly. The program must have the capability of expanding volatility when projecting losses throughout the range of broad market movements.

iii. Options prices shall be estimated through use of recognized options pricing models such as, but not limited to, Black-Scholes and Cox-Reubenstein.

iv. At a minimum, written reports shall be generated which describe for each market scenario:

1) projected loss per options class by account;

2) projected total loss per options class for all accounts; and

3) projected deficits per account and in aggregate.

Upon direction by BX Regulation, each affected Participant shall provide to BX Regulation such information as it may reasonably require with respect to the Participant's risk analysis for any or all of its Market Maker accounts.

Sec. 7 Anti-Money Laundering Compliance Program

Each Options Participant shall comply with BX Rule 3011.

Chapter X Discipline and Summary Suspensions

Sec. 1 Imposition of Suspension

(a) An Options Participant or person associated with an Options Participant that has been expelled or suspended from any SRO or barred or suspended from being associated with a Participant of any SRO, or an Options Participant that is in such financial or operating difficulty that BX Regulation determines that the Options Participant cannot be permitted to continue to do business as a Participant with safety to investors, creditors, other Options Participants, or BX Options, may be summarily suspended.

(b) BX Regulation may limit or prohibit any person with respect to access to services offered by BX Options if any of the criteria of the foregoing sentence is applicable to such person or, in the case of a person who is an Options Participant, if the Exchange determines that such person does not meet the qualification requirements or other prerequisites for such access with safety to investors, creditors, Options Participants or the Exchange.

(c) In the event a determination is made to take summary action pursuant to this Section, notice thereof will be sent to the SEC.

(d) Any person aggrieved by any summary action taken under this Section shall be promptly afforded an opportunity for a hearing by BX Regulation in accordance with the provisions of the 9500 Rules of the Exchange.

(e) A summary suspension or other action taken pursuant to this Chapter IX shall not be deemed to be disciplinary action under the 9500 Rules of the Exchange. The provisions of such 9500 Rules shall be applicable regardless of any action taken pursuant to this Chapter X.

Sec. 2 Investigation Following Suspension Violations

(a) Every Options Participant or person associated with a Participant against which action has been taken in accordance with the Summary Suspension procedures of these Rules shall immediately afford every facility required by BX Regulation for the investigation of his or its affairs and shall forthwith file with the Secretary a written statement covering all information requested, including a complete list of creditors and the amount owing to each and a complete list of each open long and short position in BX Options contracts maintained by the Options Participant and each of his or its Customers.

(b) Paragraph (a) includes, without limitation, the furnishing of such books and records of the Options Participant or person associated with an Options Participant and the giving of such sworn testimony as may be requested by BX Regulation.

Sec. 3 Reinstatement Following Suspension

(a) General.

- i. An Options Participant, person associated with an Options Participant or other person suspended or limited or prohibited with respect to access to services offered by BX Options under the Summary Suspension procedures of these Rules may apply for reinstatement within the time period set forth below.
- ii. Notice of an application for reinstatement shall be given to the Secretary by the Participant and shall be posted by BX Regulation at least five (5) business days prior to the consideration by BX Regulation of said application.
- iii. BX Regulation may approve an application for reinstatement if it finds that the applicant is operationally and financially able to conduct his business with safety to investors, creditors, Participants,

and BX Options.

(b) Suspension Due to Operating Difficulty.

i. An applicant that, by reason of operating difficulty, has been suspended or limited or prohibited with respect to BX Options services, must file any application for reinstatement within six (6) months from the date of such action. Such application must include a statement of all actions taken by the applicant to remedy the operational difficulty in question.

ii. If the applicant fails to receive reinstatement, or if the application is not acted upon ninety (90) days of its submission, the applicant shall be afforded an opportunity for a hearing in accordance with the provisions of the 9000 Rules of the Exchange

(c) Suspension Due to Financial Difficulty.

i. An applicant who, by reason of financial difficulty, has been suspended or limited or prohibited with respect to BX Options services, must file any application for reinstatement within thirty (30) days of such action.

ii. Such application must include a list of all creditors of the applicant a statement of the amount originally owing and the nature of the settlement in each case, and such other information as may be requested by BX Regulation.

iii. The Participant status of an Options Participant summarily suspended by reason of financial difficulty may not be disposed of by BX Regulation until that Participant has been afforded an opportunity for a hearing respecting such summary suspension pursuant to the provisions of the 9000 Rules of the Exchange.

Sec. 4 Failure to Obtain Reinstatement

If an Options Participant suspended under the provisions of this Chapter X fails or is unable to apply for reinstatement in accordance with Section 3 of this Chapter X or fails to obtain reinstatement as therein provided, his or its Participant status shall be disposed of by BX Regulation in accordance with the 9500 Rules of the Exchange.

Sec. 5 Termination of Rights by Suspension

An Options Participant suspended under the provisions of this Chapter X shall be deprived during the term of his or its suspension of all rights and privileges of Participation.

Sec. 6 Contracts of Suspended Participants

(a) When an Options Participant, other than a Clearing Participant, is suspended pursuant to Chapter X of these Rules (Summary Suspension), all open short positions of the suspended Options Participant in options contracts and all open positions resulting from exercise of options contracts, other than positions

that are secured in full by a specific deposit or escrow deposit in accordance with the Rules of the Clearing Corporation, shall be closed without unnecessary delay by all Participants carrying such positions for the account of the suspended Participant; provided that BX Regulation may cause the foregoing requirement to be temporarily waived for such period as it may determine if it shall deem such temporary waiver to be in the interest of the public or the other Participants of BX Options.

(b) No temporary waiver hereunder by BX Regulation shall relieve the suspended Options Participant of its obligations or of damages, nor shall it waive the close out requirements of any other Rules.

(c) When a Clearing Participant is suspended pursuant to Chapter X (Summary Suspension) of these Rules, the positions of such Clearing Participant shall be closed out in accordance with the Rules of the Clearing Corporation.

Sec. 7 Penalty for Minor Rule Violations

The following BX Options rule and policy violations may be determined by BX Regulation to be minor in nature. If so, BX Regulation may, with respect to any such violation, proceed under the 9200 Series Rules of the Exchange and impose the fine set forth below. BX Regulation is not required to proceed under said Sections as to any rule violation and may, whenever such action is deemed appropriate, commence a disciplinary proceeding under the 9200 Series Rules of the Exchange as to any such violation. A subsequent violation is calculated on the basis of a rolling 24-month period ("Period").

(a) *Position Limit Violations.* Violations of Chapter III, Section 7 of these Rules (Position Limit) that continue over consecutive business days will be subject to a separate fine, pursuant to this paragraph (a), for each day during which the violation occurs and is continuing

i. *Customer Accounts.* For purposes of this subparagraph (i) only, all accounts of non-Options Participant broker-dealers will be treated as customer accounts. In calculating fine thresholds under this subparagraph (i) for each Options Participant, all violations occurring within the Period in all of that Participant's customer accounts are to be added together. For violations of Chapter III, Section 7 of these Rules occurring in customer accounts, the Participant shall be subject to fines as follows, with a minimum fine amount of \$100:

Number of Cumulative Fine Amount Violations Within One Period

<u>1 to 6 (up to 5% in excess of applicable limit)</u>	<u>Letter of Caution</u>
<u>1 to 6 (above 5% in excess of applicable limit)</u>	<u>\$1 per contract</u>
<u>7 to 12</u>	<u>\$1 per contract over limit</u>
<u>13 or more</u>	<u>\$5 per contract over limit</u>

ii. Options Participant Accounts. For violations occurring in an Options Participant's account (i.e., proprietary accounts and accounts of other Options Participants), the Options Participant whose account exceeded the limits shall be subject to fines as follows, with a minimum fine amount of \$100. In calculating fine thresholds under this paragraph (ii) for each Options Participant, all violations occurring within the Period in all of that Participant's accounts, (i.e., proprietary accounts and accounts of other Options Participants) are to be added together:

Number of Cumulative Fine Amount Violations Within One Period

<u>1 to 3 (up to 5% in excess of applicable limit)</u>	<u>Letter of Caution</u>
<u>1 to 3 (above 5% in excess of applicable limit)</u>	<u>\$1 per contract</u>
<u>4 to 6</u>	<u>\$1 per contract over limit</u>
<u>7 or more</u>	<u>\$5 per contract over limit</u>

(b) Order Entry. Violations of Chapter VII, Section 6(a) - (c) of these Rules, (Market Maker Quotations) regarding restrictions on orders entered by Market Makers, will be subject to the fines listed below. Each paragraph of such sections subject to this Rule shall be treated separately for purposes of determining the number of cumulative violations.

Number of Violations Fine Amount Within One Period

<u>1 to 5</u>	<u>Letter of Caution</u>
<u>6 to 10</u>	<u>\$500</u>
<u>11 to 15</u>	<u>\$1000</u>
	<u>\$2000</u>
<u>16 to 20</u>	

(c) Continuous Quotes. Violations of Chapter VII, Section 6(d) of these Rules regarding Market Maker continuous bids and offers shall be subject to the fines listed below. Violations of the rule that continue over consecutive trading days will be subject to a separate fine, pursuant to this paragraph (d), for each day during which the violation occurs and is continuing up to a limit of fifteen consecutive trading days. In calculating fine thresholds for each Market Maker, all violations occurring within the Period in any of the Market Makers registered series are to be added together.

Number of Cumulative Fine Amount Violations Within One Period

<u>1</u>	<u>Letter of Caution</u>
<u>2 or more</u>	<u>\$300 per day</u>

(d) LOPR Reporting and Position Limit Violations. Violations of Chapter III, Section 7-10 of these Rules regarding position limits and maintaining and furnishing reports related to applicable position limits for Options contracts.

<u>FINE SCHEDULE</u>	<u>LOPR Reporting</u>	<u>Position Limits</u>
<u>First Offense</u>	<u>\$1,000</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$2,500</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>	<u>\$2,500</u>

(e) Expiring Exercise Declaration Rules. Violations of Chapter VIII, Sections 1- 3 of these Rules regarding exercise of Options Contracts, allocation of exercise notices and delivery and payment of the underlying security.

<u>FINE SCHEDULE</u>	<u>Individual</u>	<u>Firm</u>
<u>First Offense</u>	<u>\$500</u>	<u>\$1,000</u>
<u>Second Offense</u>	<u>\$1,000</u>	<u>\$2,500</u>
<u>Subsequent Offense</u>	<u>\$2,500</u>	<u>\$5,000</u>

(f) Audit Trail Submissions and Record Keeping Requirements. Chapter V, Sections 7, regarding the submission of audit trail information; and Chapter IX, Sections 1-3 of these Rules regarding information to be recorded, retained and provided upon request by BX Regulation or other applicable regulatory entity.

<u>FINE SCHEDULE</u>	<u>Audit Trail Information</u>	<u>Records Provisions</u>
<u>First Offense</u>	<u>\$1,500</u>	<u>\$2,000</u>
<u>Second Offense</u>	<u>\$3,000</u>	<u>\$4,000</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>	<u>\$5,000</u>

(g) Representation of Orders. Chapter VII, Section 12 of these Rules regarding Options Participants' restriction on execution of principal orders they represent as agent unless proper exposure parameters are applied.

FINE SCHEDULE

<u>First Offense</u>	<u>\$1,000</u>
<u>Second Offense</u>	<u>\$2,500</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>

(h) Trade Reporting. Chapter VI, Sections 14 and 15 of these Rules regarding all transactions effected on BX Options shall be submitted for clearance to the Clearing Corporation, the Options Participants' obligation to give up the name of the Clearing Participants and the prompt reporting of any change in this identity to BX Options.

FINE SCHEDULE

<u>First Offense</u>	<u>\$1,500</u>
<u>Second Offense</u>	<u>\$3,000</u>
<u>Subsequent Offense</u>	<u>\$5,000</u>

(i) Locked and Cross Market Violations. Chapter XII, Section 3 of these Rules (Locked and Crossed Markets) regarding procedures to be followed in the instance of a Locked or a Crossed Market.

FINE SCHEDULE

<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$2,500</u>

(j) Trade-Through Violations. Chapter XII, Section 2(a) of these Rules (Order Protection) regarding trade-throughs.

FINE SCHEDULE

<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$2,500</u>

(k) Failure to Timely File Amendments to Form U4, Form U5 and Form BD. Any member and/or participant organization that is required to file Form U4, Form U5 or Form BD pursuant to Section 1031 of the BX Rules and the Securities and Exchange Act of 1934, and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Members and/or participant organizations shall amend Form U4, Form U5 and Form BD not later than thirty (30) days after the filer knew of or should have known of the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

<u>First Offense</u>	<u>\$500</u>
<u>Second Offense</u>	<u>\$1,000</u>
<u>Subsequent Offense</u>	<u>\$2,000</u>

Chapter XI Doing Business with the Public

Sec. 1 Eligibility

An OEF may only transact business with Public Customers if such Participant also is a member of another registered national securities exchange or association with which the Exchange has entered into an agreement under Rule 17d-2 under the Exchange Act pursuant to which such other exchange or association shall be the designated options examining authority for the OEF. Eligibility to transact business with the public shall be based upon an OEF's meeting the general requirements set forth in this Chapter and the net capital requirements set forth in Exchange Act Rule 15c3-1 (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

Sec. 2 Registration of Options Principals

(a) No OEF shall be approved to transact options business with the public until those associated persons who are designated as Options Principals have been approved by and registered with the Exchange. Persons engaged in the management and supervision of the OEF's business pertaining to options contracts shall be designated as Options Principals and shall have responsibility for the overall oversight of the OEF's options related activities on the Exchange.

(b) In connection with their registration, Options Principals shall file an application with the Secretary on a form prescribed by the Exchange, shall successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the options business, and shall sign an agreement to abide by the Rules of the Exchange and the Rules of the Clearing Corporation; provided, however, that Options Principals of Participants that are members of another national securities exchange or association that has standards of approval acceptable to the Exchange may be deemed to be approved by and registered with the Exchange, so long as such Options Principals are approved by and registered

with such other exchange or association.

(c) Termination of employment or affiliation of any Options Principal in such capacity shall be reported promptly to the Exchange together with a copy of the Uniform Termination Notice for Securities Industry Registration ("Form U-5") filed with respect thereto and a statement of the reason for such termination.

Sec. 3 Registration of Representatives

(a) No OEF shall be approved to transact business with the public until those persons associated with it who are designated representatives have been approved by and registered with the Exchange.

(b) Persons who perform duties for the OEF which are customarily performed by sales representatives or branch office managers shall be designated as representatives of the OEF.

(c) In connection with their registration, designated representatives shall file an application on a form prescribed by the Exchange, shall successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the securities business and options transactions, and shall sign an agreement to abide by the Rules of the Exchange and the Rules of the Clearing Corporation; provided, however, that designated representatives of OEFs who are Participants of another national securities exchange or association that has standards of approval comparable and acceptable to the Exchange may be deemed to be approved by and registered with the Exchange, so long as such designated representatives are approved by and registered with such other exchange or association.

Sec. 4 Other Affiliations of Registered Persons

Except with the express written permission of BX Regulation, every registered person shall devote his entire time during business hours to the business of the OEF employing him, or to the business of its affiliates that are engaged in the transaction of business as a broker or dealer in securities or commodities or in such other businesses as have been approved by the OEF's designated examining authority.

Sec. 5 Discipline, Suspension, Expulsion of Registered Persons

The Exchange or BX Regulation may discipline, suspend or terminate the registration of any registered person for violation of the Rules of the Exchange or the Rules of the Clearing Corporation.

Sec. 6 Branch Offices

(a) Every OEF approved to do options business with the public under this Chapter shall file with BX Regulation and keep current a list of each of its branch offices showing the location of each such office and the name of the manager of each such office.

(b) No branch office of an OEF shall transact options business with the public unless the manager of such branch office has been qualified as a Registered Options and Security Futures Principal; provided, that this requirement shall not apply to branch offices in which not more than three (3) representatives are located

so long as the OEF can demonstrate to the satisfaction of BX Regulation that the options activities of such branch offices are appropriately supervised by a Registered Options and Security Futures Principal.

Sec. 7 Opening of Accounts

(a) Approval Required. No OEF shall accept an order from a Public Customer to purchase or write an options contract unless the Public Customer's account has been approved for options transactions in accordance with the provisions of this Section.

(b) Diligence in Opening Account. In approving a Public Customer's account for options transactions, an OEF shall exercise due diligence to learn the essential facts as to the Public Customer and his investment objectives and financial situation, and shall make a record of such information, which shall be retained in accordance with SEC Rule 17a-4 under the Exchange Act. Based upon such information, the branch office manager or other Options Principal shall approve in writing the Public Customer's account for options transactions; provided, that if the branch office manager is not an Options Principal, his approval shall within a reasonable time be confirmed by an Options Principal.

i. In fulfilling its obligations under this paragraph (b) with respect to options Public Customers that are natural persons, an OEF shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):

1) investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);

2) employment status (name of employer, self-employed or retired);

3) estimated annual income from all sources;

4) estimated net worth (exclusive of primary residence);

5) estimated liquid net worth (cash, securities, other);

6) marital status;

7) number of dependents;

8) age; and

9) investment experience and knowledge (e.g., number of years, size, frequency and type of transactions for options, stocks and bonds, commodities, other).

ii. In addition to the information required in subparagraph (b)(i) above, the Public Customer's account records shall contain the following information, if applicable:

1) the source or sources of background and financial information (including estimates) concerning the Public Customer;

2) discretionary trading authorization, including agreement on file, name, relationship to Public Customer and experience of person holding trading authority;

3) date(s) options disclosure document(s) furnished to Public Customer;

4) nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions);

5) name of representative;

6) name of the Options Principal approving account;

7) date of approval; and

8) dates of verification of currency of account information.

iii. Refusal of a Public Customer to provide any of the information called for in this paragraph (b) shall be so noted on the Public Customer's records at the time the account is opened. Information provided shall be considered together with other information available in determining whether and to what extent to approve the account for options transactions.

(c) Verification of Public Customer Background and Financial Information. The background and financial information upon which the account of every new Public Customer that is a natural person has been approved for options trading, including all of the information required in paragraph (b)(ii) of this Section, unless the information is included in the Public Customer's account agreement, shall be sent to the Public Customer for verification or correction within fifteen (15) days after the Public Customer's account has been approved for options transactions. A copy of the background and financial information on file with the OEF shall also be sent to the Public Customer for verification within fifteen (15) days after the OEF becomes aware of any material change in the Public Customer's financial situation. Absent advice from the Public Customer to the contrary, the information will be deemed to be verified.

(d) Agreements to Be Obtained. Within fifteen (15) days after a Public Customer's account has been approved for options transactions, an OEF shall obtain from the Public Customer a written agreement that the account shall be handled in accordance with the Rules of the Exchange and the Rules of the Clearing Corporation and that such Public Customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Chapter III, Section 7 and 9 of these Rules.

(e) Options Disclosure Documents to Be Furnished. At or prior to the time a Public Customer's account is approved for options transactions, an OEF shall furnish the Public Customer with one (1) or more current options disclosure documents issued by the OCC in accordance with the requirements of Section 15 of this Chapter XI (Delivery of Current Options Disclosure Documents and Prospectus).

(f) Every OEF transacting business with the public in uncovered options contracts shall develop, implement and maintain specific written procedures governing the conduct of such business that shall at

least include the following:

- i. specific criteria and standards to be used in evaluating the suitability of a Public Customer for uncovered short options transactions;
- ii. specific procedures for approval of accounts engaged in writing uncovered short options contracts (which for the purposes of this Section shall include combinations and any transactions that involve naked writing), including written approval of such accounts by an Options Principal;
- iii. designation of a specific Registered Options and Security Futures Principal(s) as responsible for approving accounts that do not meet the specific criteria and standards for writing uncovered short options transactions and for maintaining written records of the reasons for every account so approved;
- iv. establishment of specific minimum net equity requirements for initial approval and maintenance of Public Customer uncovered options accounts; and
- v. requirements that Public Customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short options transactions, at or prior to the initial uncovered short options transaction pursuant to Section 15 of this Chapter XI (Delivery of Current Options Disclosure Documents and Prospectus).

Sec. 8 Supervision of Accounts

(a) *Duty to Supervise - General.* Each member that conducts a public customer options business shall ensure that its written supervisory system policies and procedures pursuant to NASD Rules 3010, 3012, and 3013 adequately address the member's public customer options business.

(b) *Duty to Supervise — Non-Participant Accounts.* Every OEF shall develop and implement a written program for the review of the its non-Participant Public Customer accounts and all orders in such accounts, insofar as such accounts and orders relate to options contracts.

(c) *Duty to Supervise — Uncovered Short Options.* Every OEF shall develop and implement specific written procedures concerning the manner of supervision of Public Customer accounts maintaining uncovered short (written) options positions (which for the purposes of this Section shall include combinations and any transactions that involve naked writing) and specifically providing for frequent supervisory review of such accounts.

(d) Reserved.

(e) *Maintenance of Public Customer Records.* Background and financial information of Public Customers who have been approved for options transactions shall be maintained at the principal supervisory office having jurisdiction over the office servicing a Public Customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each Public Customer's options account on a timely basis to determine:

- i. the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;
- ii. the size and frequency of options transactions;
- iii. commission activity in the account;
- iv. profit or loss in the account;
- v. undue concentration in any options class or classes; and
- vi. compliance with the provisions of Regulation T of the Federal Reserve Board.

Sec. 9 Suitability of Recommendations

(a) Every OEF, Options Principal or representative who recommends to a Public Customer the purchase or sale (writing) of any options contract shall have reasonable grounds for believing that the recommendation is not unsuitable for such Public Customer on the basis of the information furnished by such Public Customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such OEF, Options Principal or representative.

(b) No OEF, Options Principal or representative shall recommend to a Public Customer an opening transaction in any options contract unless the person making the recommendation has a reasonable basis for believing at the time of making the recommendation that the Public Customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the options contract.

Sec. 10 Discretionary Accounts

(a) Authorization and Approval Required. No OEF shall exercise any discretionary power with respect to trading in options contracts in a Public Customer's account unless such Public Customer has given prior written authorization and the account has been accepted in writing by a Registered Options and Security Futures Principal.

i. Each participant shall designate specific Registered Options and Security Futures Principals to review discretionary accounts. A Registered Options and Security Futures Principal other than the Registered Options and Security Futures Principal who accepted the account shall review the acceptance of each discretionary account to determine that the Registered Options and Security Futures Principal accepting the account had a reasonable basis for believing that the Public Customer was able to understand and bear the risks of the strategies or transactions proposed, and the reviewing Registered Options and Security Futures Principal shall maintain a record of the basis for his determination.

ii. Every discretionary order shall be identified as discretionary on the order at the time of its entry into

BX Options market.

iii. Discretionary accounts shall receive frequent appropriate supervisory review by a Registered Options and Security Futures Principal who is not exercising the discretionary authority.

(b) Record of Transactions. A record shall be made of every options transaction for an account with respect to which an OEF is vested with any discretionary power, such record to include the name of the Public Customer, options class and series, number of contracts, premium, and date and time when such transaction took place.

(c) Excessive Transactions Prohibited. No OEF shall effect with or for any Public Customer's account with respect to which such Participant is vested with any discretionary power any transactions of purchase or sale of options contracts that are excessive in size or frequency in view of the financial resources and character of such account.

(d) Options Programs. Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the Public Customer shall be furnished with a written explanation of the nature and risks of such programs.

(e) Discretion as to Price or Time Excepted. This rule shall not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts in a specified security shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent a specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined in Rule 3110(c)(4), pursuant to valid Good-Till-Cancelled instructions issued on a "not held" basis. Any exercise of time and price discretion must be reflected on the order ticket.

(f) Any participant that does not utilize computerized surveillance tools for the frequent and appropriate review of discretionary account activity must establish and implement procedures to require Registered Options and Security Futures Principal qualified individuals who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

Sec. 11 Confirmation to Public Customers

(a) Every OEF shall promptly furnish to each Public Customer a written confirmation of each transaction in options contracts that shows the underlying security, type of options, expiration month, exercise price, number of options contracts, premium, commissions, date of transaction and settlement date, and shall indicate whether the transaction is a purchase or sale and whether a principal or agency transaction.

(b) The confirmation shall, by appropriate symbols, distinguish between Exchange options transactions and other transactions in option contracts though such confirmation does not need to specify the exchange or exchanges on which such option contracts were executed.

Sec. 12 Statement of Accounts to Public Customers

(a) Every OEF shall send to its Public Customers a statement of account showing security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement; provided, however, that such charges need not be specifically delineated on the statement if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

(b) With respect to options Public Customers having a general (margin) account, the Public Customer statement shall also provide the mark-to-market price and market value of each options position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account, and the general (margin) account equity. For purposes of this paragraph (b), general (margin) account equity shall be computed by subtracting the total of the short security values and any debit balance from the total of the long security values and any credit balance.

(c) The Public Customer statement shall bear a legend stating that further information with respect to commissions and other charges related to the execution of listed options transactions has been included in confirmations of such transactions previously furnished to the Public Customer, and that such information will be made available to the Public Customer promptly upon request.

(d) Public Customer statements shall bear a legend requesting that the Public Customer promptly advise the Participant of any material change in the Public Customer's investment objectives or financial situation.

(e) Public Customer statements shall be sent at least quarterly to all accounts having a money or a security position during the preceding quarter and at least monthly to all accounts having an entry during the preceding month.

Sec. 13 Statements of Financial Condition to Public Customers

Every OEF shall send to each of its Public Customers statements of the Participant's financial condition as required by SEC Rule 17a-5 under the Exchange Act.

Sec. 14 Addressing of Communications to Public Customers

No OEF shall address any communications to a Public Customer in care of any other person unless either: (1) the Public Customer, within the preceding twelve (12) months, has instructed the OEF in writing to send communications in care of such other persons, or (2) duplicate copies are sent to the Public Customer at some other address designated in writing by him.

Sec. 15 Delivery of Current Options Disclosure Documents and Prospectus

(a) *Options Disclosure Documents.* Every OEF shall deliver a current options disclosure document issued

by the OCC to each Public Customer at or prior to the time such Public Customer's account is approved for options transactions. Where a Public Customer is a broker or dealer, the OEF shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current options disclosure documents, as requested by the broker or dealer, to enable it to comply with the requirements of this Section 15.

i. The term "current options disclosure document" means, as to any category of underlying security, the most recent edition of such document that meets the requirements of Rule 9b-1 under the Exchange Act.

ii. A copy of each amendment to an options disclosure document shall be furnished to each Public Customer who was previously furnished the options disclosure document to which the amendment pertains, not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such Public Customer. BX Regulation will advise OEFs when an options disclosure document is amended.

(b) The written description of risks required by this Section 15 shall be in a format prescribed by the Exchange or in a format developed by the Participant, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

(c) Below is a sample risk description for use by OEFs to satisfy the requirements of paragraph (b) of this Section 15:

Special Statement for Uncovered Options Writers.

There are special risks associated with uncovered options writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all Public Customers approved for options transactions.

1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.

2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

3. Uncovered options writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account with little or no prior notice in

accordance with the investor's margin agreement.

4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.

5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.

6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period. NOTE: It is expected that you will read the booklet entitled CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS available from your broker. In particular, your attention is directed to the chapter entitled Risks of Buying and Writing Options. This statement is not intended to enumerate all of the risks entailed in writing uncovered options.

Sec. 16 Restrictions on Pledge and Lending of Public Customers' Securities

(a) No OEF shall lend, either to itself or to others, securities carried for the account of any Public Customer, unless such OEF shall first have obtained a separate written authorization from such Public Customer permitting the lending of the securities.

(b) Regardless of any agreement between an OEF and a Public Customer authorizing the OEF to lend or pledge such securities, no OEF shall lend or pledge more of such securities than is fair and reasonable in view of the indebtedness of the Public Customer to such OEF, except such lending as may be specifically authorized under paragraph (c) of this Section 16.

(c) No OEF shall lend securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be loaned in view of the indebtedness of the Public Customer, unless such OEF first obtains from such Public Customer a separate written authorization designating the particular securities to be loaned.

(d) No OEF shall hold securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be pledged in view of the indebtedness of the Public Customer, unless such securities are segregated and identified by a method that clearly indicates the interest of such Public Customer in those securities.

Sec. 17 Transactions of Certain Public Customers

(a) No OEF shall execute any transaction in securities or carry a position in any security in which:

i. an officer or employee of the Exchange, BX Regulation, BX Options or any national securities exchange that is a participant of the Clearing Corporation, or an officer or employee of a corporation in which the Exchange, or such other exchange owns the majority of the capital stock, is directly or indirectly interested, without the prior written consent of the Exchange; or

ii. a partner, officer, director, principal shareholder or employee of another OEF is directly or indirectly interested, without the consent of such other OEF.

(b) Where the required consent has been granted, duplicate reports of the transaction and position shall promptly be sent to the Exchange or OEF, as the case may be.

Sec. 18 Guarantees

No OEF shall guarantee a Public Customer against loss in his account or in any transaction effected with or for such Public Customer.

Sec. 19 Profit Sharing

(a) No OEF, person associated with an OEF or Options Principal shall share directly or indirectly in the profits or losses in any Public Customer's account, whether carried by such OEF, or any other OEF, without the prior written consent of the OEF carrying the account.

(b) Where such consent is obtained, the OEF, person associated with an OEF or Options Principal shall share in the profits or losses in such account only in direct proportion to the financial contribution made to the account by such person.

Sec. 20 Assuming Losses

No OEF shall assume for its own account any position established for a Public Customer in a security traded on the Exchange after a loss to the Public Customer has been established or ascertained, unless the position was created by the OEF's mistake or unless approval of BX Regulation has first been obtained.

Sec. 21 Transfer of Accounts

Every Options Participant shall expedite the transfer of a customer's account pursuant to BX Rules IM-2110-7 and 11870.

Sec. 22 Communications with Public Customers

Options Participants and associated persons of Options Participants shall be bound to comply with the Communications with Public Customers rule of the FINRA, as applicable, as though said rules were part of these Rules

Sec. 23 Fidelity Bond

Options Participants approved to transact business with the public under these Rules and every Clearing Participant shall comply with all applicable provisions of BX Rule 3020.

Sec. 24 Public Customer Complaints

(a) Every OEF conducting a non-Participant Public Customer business shall make and keep current a

separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved.

(b) The term "options-related complaint" shall mean any written statement by a Public Customer or person acting on behalf of a Public Customer alleging a grievance arising out of or in connection with listed options.

(c) The central file shall be located at the principal place of business of the Participant or such other principal office as shall be designated by the OEF.

i. Each options-related complaint received by a branch office of an OEF shall be forwarded to the office in which the separate, central file is located not later than thirty (30) days after receipt by the branch office.

ii. A copy of every options-related complaint shall be maintained at the branch office that is the subject of a complaint.

(d) At a minimum, the central file shall include:

i. identification of complainant;

ii. date complaint was received;

iii. identification of the representative servicing the account, if applicable;

iv. a general description of the subject of the complaint; and

v. a record of what action, if any, has been taken by the Participant with respect to the complaint.

Sec. 25 Telephone Solicitation

Options Participants and associated persons shall comply with all applicable provisions of BX Rule 2212.

Chapter XII Options Order Protection and Locked and Crossed Market Rules

Sec. 1 Definitions

The following terms shall have the meaning specified in this Rule solely for the purpose of this Chapter XII:

(1) "Best Bid" and "Best Offer" mean the highest priced Bid and the lowest priced Offer.

(2) "Bid" or "Offer" means the bid price or the offer price communicated by a member of an Eligible Exchange to any Broker/Dealer, or to any customer, at which it is willing to buy or sell, as either principal or agent, but shall not include indications of interest.

(3) "Broker/Dealer" means an individual or organization registered with the SEC in accordance with Section 15(b)(1) of the Exchange Act or a foreign broker or dealer exempt from such registration pursuant

to Rule 15a-6 under the Exchange Act.

(4) "Complex Trade" means: (i) the execution of an order in an option series in conjunction with the execution of one or more related order(s) in different option series in the same underlying security occurring at or near the same time in a ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.0) and for the purpose of executing a particular investment strategy; or (ii) the execution of a stock-option order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with the purchase or sale of option contract(s) on the opposite side of the market representing either (A) the same number of units of the underlying stock or convertible security, or (B) the number of units of the underlying stock or convertible security necessary to create a delta neutral position, but in no case in a ratio greater than eight (8) option contracts per unit of trading of the underlying stock or convertible security established for that series by the Clearing Corporation.

(5) "Crossed Market" means a quoted market in which a Protected Bid is higher than a Protected Offer in a series of an Eligible Class.

(6) "Customer" means an individual or organization that is not a Broker/Dealer.

(7) "Eligible Exchange" means a national securities exchange registered with the SEC in accordance with Section 6(a) of the Exchange Act that: (a) is a Participant Exchange in OCC (as that term is defined in Section VII of the OCC by-laws); (b) is a party to the OPRA Plan (as that term is described in Section I of the OPRA Plan); and (c) if the national securities exchange chooses not to become a party to this Plan, is a participant in another plan approved by the Commission providing for comparable Trade-Through and Locked and Crossed Market protection.

(8) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(9) "Intermarket Sweep Order (ISO)" means a limit order for an options series that meets the following requirements:

(a) When routed to an Eligible Exchange, the order is identified as an ISO;

(b) Simultaneously with the routing of the order, one or more additional ISOs, as necessary, are routed to execute against the full displayed size of any Protected Bid, in the case of a limit order to sell, or any Protected Offer, in the case of a limit order to buy, for the options series with a price that is superior to the limit price of the ISO, with such additional orders also marked as ISOs.

(10) "Locked Market" means a quoted market in which a Protected Bid is equal to a Protected Offer in a series of an Eligible Options Class.

(11) "NBBO" means the national best bid and offer in an option series as calculated by an Eligible Exchange.

(12) "Non-Firm" means, with respect to quotations, that Members of an Eligible Exchange are relieved of their obligation to be firm for their quotations pursuant to Rule 602 under the Exchange Act.

(13) "OCC" means The Options Clearing Corporation.

(14) "OPRA" means the Options Price Reporting Authority.

(15) "OPRA Plan" means the plan filed with the SEC pursuant to Section 11Aa(1)(C)(iii) of the Exchange Act, approved by the SEC and declared effective as of January 22, 1976, as from time to time amended.

(16) "Participant" means an Eligible Exchange whose participation in the Plan has become effective pursuant to Section 3(c) of the Plan.

(17) "Plan" means the Options Order Protection and Locked/Crossed Market Plan, as such plan may be amended from time to time.

(18) "Protected Bid" or "Protected Offer" means a Bid or Offer in an options series, respectively, that:

(a) Is disseminated pursuant to the OPRA Plan; and

(b) Is the Best Bid or Best Offer, respectively, displayed by an Eligible Exchange.

(19) "Protected Quotation" means a Protected Bid or Protected Offer.

(20) "Quotation" means a Bid or Offer.

(21) "SEC" means the United States Securities and Exchange Commission.

(22) "Trade-Through" means a transaction in an options series at a price that is lower than a Protected Bid or higher than a Protected Offer.

Sec. 2 Order Protection

(a) *Avoidance of Trade-Throughs.* Except as provided in paragraphs (b) and (c) below, Members shall not effect Trade-Throughs.

(b) *Exceptions to Trade-Through Liability.* The provisions of paragraph (a) pertaining to the satisfaction of Trade-Throughs shall not apply under the following circumstances:

(1) If an Eligible Exchange repeatedly fails to respond within one second to incoming orders attempting to access its Protected Quotations, the Exchange may bypass those Protected Quotations by:

(i) Notifying the non-responding Eligible Exchange immediately after (or at the same time as) electing self-help; and

(ii) Assessing whether the cause of the problem lies with its own systems and, if so, taking immediate steps to resolve the problem;

Any time a determination to bypass Protected Quotations of an Eligible Exchange is made pursuant to this sub-paragraph, the Exchange must promptly document the reasons supporting such determination.

(2) The transaction traded through a Protected Quotation being disseminated by an Eligible Exchange during a trading rotation;

(3) The transaction that constituted the Trade-Through occurred when there was a Crossed Market;

(4) The transaction that constitutes the Trade-Through is the execution of an order identified as an ISO;

(5) The transaction that constitutes the Trade-Through is effected by the Exchange while simultaneously routing an ISO to execute against the full displayed size of any better-priced Protected Quotation;

(6) The Eligible Exchange displaying the Protected Quotation that was traded through had displayed, within one second prior to execution of the Trade-Through, a Best bid or Best offer, as applicable, for the options series with a price that was equal or inferior to the price of the Trade-Through transaction;

(7) The Protected Quotation traded through was being disseminated from an Eligible Exchange whose Quotations were Non-Firm with respect to such options series;

(8) The transaction that constituted the Trade-Through was effected as a portion of a Complex Trade;

(9) The transaction that constituted the Trade-Through was the execution of an order for which, at the time of receipt of the order, a Member had guaranteed an execution at no worse than a specified price (a "stopped order"), where:

(i) the stopped order was for the account of a Customer;

(ii) the Customer agreed to the specified price on an order-by-order basis; and

(iii) the price of the Trade-Through was, for a stopped buy order, lower than the national Best Bid in the options series at the time of execution, or, for a stopped sell order, higher than the national Best Offer in the options series at the time of execution;

(10) The transaction that constituted the Trade-Through was the execution of an order that was stopped at a price that did not Trade-Through an Eligible Exchange at the time of the stop; or

(11) The transaction that constituted the Trade-Through was the execution of an order at a price that was not based, directly or indirectly, on the quoted price of the options series at the time of execution and for which the material terms were not reasonably determinable at the time the commitment to execute the order was made.

Sec. 3 Locked and Crossed Markets

(a) Prohibition. Except for quotations that fall within the provisions of paragraph (b) of this Rule, Members shall reasonably avoid displaying, and shall not engage in a pattern or practice of displaying,

any quotations that lock or cross a Protected Quotation.

(b) Exceptions.

(1) The locking or crossing quotation was displayed at a time when the Exchange was experiencing a failure, material delay, or malfunction of its systems or equipment;

(2) The locking or crossing quotation was displayed at a time when there is a Crossed Market; or

(3) The Member simultaneously routed an ISO to execute against the full displayed size of any locked or crossed Protected Bid or Protected Offer.

Sec. 4 Reserved

Chapter XIII Margin Requirements

Sec. 1 General Rule

No Participant or associated person may effect a transaction or carry an account for a Customer, whether a Participant or non-Participant of BX Options, without proper and adequate margin in accordance with this Chapter XIII and Regulation T.

Sec. 2 Time Margin Must be Obtained

The amount of margin required by this Chapter XIII shall be obtained as promptly as possible and in any event within a reasonable time.

Sec. 3 Margin Requirements

(a) A Participant or associated person must be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or the New York Stock Exchange ("NYSE") as the same may be in effect from time to time.

(b) Such election shall be made in writing by a notice filed with BX Regulation.

(c) Upon the filing of such election, a Participant or associated person shall be bound to comply with the margin rules of the CBOE or the NYSE, as applicable, as though said rules were part of these Rules.

Sec. 4 Margin Required is Minimum

(a) The amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby: but nothing in these Rules shall be construed to prevent a Participant or associated person from requiring margin in an amount greater than that specified.

(b) BX Options may at any time impose higher margin requirements with respect to such positions when it

deems such higher margin requirements to be advisable.

Sec. 5 Joint Back Office Participants

(a) Requirements for Joint Back Office Participants. Every Participant or associated person that maintains a joint back office ("JBO") arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal Reserve System that is not an NYSE member and that has elected instead to be bound by CBOE margin requirements shall comply with the requirements prescribed below:

i. Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 and subject to the capital requirements prescribed by Rule 15c3-1 therein; and shall not be eligible to operate under the provisions of SEC Rule 15c3-1(b)(i).

ii. Each JBO participant must meet and maintain a minimum account equity requirement of \$1,000,000 with each clearing broker-dealer where a JBO account is carried. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Chapter XIII of these Rules.

iii. Each JBO participant must meet and maintain the ownership standards established by the clearing broker-dealer; and

iv. Each JBO participant must employ (or have access to) a qualified Series 27 principal.

(b) Requirements for Clearing Participants Carrying the Accounts of JBO Participants. Every Clearing Participant carrying JBO accounts in accordance with Regulation T, Section 220.7 of the Federal Reserve Board is subject to the requirements outlined below:

i. Each Participant which carries JBO accounts shall not allow its (a) tentative net capital to fall below \$25 million; or in the alternative its (b) net capital to fall below \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options market maker accounts and provided that at least 60% of the sum of gross haircuts calculated for all options market maker and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options market maker transactions. In addition, the firm operating pursuant to (b) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of gross options market maker deductions to adjusted net capital in accordance with the provisions of SEC Rule 15c3-1.

ii. Each Participant which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or

securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Chapter XIII of these Rules.

iii. Each Participant which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO Participant's account equity and the proprietary haircut calculated pursuant to SEC Rule 15c3- 1 for the positions maintained in such account.

iv. Each Participant which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.

v. The Participant must develop risk analysis standards which are acceptable to the BX Regulation. At minimum these standards must comply with the requirements of Chapter IX, Section 6 of these Rules.

vi. Each Participant which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing, of its intention to carry such accounts.

vii. If at any time a Clearing Participant operating pursuant to paragraphs i(a) or (b) above determines that its tentative net capital or that its net capital, respectively, has fallen below the applicable requirements, such clearing member shall immediately notify BX Regulation of such deficiency by telegraphic or facsimile notice; and be subject to the prohibitions against withdrawal of equity capital set forth in SEC Rule 15c3-1(e) and to the prohibitions against reduction, prepayment, and repayment of subordination agreements set forth in paragraph (b)(1) of SEC Rule 15c3-1d, as if such broker or dealer's net capital were below the minimum standards specified by each of these paragraphs.

Supplementary Material: . . .

.01 JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Chapter XIII of these Rules.

Chapter XIV Index Rules

Sec. 1 Application of Index Rules

The Sections in this Chapter are applicable only to index options (options on indices of securities as defined below). The Sections in Chapters I through XIII are also applicable to the options provided for in this Chapter, unless such Sections are specifically replaced or are supplemented by Sections in this Chapter. Where the Sections in this Chapter indicate that particular indices or requirements with respect to particular indices will be "Specified," BX Options shall file a proposed rule change with the Commission to specify such indices or requirements.

Sec. 2 Definitions

(a) The term "aggregate exercise price" means the exercise price of the options contract times the index

multiplier.

(b) The term "American-style index option" means an option on an industry or market index that can be exercised on any business day prior to expiration.

(c) The term "A.M.-settled index option" means an index options contract for which the current index value at expiration shall be determined as provided in Section 11(a)(5) of this Chapter

(d) The term "call" means an options contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the current index value times the index multiplier.

(e) The term "current index value" with respect to a particular index options contract means the level of the underlying index reported by the reporting authority for the index, or any multiple or fraction of such reported level specified by BX Options. The current index value with respect to a reduced-value long term options contract is one-tenth of the current index value of the related index option. The "closing index value" shall be the last index value reported on a business day.

(f) The term "exercise price" means the specified price per unit at which the current index value may be purchased or sold upon the exercise of the option.

(g) The term "European-style index option" means an option on an industry or market index that can be exercised only on the last business day prior to the day it expires.

(h) The term "index multiplier" means the amount 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 contract.

(i) The term "industry index" and "narrow-based index" mean an index designed to be representative of a particular industry or a group of related industries.

(j) The term "market index" and "broad-based index" mean an index designed to be representative of a stock market as a whole or of a range of companies in unrelated industries.

(k) The term "put" means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option, to sell to the Clearing Corporation the current index value times the index multiplier.

(l) The term "Quarterly Option 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 expires at the close of business on the last business day of a calendar quarter.

(m) The term "reporting authority" with respect to a particular index means the institution or reporting service designated by BX as the official source for (1) calculating the level of the index from the reported

prices of the underlying securities that are the basis of the index and (2) reporting such level. The reporting authority for each index approved for options trading on BX Options shall be Specified (as provided in Section 1 of this Chapter) in the Supplementary Material to this Section 2.

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

(o) The term "underlying security" or "underlying securities" with respect to an index options contract means any of the securities that are the basis for the calculation of the index.

Supplementary Material to Section 2

01. Index Reporting Authority-

Reserved.

Sec. 3 Designation of a Broad-Based Index

(a) The component securities of an index underlying a broad-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a broad-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) BX Options may trade options on a broad-based index pursuant to Rule 19b-4(e) of the Securities Exchange Act of 1934, if each of the following conditions is satisfied:

(1) The index is broad-based, as defined in Section 2(j) of this Chapter;

(2) Options on the index are designated as A.M.-settled;

(3) The index is capitalization-weighted, modified capitalization weighted, price-weighted, or equal dollar-weighted;

(4) The index consists of 50 or more component securities;

(5) Component securities that account for at least ninety-five percent (95%) of the weight of the index have a market capitalization of at least \$75 million, except that component securities that account for at least sixty-five percent (65%) of the weight of the index have a market capitalization of at least \$100 million;

(6) Component securities that account for at least eighty percent (80%) of the weight of the index satisfy the requirements of Section 3 of Chapter IV applicable to individual underlying securities;

(7) Each component security that accounts for at least one percent (1%) of the weight of the index has an average daily trading volume of at least 90,000 shares during the last six month period;

(8) No single component security accounts for more than ten percent (10%) of the weight of the index, and the five highest weighted component securities in the index do not, in the aggregate, account for more than thirty-three percent (33%) of the weight of the index;

(9) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act;

(10) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not, in the aggregate, represent more than twenty percent (20%) of the weight of the index;

(11) The current index value is widely disseminated at least once every fifteen (15) seconds by OPRA, CTA/CQ, or one or more major market data vendors during the time options on the index are traded on BX Options;

(12) BX Options reasonably believes it has adequate system capacity to support the trading of options on the index, based on a calculation of BX Options' current Independent System Capacity Advisor ("ISCA") allocation and the number of new messages per second expected to be generated by options on such index;

(13) An equal dollar-weighted index is rebalanced at least once every calendar quarter;

(14) If an index is maintained by a broker-dealer, the index is calculated by a third-party who is not a broker-dealer, and the broker-dealer has erected an informational barrier around its personnel who have access to information concerning changes in, and adjustments to, the index;

(15) BX Options has written surveillance procedures in place with respect to surveillance of trading of options on the index.

(c) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (b) above:

(1) The requirements set forth in subparagraphs (b)(1) - (b)(3) and (b)(9) - (b)(15) must continue to be satisfied. The requirements set forth in subparagraphs (b)(5) - (b)(8) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than ten percent (10%) from the number of component securities in the index at the time of its initial listing. In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless the continued listing of that class of index options has been approved by the SEC under Section 19(b) (2) of the Exchange Act.

Sec. 4 Dissemination of Information

(a) BX Options shall disseminate, or shall assure that the current index value is disseminated, after the close of business and from time-to-time on days on which transactions in index options are made on BX OPTIONS.

(b) BX Options shall maintain, or shall assure that the current index value is maintained in files available to the public, information identifying the stocks whose prices are the basis for calculation of the index and the method used to determine the current index value.

Sec. 5 Position Limits for Broad-Based Index Options

(a) Options Participants shall comply with the applicable rules of the Chicago Board Options Exchange with respect to position limits for broad-based index options or with the applicable rules of BX Options for broad-based index options traded on BX Options but not traded on the Chicago Board Options Exchange.

(b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value indices. For such purposes, ten reduced-value contracts shall equal one contract.

Sec. 6 Designation of Narrow-Based and Micro-Narrow-Based Index Options

(a) The component securities of an index underlying a narrow-based index option contract need not meet the requirements of Section 3 of Chapter IV of these Rules (Criteria for Underlying Securities). Except as set forth in subparagraph (b) below, the listing of a class of index options on a narrow-based index requires the filing of a proposed rule change to be approved by the SEC under Section 19(b) of the Exchange Act.

(b) *Narrow-Based Index.* BX Options may trade options on a narrow-based index pursuant to Rule 19b-4(e) of the 1934 Act, if each of the following conditions is satisfied:

(1) The options are designated as A.M.-settled index options;

(2) The index is capitalization-weighted, price-weighted, equal dollar-weighted, or modified capitalization-weighted, and consists of ten or more component securities;

(3) Each component security has a market capitalization of at least \$75 million, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, the market capitalization is at least \$50 million;

(4) Trading volume of each component security has been at least one million shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate

account for no more than 10% of the weight of the index, trading volume has been at least 500,000 shares for each of the last six months;

(5) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average monthly trading volume of at least 2,000,000 shares over the past six months;

(6) No single component security represents more than 30% of the weight of the index, and the five highest weighted component securities in the index do not in the aggregate account for more than 50% (65% for an index consisting of fewer than 25 component securities) of the weight of the index;

(7) Component securities that account for at least 90% of the weight of the index and at least 80% of the total number of component securities in the index satisfy the requirements of Chapter IV, Section 3 applicable to individual underlying securities;

(8) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS of the Securities Exchange Act of 1934.

(9) Non-U.S. component securities (stocks or ADRs) that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 20% of the weight of the index;

(10) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on the Exchange;

(11) An equal dollar-weighted index will be rebalanced at least once every calendar quarter; and

(12) If an underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has erected a "Chinese Wall" around its personnel who have access to information concerning changes in and adjustments to the index.

(c) *Maintenance Criteria.* The following maintenance listing standards shall apply to each class of index options originally listed pursuant to subsection (b) above:

(1) The requirements stated in subsections (b)(1), (3), (6), (7), (8), (9), (10), (11) and (12) must continue to be satisfied, provided that the requirements stated in subparagraph (b)(6) must be satisfied only as of the first day of January and July in each year;

(2) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing, and in no event may be less than nine component securities;

(3) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in

the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;

(4) In a capitalization-weighted index or a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months.

In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless such failure is determined by BX Options not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the Exchange Act.

(d) Notwithstanding paragraph (a) above, BX Options may trade options on a Micro Narrow-Based security index pursuant to Rule 19b-4(e) of the Exchange Act, if each of the following conditions is satisfied:

(1) The Index is a security index:

(i) that has 9 or fewer component securities; or

(ii) in which a component security comprises more than 30 percent of the index's weighting; or

(iii) in which the 5 highest weighted component securities in the aggregate comprise more than 60 percent of the index's weighting; or

(iv) in which the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting have an aggregate dollar value of average daily trading volume of less than \$50,000,000 (or in the case of an index with 15 or more component securities, \$30,000,000) except that if there are two or more securities with equal weighting that could be included in the calculation of the lowest weighted component securities comprising, in the aggregate, 25 percent of the index's weighting, such securities shall be ranked from lowest to highest dollar value of average daily trading volume and shall be included in the calculation based on their ranking starting with the lowest ranked security;

(2) The index is capitalization-weighted, modified capitalization-weighted, price-weighted, share weighted, equal-dollar weighted, approximate equal-dollar weighted, or modified equal-dollar weighted;

(i) For the purposes of this paragraph (d), an approximate equal-dollar weighted index is composed of one or more securities in which each component security will be weighted equally based on its market price on the index's selection date and the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying

component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. BX Options reserves the right to rebalance quarterly at its discretion.

(ii) For the purposes of this paragraph (d), a modified equal-dollar weighted index is an index in which each underlying component represents a pre-determined weighting percentage of the entire index. Each component is assigned a weight that takes into account the relative market capitalization of the securities comprising the index. A modified equal-dollar weighted index will be balanced quarterly.

(iii) For the purposes of this paragraph (d), a share-weighted index is calculated by multiplying the price of the component security by an adjustment factor. Adjustment factors are chosen to reflect the investment objective deemed appropriate by the designer of the index and will be published by the Exchange as part of the contract specifications. The value of the index is calculated by adding the weight of each component security and dividing the total by an index divisor, calculated to yield a benchmark index level as of a particular date. A share-weighted index is not adjusted to reflect changes in the number of outstanding shares of its components. A share-weighted Micro Narrow-Based index will not be rebalanced. If a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under Subsection (e) of this rule, BX Options will restrict trading in existing option series to closing transactions and will not issue additional series for that index.

(iv) BX Options may rebalance any Micro Narrow-Based index on an interim basis if warranted as a result of extraordinary changes in the relative values of the component securities. To the extent investors with open positions must rely upon the continuity of the options contract on the index, outstanding contracts are unaffected by rebalancings.

(3) Each component security in the index has a minimum market capitalization of at least \$75 million, except that each of the lowest weighted securities in the index that in the aggregate account for no more than 10% of the weight of the index may have a minimum market capitalization of only \$50 million;

(4) The average daily trading volume in each of the preceding six months for each component security in the index is at least 45,500 shares, except that each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index may have an average daily trading volume of only 22,750 shares for each of the last six months;

(5) In a capitalization-weighted index, the lesser of: (1) the five highest weighted component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months; or (2) the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of component securities in the index each have had an average daily trading volume of at least 90,000 shares over the past six months;

(6) Subject to subparagraphs (4) and (5) above, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements applicable to individual underlying securities;

(7)

(i) Each component security in the index is a "reported security" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(ii) Foreign securities or ADRs that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(8) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on BX Options;

(9) An equal dollar-weighted index will be rebalanced at least once every quarter;

(10) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

(11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act; and

(12) Cash settled index options are designated as A.M.-settled options.

(e) The following maintenance listing standards shall apply to each class of index options originally listed pursuant to paragraph (d) above:

(1) The index meets the criteria of paragraph (d)(1) of this Rule;

(2) Subject to subparagraphs (9) and (10) below, the component securities that account for at least 90% of the total index weight and at least 80% of the total number of component securities in the index must meet the requirements of Section 3 of Chapter IV.

(3) Each component security in the index has a market capitalization of at least \$75 million, except that each of the lowest weighted component securities that in the aggregate account for no more than 10% of the weight of the index may have a market capitalization of only \$50 million;

(4) Each component security must be an "NMS stock" as defined in Rule 600 of Regulation NMS under the Exchange Act; and

(5) Foreign securities or ADRs thereon that are not subject to comprehensive surveillance sharing agreements do not represent more than 20% of the weight of the index;

(6) The current underlying index value will be reported at least once every fifteen seconds during the time the index options are traded on BX Options;

(7) If the underlying index is maintained by a broker-dealer, the index is calculated by a third party who is not a broker-dealer, and the broker-dealer has in place an information barrier around its personnel who have access to information concerning changes in and adjustments to the index;

- (8) The total number of component securities in the index may not increase or decrease by more than 33 1/3% from the number of component securities in the index at the time of its initial listing;
- (9) Trading volume of each component security in the index must be at least 500,000 shares for each of the last six months, except that for each of the lowest weighted component securities in the index that in the aggregate account for no more than 10% of the weight of the index, trading volume must be at least 400,000 shares for each of the last six months;
- (10) In a capitalization-weighted index and a modified capitalization-weighted index, the lesser of the five highest weighted component securities in the index or the highest weighted component securities in the index that in the aggregate represent at least 30% of the total number of stocks in the index each have had an average monthly trading volume of at least 1,000,000 shares over the past six months;
- (11) Each component security in the index is registered pursuant to Section 12 of the Exchange Act;
- (12) In an approximate equal-dollar weighted index, the index must be reconstituted and rebalanced if the notional value of the largest component is at least twice the notional volume of the smallest component for fifty percent or more of the trading days in the three months prior to December 31 of each year. For purposes of this provision the "notional value" is the market price of the component times the number of shares of the underlying component in the index. Reconstitution and rebalancing are also mandatory if the number of components in the index is greater than five at the time of rebalancing. BX Options reserves the right to rebalance quarterly at its discretion;
- (13) In a modified equal-dollar weighted index BX Options will rebalance the index quarterly;
- (14) In a share-weighted index, if a share-weighted Micro Narrow-Based Index fails to meet the maintenance listing standards under paragraph (e) of this Section BX Options will not re-balance the index, will restrict trading in existing option series to closing transactions, and will not issue additional series for that index; and
- (15) In the event a class of index options listed on BX Options fails to satisfy the maintenance listing standards set forth herein, BX Options shall not open for trading any additional series of options of that class unless such failure is determined by BX Options not to be significant and the Commission concurs in that determination, or unless the continued listing of that class of index options has been approved by the Commission under Section 19(b)(2) of the 1934 Act.

Sec. 7 Position Limits for Industry and Micro-Narrow Based Index Options

- (a) Options Participants shall comply with the applicable rules of the Chicago Board Options Exchange with respect to position limits for Industry and Micro-Narrow Based Index Options traded on BX Options and also on the Chicago Board Options Exchange or with the applicable rules of BX Options for industry index options traded on BX Options but not traded on the Chicago Board Options Exchange
- (b) Index options contracts shall not be aggregated with options contracts on any stocks whose prices are

the basis for calculation of the index.

(c) Positions in reduced-value index options shall be aggregated with positions in full-value index options. For such purposes, ten (10) reduced-value options shall equal one (1) full-value contract.

Sec. 8 Exemptions from Position Limits

An options Participant may rely upon any available exemptions from applicable position limits granted from time to time by an Options Exchange for any options contract traded on BX Options provided that such Options Participant (1) provides BX Regulation with a copy of any written exemption issued by another Options Exchange or a written, description of any exemption issued by another Options Exchange other than in writing containing sufficient detail for BX Regulation to verify the validity of that exemption with the issuing Exchange, and (2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemptions with respect to their trading on BX Options.

Sec. 9 Exercise Limits

(a) In determining compliance with Section 9 of Chapter III of these Rules (Exercise Limits), exercise limits for index options contracts shall be equivalent to the position limits prescribed for options contracts with the nearest expiration date in Section 5 or Section 7 of this Chapter.

(b) For a market-maker granted an exemption to position limits pursuant to Section 8(c) of Chapter III of these Rules (Exemptions from Position Limits), the number of contracts that can be exercised over a five business day period shall equal the market-maker's exempted position.

(c) In determining compliance with exercise limits applicable to stock index options, options contracts on a stock index group shall not be aggregated with options contracts on an underlying stock or stocks included in such group, options contracts on one stock index group shall not be aggregated with options contracts on any other stock index group.

(d) With respect to index options contracts for which an exemption has been granted in accordance with the provisions of Section 8(a) of this Chapter, the exercise limit shall be equal to the amount of the exemption.

Sec. 10 Trading Sessions

(a) Days and Hours of Business. Except as otherwise provided in this Rule or under unusual conditions as may be determined by BX Regulation, transactions in index options may be effected on BX Options between the hours of 9:30 a.m. and 4:15 p.m. Eastern time. With respect to options on foreign indexes, BX Regulation shall determine the days and hours of business.

(b) To begin trading at 9:30 am, an opening shall be held in each class of index options as provided in Section 8 of Chapter VI of these Rules (Opening the Market).

(c) Instituting Halts and Suspensions. Trading on BX Options in any index option shall be halted or suspended whenever trading in underlying securities whose weighted value represents more than twenty percent (20%), in the case of a broad based index, and ten percent (10%) for all other indices, of the index value is halted or suspended. BX Regulation also may halt trading in an index option when, in his or her judgment, such action is appropriate in the interests of a fair and orderly market and to protect investors. Among the facts that may be considered are the following:

(1) whether all trading has been halted or suspended in the market that is the primary market for a plurality of the underlying stocks;

(2) whether the current calculation of the index derived from the current market prices of the stocks is not available;

(3) the extent to which the opening has been completed or other factors regarding the status of the opening; and

(4) other unusual conditions or circumstances detrimental to the maintenance of a fair and orderly market are present, including, but not limited to, the activation of price limits on futures exchanges.

(d) Resumption of Trading Following a Halt or Suspension. Trading in options of a class or series that has been the subject of a halt or suspension by BX Regulation may resume if BX Regulation determines that the interests of a fair and orderly market are served by a resumption of trading. Among the factors to be considered in making this determination are whether the conditions that led to the halt or suspension are no longer present, and the extent to which trading is occurring in stocks underlying the index. At the end of a halt, trading in each class of index options shall resume as provided in Section 4 of Chapter V of these Rules (Resumption of Trading After A Halt).

(e) Circuit Breakers. Section 5 of Chapter V of these Rules (Trading Halts Due to Extraordinary Market Volatility) applies to index options trading with respect to the initiation of a marketwide trading halt commonly known as a "circuit breaker."

(f) Special Provisions for Foreign Indices. When the hours of trading of the underlying primary securities market for an index option do not overlap or coincide with those of BX Options, all of the provisions as described in paragraphs (c), (d) and (e) above shall not apply except for (c)(4).

(g) Pricing When Primary Market Does Not Open. When the primary market for a security underlying the current index value of an index option does not open for trading on a given day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, based on the opening price of that security on the next day that its primary market is open for trading. This procedure shall not be used if the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation.

Sec. 11 Terms of Index Options Contracts

(a) General.

(1) Meaning of Premium Bids and Offers. Bids and offers shall be expressed in terms of dollars and cents per unit of the index.

(2) Exercise Prices. BX Options shall determine fixed-point intervals of exercise prices for call and put options.

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

(4) Reserved.

(5) A.M.-Settled Index Options. The last day of trading for A.M.-settled index options shall be the business day preceding the last day of trading in the underlying securities prior to expiration. The current index value at the expiration of an A.M.-settled index option shall be determined, for all purposes under these Rules and the Rules of the Clearing Corporation, on the last day of trading in the underlying securities prior to expiration, by reference to the reported level of such index as derived from first reported sale (opening) prices of the underlying securities on such day, except that:

(i) In the event that the primary market for an underlying security does not open for trading on that day, the price of that security shall be determined, for the purposes of calculating the current index value at expiration, as set forth in Section 9(g) of this Chapter, unless the current index value at expiration is fixed in accordance with the Rules and By-Laws of the Clearing Corporation; and

(ii) In the event that the primary market for an underlying security is open for trading on that day, but that particular security does not open for trading on that day, the price of that security, for the purposes of calculating the current index value at expiration, shall be the last reported sale price of the security. The following A.M.-settled index options are approved for trading on BX Options:

Reserved.

(b) Long-Term Index Options Series.

(1) Notwithstanding the provisions of Paragraph (a)(3), above, BX Options may list long-term index options series that expire from twelve (12) to sixty (60) months from the date of issuance.

(i) Index long term options series may be based on either the full or reduced value of the underlying index. There may be up to ten (10) expiration months, none further out than sixty (60) months. Strike price interval, bid/ask differential and continuity Rules shall not apply to such options series until the time to expiration is less than twelve (12) months.

(ii) When a new Index long term options series is listed, such series will be opened for trading either when

there is buying or selling interest, or forty (40) minutes prior to the close, whichever occurs first. No quotations will be posted for such options series until they are opened for trading.

(2) Reduced-Value Long Term Options Series.

(i) Reduced-value long term options series may be approved for trading on Specified (as provided in Section 1 of this Chapter) indices.

(ii) Expiration Months. Reduced-value long term options series may expire at six-month intervals. When a new expiration month is listed, series may be near or bracketing the current index value. Additional series may be added when the value of the underlying index increases or decreases by ten (10) to fifteen (15) percent.

(c) Procedures for Adding and Deleting Strike Prices. The procedures for adding and deleting strike prices for index options are provided in Section 6 of Chapter IV of these Rules (Series of Options Contracts Open for Trading), as amended by the following:

(1) The interval between strike prices will be no less than \$5.00.

(2) New series of index options contracts may be added up to the fifth business day prior to expiration.

(3) When new series of index options with a new expiration date are opened for trading, or when additional series of index options in an existing expiration date are opened for trading as the current value of the underlying index to which such series relate moves substantially from the exercise prices of series already opened, the exercise prices of such new or additional series shall be reasonably related to the current value of the underlying index at the time such series are first opened for trading. In the case of all classes of index options, the term "reasonably related to the current value of the underlying index" shall have the meaning set forth in Paragraph (c)(4) below.

(4) Notwithstanding any other provision of this paragraph (c), BX Options may open for trading additional series of the same class of index options as the current index value of the underlying index moves substantially from the exercise price of those index options that already have been opened for trading on BX Options. The exercise price of each series of index options opened for trading on BX Options 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 BX Options. 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. BX Options may also open for trading additional series of index options 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.

(d) Index Level on the Last Day of Trading. The reported level of the underlying index that is calculated

by the reporting authority on the last day of trading in the underlying securities prior to expiration for purposes of determining the current index value at the expiration of an A.M.-settled index option may differ from the level of the index that is separately calculated and reported by the reporting authority and that reflects trading activity subsequent to the opening of trading in any of the underlying securities.

(e) Index Values for Settlement. The Rules of the Clearing Corporation specify that, unless the BX Options Rules provide otherwise, the current index value used to settle the exercise of an index options contract shall be the closing index for the day on which the index options contract is exercised in accordance with the Rules of the Clearing Corporation or, if such day is not a business day, for the most recent business day.

(f) Index Level at Expiration . With respect to any securities index on which options are traded on BX Options, the source of the prices of component securities used to calculate the current index level at expiration is determined by the reporting authority for that index.

(g)

(1) Quarterly Options Series Program

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 ("ETF"). 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 program under their respective rules. The Exchange may 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.

(i) The Exchange will not list a Short Term Option Series on an options class the expiration of which coincides with that of a Quarterly Options Series on that same options class.

(ii) Quarterly Options Series shall be P.M. settled.

(iii) The strike price of each Quarterly Options Series will be fixed at a price per share, with at least two, but not more than five, strike prices above and two, but not more than five, 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 may open for trading additional Quarterly Options Series of the same class if the Exchange deems it necessary to maintain an orderly market, to meet customer demand or when 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 Exchange may open additional strike prices of a Quarterly Options Series that are above the value of the underlying index provided that the total number of strike prices above the value of the underlying index is no greater than five. The Exchange may open additional strike prices of a Quarterly Options Series that are below the value of the underlying index provided that the total number of strike prices below the value of the underlying index is no greater than five. The opening of any new Quarterly Options Series shall not affect the series of options of the same class previously opened.

(iv) 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.

Except as otherwise provided, all Exchange rules applicable to stock index options will also be applicable to quarterly expiring index options listed pursuant to this section.

(h)

(1) Short Term Option Series Program

After an index option class has been approved for listing and trading on the Exchange, the Exchange may open for trading on any Thursday or Friday that is a business day ("Short Term Option Opening Date") series of options on that class that expire on the Friday of the following business week that is a business day ("Short Term Option Expiration Date"). If the Exchange is not open for business on the respective Thursday or Friday, the Short Term Option Opening Date will be the first business day immediately prior to that respective Thursday or Friday. Similarly, if the Exchange is not open for business on the Friday of the following business week, the Short Term Option Expiration Date will be the first business day immediately prior to that Friday. Regarding Short Term Option Series:

(i) The Exchange may select up to thirty (30) currently listed option classes on which Short Term Option Series may be opened on any Short Term Option Opening Date. In addition to the thirty-option class restriction, the Exchange also may list Short Term Option Series on any option classes that are selected by other securities exchanges that employ a similar program under their respective rules. For each index option class eligible for participation in the Short Term Option Series Program, the Exchange may open up to twenty (20) Short Term Option Series on index options for each expiration date in that class. The Exchange may also open Short Term Option Series that are opened by other securities exchanges in option classes selected by such exchanges under their respective short term option rules.

(ii) No Short Term Option Series on an index option class may expire in the same week during which any monthly option series on the same index class expire or, in the case of Quarterly Options Series, on an expiration that coincides with an expiration of Quarterly Option Series on the same index class.

(iii) The strike price of each Short Term Option Series will be fixed at a price per share, with approximately the same number of strike prices being opened above and below the calculated value of the underlying index at about the time that the Short Term Option Series are initially opened for trading on the Exchange (e.g., if seven (7) series are initially opened, there will be at least three (3) strike prices above and three (3) strike prices below the value of the underlying security or calculated index value). Any strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index.

(iv) If the Exchange has opened less than twenty (20) Short Term Option Series for a Short Term Option Expiration Date, additional series 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 current value of the underlying index moves substantially from the exercise price or prices of the series already opened. Any additional strike prices listed by the Exchange shall be within thirty percent (30%) above or below the current value of the underlying index. The Exchange may also open additional strike prices of Short Term Option Series that are more than 30% above or below the current value of the underlying index 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 opening of the new Short Term Option Series shall not affect the series of options of the same class previously opened.

(v) The interval between strike prices on Short Term Option Series shall be the same as the strike prices for series in that same index option class that expire in accordance with the normal monthly expiration cycle.

Sec. 12 Debit Put Spread Cash Account Transactions

Debit put spread positions in European-style, broad-based index options traded on BX Options (hereinafter "debit put spreads") may be maintained in a cash account as defined by Federal Reserve Board Regulation T Section 220.8 by a Public Customer, provided that the following procedures and criteria are met:

(a) The customer has received BX Regulation approval to maintain debit put spreads in a cash account carried by an Options Participant. A customer so approved is hereinafter referred to as a "spread exemption customer."

(b) The spread exemption customer has provided all information required on BX Options approved forms and has kept such information current.

(c) The customer holds a net long position in each of the stocks of a portfolio that has been previously established or in securities readily convertible, and additionally in the case of convertible bonds economically convertible, into common stocks which would comprise a portfolio. The debit put spread position must be carried in an account with a member of a self regulatory organization participating in the Intermarket Surveillance Group.

(d) The stock portfolio or its equivalent is composed of net long positions in common stocks in at least four industry groups and contains at least twenty (20) stocks, none of which accounts for more than fifteen percent (15%) of the value of the portfolio (hereinafter "qualified portfolio"). To remain qualified, a portfolio must at all times meet these standards notwithstanding trading activity in the stocks.

(e) The exemption applies to European-style broad-based index options dealt in on BX Options to the extent the underlying value of such options position does not exceed the unhedged value of the qualified portfolio. The unhedged value would be determined as follows: (1) the values of the net long or short positions of all qualifying products in the portfolio are totaled; (2) for positions in excess of the standard limit, the underlying market value (A) of any economically equivalent opposite side of the market calls and puts in broad-based index options, and (B) of any opposite side of the market positions in stock index futures, options on stock index futures, and any economically equivalent opposite side of the market positions, assuming no other hedges for these contracts exist, is subtracted from the qualified portfolio; and (3) the market value of the resulting unhedged portfolio is equated to the appropriate number of exempt contracts as follows- -the unhedged qualified portfolio is divided by the correspondent closing index value and the quotient is then divided by the index multiplier or 100.

(f) A debit put spread in BX Options -traded broad-based index options with European-style exercises is defined as a long put position coupled with a short put position overlying the same broad-based index and having an equivalent underlying aggregate index value, where the short put(s) expires with the long put(s), and the strike price of the long put(s) exceeds the strike price of the short put(s). A debit put spread will be permitted in the cash account as long as it is continuously associated with a qualified portfolio of securities with a current market value at least equal to the underlying aggregate index value of the long side of the debit put spread.

(g) The qualified portfolio must be maintained with either an Options Participant, another broker-dealer, a bank, or securities depository.

(h) The spread exemption customer shall agree promptly to provide BX Regulation any information requested concerning the dollar value and composition of the customer's stock portfolio, and the current debit put spread positions.

(1) The spread exemption customer shall agree to and any Options Participant carrying an account for the customer shall:

(i) comply with all BX Options Rules and regulations;

(ii) liquidate any debit put spreads prior to or contemporaneously with a decrease in the market value of the qualified portfolio, which debit put spreads would thereby be rendered excessive; and

(iii) promptly notify BX Regulation of any change in the qualified portfolio or the debit put spread position which causes the debit put spreads maintained in the cash account to be rendered excessive.

(i) If any Options Participant carrying a cash account for a spread exemption customer with a debit put spread position dealt in on BX Options has a reason to believe that as a result of an opening options transaction the customer would violate this spread exemption, and such opening transaction occurs, then the Options Participant has violated this Section 11.

(j) Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the spread exemption and may form the basis for subsequent denial of an application for a spread exemption hereunder.

Sec. 13 Disclaimers

(a) Applicability of Disclaimers. The disclaimers in paragraph (b) below shall apply to the reporting authorities identified in the Supplemental Material to Section 2 of this Chapter.

(b) Disclaimer. No reporting authority, and no affiliate of a reporting authority (each such reporting authority, its affiliates, and any other entity identified in this Rule are referred to collectively as a "Reporting Authority"), makes any warranty, express or implied, as to the results to be obtained by any person or entity from the use of an index it publishes, any opening, intraday or closing value therefore, or any data included therein or relating thereto, in connection with the trading of any options contract based thereon or for any other purpose. The Reporting Authority shall obtain information for inclusion in, or for use in the calculation of, such index from sources it believes to be reliable, but the Reporting Authority does not guarantee the accuracy or completeness of such index, any opening, intra-day or closing value therefore, or any data included therein or related thereto. The Reporting Authority hereby disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to such index, any opening, intra-day, or closing value therefore, any data included therein or relating thereto, or any options contract based thereon. The Reporting Authority shall have no liability for any damages, claims, losses (including any indirect or consequential losses), expenses, or delays, whether direct or indirect, foreseen or unforeseen, suffered by any person arising out of any circumstance or occurrence relating to the person's use of such index, any opening, intra-day or closing value therefore, any data included therein or relating thereto, or any options contract based thereon, or arising out of any errors or delays in calculating or disseminating such index.

Sec. 14 Exercise of American-style Index Options

No Options Participant may prepare, time stamp or submit an exercise instruction for an American-style index options series if the Options Participant knows or has reason to know that the exercise instruction calls for the exercise of more contracts than the then "net long position" of the account for which the exercise instruction is to be tendered. For purposes of this Rule: (i) the term "net long position" shall mean the net position of the account in such option at the opening of business of the day of such exercise instruction, plus the total number of such options purchased that day in opening purchase transactions up to the time of exercise, less the total number of such options sold that day in closing sale transactions up to the time of exercise; (ii) the "account" shall be the individual account of the particular customer, market-

maker or "non-customer" (as that term is defined in the By-Laws of the Clearing Corporation) who wishes to exercise; and (iii) every transaction in an options series effected by a market-maker in a market-maker's account shall be deemed to be a closing transaction in respect of the market-maker's then positions in such options series. No Options Participant may adjust the designation of an "opening transaction" in any such option to a "closing transaction" except to remedy mistakes or errors made in good faith.

Chapter XV Options Pricing

BX Options Participants may be subject to the Charges for Membership, Services and Equipment in the Rule 7000 Series as well as the fees in this Chapter XV.

Sec. 1 Collection of Exchange Fees and Other Claims- BX Options

Each BX Options Participant, and all applicants for registration, shall be required to provide a clearing account number for an account at the National Securities Clearing Corporation ("NSCC") for purposes of permitting the Exchange to debit any undisputed or final fees, fines, charges and/or other monetary sanctions or other monies due and owing to the Exchange or other charges related to Rule 1002(c)(1). If a member disputes an invoice, the Exchange will not include the disputed amount in the debit if the member has disputed the amount in writing to the Exchange's designated staff by the 15th of the month, or the following business day if the 15th is not a business day, and the amount in dispute is at least \$10,000 or greater.

Sec. 2 BX Options Market—Fees and Rebates

The following charges shall apply to the use of the order execution and routing services of the BX Options market for all securities.

Reserved.

Sec. 3 BX Options Market - Access Services

The following charges are assessed by BX for connectivity to the BX Options Market:

Reserved.

Sec. 4 BX Options Market Data Distributor Fees

Reserved.

Sec. 5 BX Options Regulatory Fee

Reserved.

Sec. 6 BX Options Maintenance Tool

Reserved.

Sec. 7 BX Options Fee Disputes

(a) All fee disputes concerning fees which are billed by the Exchange must be submitted to the Exchange in writing and must be accompanied by supporting documentation.

(b) All fee disputes must be submitted no later than sixty (60) days after receipt of a billing invoice.

(c) This Rule applies to the following BX Options market fees:

(1) Section 2 "BX Options Market - Fees";

(2) Section 3 "BX Options Market - Access Services", with the exception of the TradeInfo Fee; and

(3) Section 5 "BX Options Regulatory Fee."

Sec. 8 Sales Fee - Options

A Sales Fee is assessed by BX to each member for sales of securities through BX transaction execution systems in the following circumstances:

(a) When a sale in option securities occurs with respect to which BX is obligated to pay a fee to the SEC under Section 31 of the Act;

(b) When a sell order in option securities is routed for execution at a market other than the BX Options market, resulting in a covered sale on that market and an obligation of the routing facility of BX to pay the related sales fee of that market;

The Sales Fee is collected indirectly from members through their clearing firms by a designated clearing agency, as defined by the Act, on behalf of BX. The amount of the Sales Fee is equal to (i) the Section 31 fee rate multiplied by (ii) the member's aggregate dollar amount of covered sales resulting from transactions through BX transaction execution systems during any computational period.