

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * <input type="text" value="46"/>	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - <input type="text" value="2015"/> - * <input type="text" value="28"/>	Amendment No. (req. for Amendments *) <input type="text"/>
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Filing by NASDAQ OMX PHLX LLC.  
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 type="checkbox"/>	Section 19(b)(3)(A) * <input checked="" 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 checked="" type="checkbox"/> 19b-4(f)(6)	

Notice of proposed change pursuant to the Payment, Clearing, and Settlement Act of 2010	Security-Based Swap Submission pursuant to the Securities Exchange Act of 1934
Section 806(e)(1) * <input type="checkbox"/>	Section 806(e)(2) * <input type="checkbox"/>
Section 3C(b)(2) * <input type="checkbox"/>	

Exhibit 2 Sent As Paper Document <input checked="" type="checkbox"/>	Exhibit 3 Sent As Paper Document <input checked="" type="checkbox"/>
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**Description**

Provide a brief description of the action (limit 250 characters, required when Initial is checked \*).

Relating to Harmonization of Phlx Rules

**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 action.

First Name * <input type="text" value="Angela"/>	Last Name * <input type="text" value="Dunn"/>
Title * <input type="text" value="Associate General Counsel"/>	
E-mail * <input type="text" value="angela.dunn@nasdaqomx.com"/>	
Telephone * <input type="text" value="(215) 496-5692"/>	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.

(Title \*)

Date <input type="text" value="03/18/2015"/>	<input type="text" value="Executive Vice President and General Counsel"/>
By <input type="text" value="Edward S. Knight"/>	<input type="text" value="edward.knight@nasdaq.com"/>

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.

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

**Form 19b-4 Information \***

Add Remove View

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 \***

Add Remove View

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 1A- Notice of Proposed Rule Change, Security-Based Swap Submission, or Advance Notice by Clearing Agencies \***

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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, security-based swap submission, or advance notice 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**

Add Remove View

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**

Add Remove View

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**

Add Remove View

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 PHLX LLC (“Phlx” or “Exchange”), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> proposes to amend Rules 771 entitled “Excessive Trading of Members;” 832, entitled “Price Adjustment of Open Orders on Ex-Date;” and 1006 entitled “Other Restrictions on Exchange Options Transactions and Exercises.” The Exchange proposes to make minor amendments for rule conformity to Rules 1001, entitled “Position Limits;” 1002 entitled “Exercise Limits;” 1003 entitled “Reporting of Options Positions;” 1040 entitled “Failure to Pay Premium;” 1041 entitled “Options Contracts Of Suspended Members;” 1042 “Exercise of Equity Option Contracts;” 1044 “Delivery and Payment;” 1048 “Stock Transfer Tax;” and 1090 entitled “Clerks.” The Exchange proposes to delete Rules 1021 entitled “Excessive Dealing in Options;” 1038 entitled “Open Orders on Ex-Date; ” and 1045 “Officers and Employees Restricted.”

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

(b) Not applicable.

(c) Not applicable.

2. Procedures of the Self-Regulatory Organization

The proposed rule change was approved by senior management of the Exchange pursuant to authority delegated by the Board of Directors of the Exchange on July 16,

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

2014. Exchange staff will advise the Board of Directors of any action taken pursuant to delegated authority. 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 Angela Saccomandi Dunn, Associate General Counsel, The NASDAQ OMX Group at (215) 496-5692.

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

a. Purpose

The purpose of this proposed rule change is to update certain of the 1000 series options rules to harmonize the Rulebook and modernize Exchange rules. The Exchange is also proposing to amend other non-options rules as well. The Exchange proposes to amend rule text, make minor technical amendments to certain rules, such as numbering, and to delete other rules. Each proposed rule change will be discussed in greater detail below.

Amendment to Certain Exchange Rules

The Exchange proposes to amend Rule 771, entitled “Excessive Trading of Members,” to combine rule text from Rule 1021 entitled “Excessive Dealing in Options. Both of these rules cover the same basic topic, excessive trading of members. Rule 1021 is specific to options, while Rule 771 is broader in nature. The Exchange proposes to add a new paragraph to Rule 771 which contains similar rule text to Commentary .01 of Rule 1021.<sup>3</sup> The Exchange does not believe it is necessary to have two rules in the Rulebook

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<sup>3</sup> The proposed text omits a reference to “options” that are currently in Rule 1021.

which discuss the same restriction, therefore, the Exchange will delete Rule 1021. This rule change is proposed to harmonize the Rulebook.

The Exchange proposes to amend Rule 832, entitled “Price Adjustment of Open Orders on Ex-Date,” to combine rule text from Rule 1038 entitled “Open Orders on Ex-Date.” Both of these rules cover the same basic topic, price adjustment of open orders on “Ex-Date.” Rule 1038 is specific to options, while Rule 832 is broader in nature. The Exchange proposes to add a new paragraph to Rule 832 which contains similar rule text to Rule 1038.<sup>4</sup> The Exchange does not believe it is necessary to have two rules in the Rulebook which discuss the same restriction; therefore the Exchange will delete Rule 1038. This rule change is proposed to harmonize the Rulebook.

The Exchange proposes to amend Rule 1006 entitled “Other Restrictions on Exchange Options Transactions and Exercises,” to harmonize this rule with NASDAQ Stock Market LLC (“NOM”) and NASDAQ OMX BX, Inc. (“BX”) rules at Chapter III, Section 12.<sup>5</sup> The Exchange believes the NOM and BX rules are more specific with respect to restrictions as compared to the Phlx rule. The proposed rule likewise imposes restrictions on transactions or exercises in one or more series of options, similar to the Phlx rule.<sup>6</sup> A similar restriction exists in the current Phlx rule with respect to the ten business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a

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<sup>4</sup>The proposed text adds a new reference to “options” in Rule 832.

<sup>5</sup> See NOM and BX Rules at Chapter III, Section 12 entitled “Other Restrictions on Options Transactions and Exercises.”

<sup>6</sup> See proposed Rule 1006(a) and (a)(i).

business day.<sup>7</sup> Specifically the proposed rule would note, “[n]otwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day, 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 business day of their expiration or, in the case of an option contract expiring on a day that is not a business day, on the last business day before the expiration date.”<sup>8</sup>

The Exchange proposes to add specific language concerning exercise of American-style cash-settled index options, which shall be prohibited during any time when trading in such options is delayed, halted, or suspended.<sup>9</sup> The Exchange proposes to provide 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 Options Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by Phlx 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 business day of expiration, or in the case of an option contract expiring on a day that is not a business day, 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

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<sup>7</sup> See proposed Rule 1006(a)(ii). The proposed new rule text will not distinguish between European and American settlement with regard to the ten (10) business day restriction. The current Phlx rule does make such a distinction.

<sup>8</sup> Id.

<sup>9</sup> See proposed Rule 1006(a)(iii).

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 Rules 1047, 1047A and, 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) Phlx may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.<sup>10</sup>

Further, whenever the issuer of a security underlying a call option traded on Phlx 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 Phlx 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”). The rule notes conditions which are necessary for the imposition of restrictions, such as:

- (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 Phlx 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.<sup>11</sup>

Upon receipt of such a request and determination that the conditions listed above are met, Phlx Regulation shall impose the requested restrictions as promptly as possible but no

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<sup>10</sup> See proposed Rule 1006(a)(iii).

<sup>11</sup> See proposed Rule 1006(b)(i).

earlier than fifteen (15) minutes after members or member organizations shall have been notified and shall terminate such restrictions upon request of the underwriters or when Phlx Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.<sup>12</sup> 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: 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 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.<sup>13</sup>

The Exchange believes that adopting the NOM and BX rules provides greater specificity with respect to restrictions on options transactions and exercises.

#### Minor Technical Amendments to Options Rules

The Exchange proposes to amend Rule 1001, entitled “Position Limits,” to remove the header “Commentary” from the rule and replace it with consecutive numbering. The remainder of the changes correct cross-references to the newly renumbered sections, remove extraneous dashes and add a period and outside parentheses to the numbering in the rule text to conform the text to the portion that is not in the Commentary today.

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<sup>12</sup> See proposed Rule 1006(b)(ii).

<sup>13</sup> See proposed Rule 1006(b)(iii).



The Exchange proposes to amend Rule 1002 entitled “Exercise Limits,” to similarly remove the header “Commentary” from the rule and replace it with consecutive lettering.

The Exchange proposes to amend Rule 1003 entitled “Reporting of Options Positions,” to remove the footnote in the rule and instead place the language in the footnote within the body of the rule. A minor grammatical correction was made to remove a dash in this section in the word “market maker.”

The Exchange proposes to amend Rule 1040 entitled “Failure to Pay Premium,” to capitalize the certain terms and also utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1041 entitled “Options Contracts Of Suspended Members,” to utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1042 “Exercise of Equity Option Contracts,” to define the term “CEA” within the Rule and to remove the header “Commentary” and renumber the remainder of the rule. The Exchange is also proposing to remove a specific reference to The Options Clearing Corporation’s Articles and instead refer to the by-laws more generally and utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1044 “Delivery and Payment,” to utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1048 “Stock Transfer Tax, utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1090 entitled “Clerks,” update a reference to an outdated “DOT machine” and replace that reference with the updated term “order handling entry device.” The Exchange also proposes to remove the header “Commentary” and renumber the remainder of the rule.

#### Deleted Rules

The Exchange proposes to delete Rules 1021 entitled “Excessive Dealing in Options;” and 1038 entitled “Open Orders on Ex-Date;” because these Rules are being combined with Rules 771 and 832, respectively, as described above. The Exchange is also proposing to delete Rule 1045 “Officers and Employees Restricted,” which is covered in detail by the Exchange’s Code of Ethics.<sup>14</sup> Rule 1045 does not apply to members, but rather applies to employees of the Exchange. The Exchange has policies and procedures which are applicable to employees which are not contained in the

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<sup>14</sup> Phlx Rule 1045(a) requires every salaried officer or employee of the Exchange and every salaried officer or employee of any corporation in which the Exchange owns the majority of the stock to promptly report to the Exchange every purchase or sale for his own account or the account of others of any security which is the underlying security of any option contract admitted to dealings on the Exchange. Today, Phlx employees are subject to the NASDAQ Code of Ethics, which refers to the Global Trading Policy which requires an annual and other periodic reporting of securities holdings to the Exchange. Phlx Rule 1045(b) provides that no salaried officer or employee of the Exchange or salaried officer or employee of any corporation in which the Exchange owns the majority of the corporate stock may purchase or sell for his own account or for the account of others any option contract which entitles the purchaser to purchase or sell any security described in paragraph (a) of Rule 1045 or any foreign currency option contract admitted to dealings on the Exchange. The NASDAQ Code of Ethics refers to the Global Trading Policy which prohibits employees from holding or trading certain securities noted on the prohibited list. The prohibited list prohibits employees from holding or trading certain securities because those companies have dealings on the Exchange. The Code of Ethics is more expansive in scope as compared to Phlx Rule 1045.

Rulebook. The Exchange believes that this rule, which does not apply to members, is not necessary to retain in the Rulebook.

b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>15</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>16</sup> 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, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. The Exchange believes that these proposed rule changes will harmonize and modernize the Phlx Rulebook.

The proposed rule changes to amend various options rules should harmonize the Exchange's Rulebook by removing duplicate rules by combining general Phlx rules with options rules, conforming the language in certain rules by defining terms within the rules and removing Commentary sections and instead renumbering the rule; and deleting unnecessary rules. It is in the interests of the protection of investors to eliminate any confusion among market participants with respect to the Rulebook. The rule changes are intended to provide a clearer Rulebook in order that market participants are aware of their obligations. The Exchange believes that these amendments will make clear the manner in which the Exchange operates and thereby remove impediments to and provide free and open markets.

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<sup>15</sup> 15 U.S.C. 78f(b).

<sup>16</sup> 15 U.S.C. 78f(b)(5).

The Exchange's proposed deletion of Rule 1045 would not impact members because this rule applies solely to employees of the Exchange. The Exchange has policies and procedures which are applicable to employees which are not contained in the Rulebook. The Exchange believes that this rule, which does not apply to members, is not necessary to retain in the Rulebook. The proposed amendment to Rule 1006 to adopt similar NOM and BX Rules<sup>17</sup> will provide members with additional specificity with respect to restrictions on options transactions and exercises, similar to the current practice at NOM and BX.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposed amendments seek to harmonize the Rulebook by combining duplicative rules, conforming the text of the rules and also deleting unnecessary rules. Certain of these amendments apply to all members, equity and options, and other rules related to options, apply specifically to options members. The rules uniformly apply to members transacting a specific product. The proposed amendments do not unduly burden competition on the Exchange.

The proposed amendment to Rule 1006 will provide members with a rule substantially similar to rules on NOM and BX.<sup>18</sup> The Exchange believes that adopting the NOM and BX rules<sup>19</sup> will assist the Exchange in competing more effectively with

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<sup>17</sup> See note 5.

<sup>18</sup> See note 25.

<sup>19</sup> Id.

respect to options.

The proposed deletion of Rule 1045 applies specifically to employees of the Exchange. This rule does not impact the competition among members transacting business on the Exchange but rather concerns the operation of the Exchange and conduct of its employees.

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

The Exchange does not consent to an extension of the time period for Commission action.

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

Pursuant to Section 19(b)(3)(A) of the Act<sup>20</sup> and Rule 19b-4(f)(6)<sup>21</sup> thereunder, the Exchange has designated this proposal as one that effects a change that: (i) does not significantly affect the protection of investors or the public interest; (ii) does not impose any significant burden on competition; and (iii) by its terms, does not become operative for 30 days after the date of the filing, or such shorter time as the Commission may designate if consistent with the protection of investors and the public interest. The proposed rule change to Rule 1006 is substantially similar to NOM and BX Rules.<sup>22</sup> The proposed rule changes do not significantly affect the protection of investors and the

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<sup>20</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>21</sup> 17 CFR 240.19b-4(f)(6).

<sup>22</sup> See note 5.

public interest, rather these proposed rule changes seek to amend various options rules should harmonize the Exchange's Rulebook by removing duplicate rules by combining general Phlx rules with options rules, conforming the language in certain rules by defining terms within the rules and removing Commentary sections and instead renumbering the rule; and deleting unnecessary rules. With respect to Rule 1045, this Rule does not apply to members, but rather applies to employees of the Exchange. The Exchange has policies and procedures which are applicable to employees which are not contained in the Rulebook. The Exchange believes that this rule, which does not apply to members, is not necessary to retain in the Rulebook. The Exchange is updating other rules in order to ensure consistency in the rule text. The Exchange is proposing to delete other rules because they are outdated, unnecessary or where combined with other rules.

Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement. Furthermore, a proposed rule change filed pursuant to Rule 19b-4(f)(6) under the Act<sup>23</sup> normally does not become operative for 30 days after the date of its filing. However, Rule 19b-4(f)(6)<sup>24</sup> permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest.

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<sup>23</sup> Id.

<sup>24</sup> Id.

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

The proposed rule change for Rule 1006 is based on NOM and BX Rules.<sup>25</sup>

9. Security-Based Swap Submissions Filed Pursuant to Section 3C of the Act

Not applicable.

10. Advance Notices Filed Pursuant to Section 806(e) of the Payment, Clearing and Settlement Supervision Act

Not applicable.

11. Exhibits

1. Notice of proposed rule for publication in the Federal Register.

5. Proposed Rule Text.

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<sup>25</sup> The proposed rule text in Rule 1006 is substantially the same as NOM and BX Rules at Chapter III, Section 12 entitled “Other Restrictions on Options Transactions and Exercises.” The Exchange amended the proposed rule text to change the term “Participant” to “member or member organization” and to reference applicable Phlx Rules for cross references.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2015-28)

Self-Regulatory Organizations; NASDAQ OMX PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change Relating to Harmonization of Phlx Rules

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>1</sup>, and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on March 18, 2015, NASDAQ OMX PHLX LLC (“Phlx” or “Exchange”) 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

The Exchange proposes to amend Rules 771 entitled “Excessive Trading of Members;” 832, entitled “Price Adjustment of Open Orders on Ex-Date;” and 1006 entitled “Other Restrictions on Exchange Options Transactions and Exercises.” The Exchange proposes to make minor amendments for rule conformity to Rules 1001, entitled “Position Limits;” 1002 entitled “Exercise Limits;” 1003 entitled “Reporting of Options Positions;” 1040 entitled “Failure to Pay Premium;” 1041 entitled “Options Contracts Of Suspended Members;” 1042 “Exercise of Equity Option Contracts;” 1044 “Delivery and Payment;” 1048 “Stock Transfer Tax;” and 1090 entitled “Clerks.” The

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.



Exchange proposes to delete Rules 1021 entitled “Excessive Dealing in Options;” 1038 entitled “Open Orders on Ex-Date;” and 1045 “Officers and Employees Restricted.”

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqomxphlx.cchwallstreet.com/>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

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 this proposed rule change is to update certain of the 1000 series options rules to harmonize the Rulebook and modernize Exchange rules. The Exchange is also proposing to amend other non-options rules as well. The Exchange proposes to amend rule text, make minor technical amendments to certain rules, such as numbering, and to delete other rules. Each proposed rule change will be discussed in greater detail below.

Amendment to Certain Exchange Rules

The Exchange proposes to amend Rule 771, entitled “Excessive Trading of Members,” to combine rule text from Rule 1021 entitled “Excessive Dealing in Options. Both of these rules cover the same basic topic, excessive trading of members. Rule 1021

is specific to options, while Rule 771 is broader in nature. The Exchange proposes to add a new paragraph to Rule 771 which contains similar rule text to Commentary .01 of Rule 1021.<sup>3</sup> The Exchange does not believe it is necessary to have two rules in the Rulebook which discuss the same restriction, therefore, the Exchange will delete Rule 1021. This rule change is proposed to harmonize the Rulebook.

The Exchange proposes to amend Rule 832, entitled “Price Adjustment of Open Orders on Ex-Date,” to combine rule text from Rule 1038 entitled “Open Orders on Ex-Date.” Both of these rules cover the same basic topic, price adjustment of open orders on “Ex-Date.” Rule 1038 is specific to options, while Rule 832 is broader in nature. The Exchange proposes to add a new paragraph to Rule 832 which contains similar rule text to Rule 1038.<sup>4</sup> The Exchange does not believe it is necessary to have two rules in the Rulebook which discuss the same restriction; therefore the Exchange will delete Rule 1038. This rule change is proposed to harmonize the Rulebook.

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<sup>3</sup> The proposed text omits a reference to “options” that are currently in Rule 1021.

<sup>4</sup>The proposed text adds a new reference to “options” in Rule 832.

<sup>5</sup> See NOM and BX Rules at Chapter III, Section 12 entitled “Other Restrictions on Options Transactions and Exercises.”

Phlx rule.<sup>6</sup> A similar restriction exists in the current Phlx rule with respect to the ten business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day.<sup>7</sup> Specifically the proposed rule would note, “[n]otwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, other than index options, which shall include such expiration date for an option contract that expires on a business day, 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 business day of their expiration or, in the case of an option contract expiring on a day that is not a business day, on the last business day before the expiration date.”<sup>8</sup>

The Exchange proposes to add specific language concerning exercise of American-style cash-settled index options, which shall be prohibited during any time when trading in such options is delayed, halted, or suspended.<sup>9</sup> The Exchange proposes to provide 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 Options Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by Phlx Regulation, that the decision to exercise the option was made during allowable time frames prior to the delay, halt, or suspension;

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<sup>6</sup> See proposed Rule 1006(a) and (a)(i).

<sup>7</sup> See proposed Rule 1006(a)(ii). The proposed new rule text will not distinguish between European and American settlement with regard to the ten (10) business day restriction. The current Phlx rule does make such a distinction.

<sup>8</sup> Id.

<sup>9</sup> See proposed Rule 1006(a)(iii).

(2) Exercises of expiring American-style, cash-settled index options shall not be prohibited on the business day of expiration, or in the case of an option contract expiring on a day that is not a business day, 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 Rules 1047, 1047A and, 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) Phlx may determine to permit the exercise of American-style, cash-settled index options while trading in such options is delayed, halted, or suspended.<sup>10</sup>

Further, whenever the issuer of a security underlying a call option traded on Phlx 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 Phlx 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”). The rule notes conditions which are necessary for the imposition of restrictions, such as:

- (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 Phlx Regulation upon the termination of their stabilization activities; and

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<sup>10</sup> See proposed Rule 1006(a)(iii).

- (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.<sup>11</sup>

Upon receipt of such a request and determination that the conditions listed above are met, Phlx Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after members or member organizations shall have been notified and shall terminate such restrictions upon request of the underwriters or when Phlx Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.<sup>12</sup> 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: 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 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.<sup>13</sup>

The Exchange believes that adopting the NOM and BX rules provides greater specificity with respect to restrictions on options transactions and exercises.

#### Minor Technical Amendments to Options Rules

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<sup>11</sup> See proposed Rule 1006(b)(i).

<sup>12</sup> See proposed Rule 1006(b)(ii).

<sup>13</sup> See proposed Rule 1006(b)(iii).

The Exchange proposes to amend Rule 1001, entitled “Position Limits,” to remove the header “Commentary” from the rule and replace it with consecutive numbering. The remainder of the changes correct cross-references to the newly renumbered sections, remove extraneous dashes and add a period and outside parentheses to the numbering in the rule text to conform the text to the portion that is not in the Commentary today.

The Exchange proposes to amend Rule 1002 entitled “Exercise Limits,” to similarly remove the header “Commentary” from the rule and replace it with consecutive lettering.

The Exchange proposes to amend Rule 1003 entitled “Reporting of Options Positions,” to remove the footnote in the rule and instead place the language in the footnote within the body of the rule. A minor grammatical correction was made to remove a dash in this section in the word “market maker.”

The Exchange proposes to amend Rule 1040 entitled “Failure to Pay Premium,” to capitalize the certain terms and also utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1041 entitled “Options Contracts Of Suspended Members,” to utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1042 “Exercise of Equity Option Contracts,” to define the term “CEA” within the Rule and to remove the header “Commentary” and renumber the remainder of the rule. The Exchange is also proposing to remove a specific reference to The Options Clearing Corporation’s Articles and instead

refer to the by-laws more generally and utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1044 “Delivery and Payment,” to utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1048 “Stock Transfer Tax, utilize a newly defined term “OCC” throughout the rule.

The Exchange proposes to amend Rule 1090 entitled “Clerks,” update a reference to an outdated “DOT machine” and replace that reference with the updated term “order handling entry device.” The Exchange also proposes to remove the header “Commentary” and renumber the remainder of the rule.

#### Deleted Rules

The Exchange proposes to delete Rules 1021 entitled “Excessive Dealing in Options;” and 1038 entitled “Open Orders on Ex-Date;” because these Rules are being combined with Rules 771 and 832, respectively, as described above. The Exchange is also proposing to delete Rule 1045 “Officers and Employees Restricted,” which is covered in detail by the Exchange’s Code of Ethics.<sup>14</sup> Rule 1045 does not apply to

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<sup>14</sup> Phlx Rule 1045(a) requires every salaried officer or employee of the Exchange and every salaried officer or employee of any corporation in which the Exchange owns the majority of the stock to promptly report to the Exchange every purchase or sale for his own account or the account of others of any security which is the underlying security of any option contract admitted to dealings on the Exchange. Today, Phlx employees are subject to the NASDAQ Code of Ethics, which refers to the Global Trading Policy which requires an annual and other periodic reporting of securities holdings to the Exchange. Phlx Rule 1045(b) provides that no salaried officer or employee of the Exchange or salaried officer or employee of any corporation in which the Exchange owns the majority of the corporate stock may purchase or sell for his own account or for the account of others any option contract which entitles the purchaser to purchase or sell any security described in paragraph (a) of Rule 1045 or any foreign currency option contract admitted to dealings on the Exchange. The NASDAQ Code of Ethics refers to the Global Trading

members, but rather applies to employees of the Exchange. The Exchange has policies and procedures which are applicable to employees which are not contained in the Rulebook. The Exchange believes that this rule, which does not apply to members, is not necessary to retain in the Rulebook.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act<sup>15</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act<sup>16</sup> 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, to remove impediments to and perfect the mechanism of a free and open market and a national market system and, in general, to protect investors and the public interest. The Exchange believes that these proposed rule changes will harmonize and modernize the Phlx Rulebook.

The proposed rule changes to amend various options rules should harmonize the Exchange's Rulebook by removing duplicate rules by combining general Phlx rules with options rules, conforming the language in certain rules by defining terms within the rules and removing Commentary sections and instead renumbering the rule; and deleting unnecessary rules. It is in the interests of the protection of investors to eliminate any

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Policy which prohibits employees from holding or trading certain securities noted on the prohibited list. The prohibited list prohibits employees from holding or trading certain securities because those companies have dealings on the Exchange. The Code of Ethics is more expansive in scope as compared to Phlx Rule 1045.

<sup>15</sup> 15 U.S.C. 78f(b).

<sup>16</sup> 15 U.S.C. 78f(b)(5).



confusion among market participants with respect to the Rulebook. The rule changes are intended to provide a clearer Rulebook in order that market participants are aware of their obligations. The Exchange believes that these amendments will make clear the manner in which the Exchange operates and thereby remove impediments to and provide free and open markets.

The Exchange's proposed deletion of Rule 1045 would not impact members because this rule applies solely to employees of the Exchange. The Exchange has policies and procedures which are applicable to employees which are not contained in the Rulebook. The Exchange believes that this rule, which does not apply to members, is not necessary to retain in the Rulebook. The proposed amendment to Rule 1006 to adopt similar NOM and BX Rules<sup>17</sup> will provide members with additional specificity with respect to restrictions on options transactions and exercises, similar to the current practice at NOM and BX.

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

The proposed rule change does not impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. The Exchange's proposed amendments seek to harmonize the Rulebook by combining duplicative rules, conforming the text of the rules and also deleting unnecessary rules. Certain of these amendments apply to all members, equity and options, and other rules related to options, apply specifically to options members. The rules uniformly apply to members transacting a specific product. The proposed amendments do not unduly burden competition on the Exchange.

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<sup>17</sup> See note 5.

The proposed amendment to Rule 1006 will provide members with a rule substantially similar to rules on NOM and BX.<sup>18</sup> The Exchange believes that adopting the NOM and BX rules<sup>19</sup> will assist the Exchange in competing more effectively with respect to options.

The proposed deletion of Rule 1045 applies specifically to employees of the Exchange. This rule does not impact the competition among members transacting business on the Exchange but rather concerns the operation of the Exchange and conduct of its employees.

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

Because the foregoing proposed rule change does not: (i) significantly affect the protection of investors or the public interest; (ii) impose any significant burden on competition; and (iii) become operative for 30 days from the date on which it was filed, or such shorter time as the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act<sup>20</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>21</sup>

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<sup>18</sup> See note 25.

<sup>19</sup> Id.

<sup>20</sup> 15 U.S.C. 78s(b)(3)(a)(ii).

<sup>21</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change at least five business days prior to the date of filing of the proposed rule change,

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or 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](mailto:rule-comments@sec.gov). Please include File Number SR-Phlx-2015-28 on the subject line.

##### Paper comments:

- Send paper comments in triplicate to Brent J. Fields, Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-Phlx-2015-28. 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

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or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-Phlx-2015-28 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.<sup>22</sup>

Kevin M O'Neill  
Deputy Secretary

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<sup>22</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

*New text is underlined; deleted text is in brackets.*

**NASDAQ OMX PHLX Rules****RULES OF THE EXCHANGE**

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**Rule 771. Excessive Trading of Members**

No member, member organization, partner or stockholder therein shall (1) effect on the Exchange purchases or sales for any account in which he or it is directly or indirectly interested, which purchases or sales are excessive in view of his or its financial resources or in view of the market for such security or (2) execute or cause to be executed on the Exchange purchases or sales of any security for any account with respect to which he or it or another partner or stockholder therein is vested with any discretionary power, which purchases or sales are excessive in view of the financial resources in such account.

(i) The Exchange expects that all trading by members and member organizations will have a constructive effect on the market by adding to its orderliness and liquidity. In this regard, there are certain kinds of trading activity and trading patterns which should be avoided and which may be excessive in view of the market. Among these are: (a) purchases in substantial quantity and with respect to options on plus or zero plus ticks in order to establish or increase a position where the members or member organization trading has shown a pattern buying and selling the same listed option on the same day; (b) a succession of purchases by a member or member organization to establish or increase a position at the same or successively higher prices in the same trading session; and (c) purchases to establish or increase a position where a member or member organization has reason to believe that members' transactions may have accelerated the price movement of a product.

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**Rule 832. Price Adjustment of Open Orders on "Ex-date"**

When a security is quoted ex-dividend, ex-distribution, ex-rights or ex-interest, all open orders to buy and open stop orders to sell shall be reduced by the cash value of the payment or rights, except where the security is quoted "ex" a stock dividend or stock distribution.

When a security is quoted "ex" a stock dividend, or stock distribution all open orders including open orders to sell and open orders to buy, shall be reduced by the proportional value of the dividend.

With respect to options contracts, open orders for one or more option contracts dealt in on the Exchange held by members or member organizations prior to the effective date of an adjustment by The Options Clearing Corporation ("OCC") to the terms of a class of options pursuant to the

rules of OCC shall be adjusted on the "ex-date" by such amount as OCC shall specify, unless otherwise instructed by the customer.

### **Rule 1001. Position Limits**

**(a)** Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, an opening transaction (whether on the Exchange or on another participating exchange) in an option contract of any class of options dealt in on the Exchange if the member or member organization has reason to believe that, as a result of such transaction, the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly control an aggregate position: (a) of more than 25,000, 50,000, 75,000, 200,000 or 250,000 option contracts (whether long or short), put or call option contracts on the same side of the market relating to the same underlying security, which limit is determined in accordance with [commentary .05] section (g)(1)(a) herein, in the case of options on a stock or Exchange-Traded Fund Share, (except with respect to put or call option contracts overlying the PowerShares QQQ Trust ("QQQQ")<sup>®</sup> for which the position limit shall be 900,000 contracts on the same side of the market; options overlying the iShares<sup>®</sup> Russell 2000<sup>®</sup> Index ("IWM"), for which the position limit shall be 500,000 contracts; options overlying the Diamonds Trust ("DIA"), for which the position limit shall be 300,000 contracts on the same side of the market; options overlying the iShares MSCI Emerging Markets Index Fund ("EEM"), for which the position limit shall be 500,000 contracts on the same side of the market; and options overlying the Standard and Poor's Depository Receipts ("SPDRs"), which shall have no position limits) or (b) with respect to a stock or Exchange-Traded Fund Share option not dealt in on the Exchange, exceeding the applicable position limit established by the exchange on which the option contract is transacted, when the member or member organization is not a member of that other exchange, or such other number of option contracts as may be fixed from time to time by the Exchange as the position limit for one or more classes or series. Position limits for foreign currency options shall be determined in accordance with [Commentary .05(c)] section (j) herein.

**(b)** Position Limits for options on SPDRs are subject to a Pilot Program through July 12, 2015.

[••• *Commentary:* -----]

**[.01](c)** It shall be the responsibility of each member and member organization accepting orders for opening transactions (purchase or writing) in options contracts of any class of options dealt in on the Exchange to inform their customers of the applicable position limits and not to accept any such orders from any customer in any instance in which such member or member organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such position limits.

**[.02](d)** For the purpose of computing the aggregate position limits established by this Rule, long positions in call option contracts are aggregated with short positions in put

option contracts and short positions in call option contracts are aggregated with long positions in put option contracts.

(i) No Change.

**[.03](e)** The Exchange will not approve any opening purchase or writing transaction or the carrying of any position that would exceed the limits established by this Rule except in highly unusual circumstances. An exemption will be granted to a member or member organization only under the following circumstances:

(i) – (iv) No Change.

**[.04](f) Specialists.** [—]The Exchange may establish higher position limits for specialists' transactions than those applicable with respect to other accounts. Whenever a specialist reasonably anticipates that he may exceed such position limits in the performance of his function of assisting in the maintenance of a fair and orderly market, he must seek an exemption in writing in accordance with this [commentary]Rule.

A position limit exemption requires the approval of an Options Exchange Official. The exemption is effective at the time a decision is communicated; retroactive exemptions will not be granted. The size and duration of an exemption will be determined on a case-by-case basis. An exemption usually will be granted only until the nearest expiration.

**[.05 (a)] (g) Equity Option Position Limits.**

(i) The position limit shall be 250,000 contracts for options:

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

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

(ii) The position limit shall be 200,000 contracts for options:

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

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

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

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

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

(iv) The position limit shall be 50,000 contracts for options:

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

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

(v) The position limit shall be 25,000 contracts for all other options.

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

(i) [(b)] Except with the prior written approval of the Exchange in each instance, no member or member organization shall effect for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a purchase or sale transaction (whether on the Exchange or on or through the facilities of, or otherwise subject to the rules of, another national securities exchange or national securities association) in a stock index warrant if the member or member organization has reason to believe that as a result of such transaction the member or member organization or partner, officer, director or employee thereof or customer would, acting alone or in concert with others, directly or indirectly, control an aggregate position in a stock index warrant issue, or in all warrants issued on the same stock index, on the same side of the market, in excess of the position limits specified in sections (c) and (d). [subparagraphs (1) and (2) of this commentary.]

(j)](c)] *Foreign Currency Option Position Limits*

(i) – (iv) No Change

[.06 (a)](k) Control exists, under Rules 1001 and 1002, when it is determined that an individual or entity (1) makes investment decisions for an account or accounts, or (2)



materially influences directly or indirectly the actions of any person who makes investment decisions.

([b]a) In addition, control will be presumed in the following circumstances:

(1) – (5) No Change.

([c]b) Control, presumed by one or more of the above findings or circumstances, can be rebutted by proving the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other documentary evidence as may be appropriate in the circumstances. The Exchange will also consider the following factors in determining if aggregation of accounts is required:

(1) similar patterns of trading activity among separate entities;

(2) the sharing of kindred business purposes and interests;

(3) whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/or restrictions;

(4) the degree of contact and communication between directors and/or managers of separate accounts

([d]c) Initial determinations under this Interpretation shall be made by Regulatory staff of the Exchange. A member or customer directly affected by such a determination may ask the Exchange to reconsider but may not request any other review or appeal, except in the context of a disciplinary proceeding.

**[.07] (l) Equity Option Hedge Exemptions.**—The following qualified hedge transactions and positions described in paragraphs 1-5 below shall be exempt from established position limits as prescribed under [Commentary .05] sections (g) and [Commentary .02] (d)(i) above. Hedge transactions and positions established pursuant to paragraphs (6) and (7) below are subject to a position limit equal to five (5) times the standard limit established under [Commentary .05 and .02(i)] sections (g) and (d)(i).

(1) – (8) No Change.

(9) An OTC option contract is defined as an option contract that is not listed on a National Securities Exchange or cleared at [t]The Options Clearing Corporation.

**[.08] (m) Firm Facilitation Exemption.**—A member organization may be exempt from established position limits for equity option positions (including Exchange-Traded Fund Share option positions) held in its proprietary account where such position will facilitate an order for a customer of that member organization, provided that such position satisfies the following:

([a]i) *Maximum limit*: the facilitating position may exceed the applicable position limit by two times that limit, in addition to the allowable amount. For example, where the position limit is 25,000 contracts, a firm facilitation exemption is available for an additional 50,000 contracts. This exemption is in addition to any other exemptions available under Exchange Rules.

([b]ii) *Approval Procedure*: prior approval from an Options Exchange Official and the submission of a complete Firm Facilitation Form, which must be kept current, are required. Approval may be granted on the basis of verbal representations, in which case the member organization shall submit to the Regulatory staff of the Exchange a completed form respecting such approval within two business days or the time specified when approval is granted. A member organization may request an exemption based on interest expressed by its customer, prior to obtaining an order. This exemption is not available where either the customer or facilitation order are all or none or fill or kill orders.

(a) The facilitation firm shall promptly provide the Exchange with information or documents requested concerning the exempted and hedging positions. A copy of all applicable order tickets must be provided to the Regulatory staff of the Exchange on the day of execution.

(b) The facilitation firm shall establish and liquidate its own as well as its customer's option, stock and Exchange-Traded Fund Share positions in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes nor with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option. The facilitation firm shall notify the Exchange of any material change in the exempted option position or hedge. The facilitation firm shall not increase the exempt option position once it is liquidated, unless prior approval is again received pursuant to this Rule.

([c]iii) *Facilitation Procedure*: compliance with the facilitation procedures of Rule 1064(b) is required, such that the terms of the order are disclosed and the market quoted, with bidding/offering by the facilitation firm providing an opportunity for the trading crowd to participate.

([d]iv) *Hedge*: to remain qualified, the facilitation firm must hedge all exempt option positions within five business days after the execution of the order and furnish the Exchange's Regulatory staff with documentation reflecting the resulting hedged positions.

([e]v) Violations of these requirements, absent reasonable justification or excuse, shall result, in addition to any disciplinary action, in withdrawal of the exemption and may form the basis for subsequent denial of an application for an exemption hereunder.

**[.09] (n) Delta-Based Equity Hedge Exemption.** [—]The Delta-Based Equity Hedge Exemption is in addition to the standard limit and other exemptions available under Exchange Rules, interpretations and policies.

(i) An equity option position of a member or non-member affiliate of a member that is delta neutral shall be exempt from established position limits as prescribed in this Rule 1001, subject to the following:

(a) No Change.

(1) No Change.

(b) No Change.

(1) and (2) No Change.

(c) A "permitted pricing model" means -

(1) A pricing model maintained and operated by [t]The Options Clearing Corporation ("OCC Model");

(2) No Change.

(3) A pricing model maintained and used by a financial holding company or a company treated as a financial holding company under the Bank Holding Company Act of 1956, or by an affiliate that is part of either such company's consolidated supervised holding company group, in accordance with its internal risk management control system and consistent with:

(i) No Change.

(ii) the standards published by the Basel Committee on Banking Supervision, as amended from time to time and as implemented by such company's principal regulator, in connection with the calculation of risk-based deductions or adjustments to or allowances for the market risk capital requirements of such principal regulator applicable to such company - where "principal regulator" means a member of the Basel Committee on Banking Supervision that is the home country consolidated supervisor of such company - provided that the member or affiliate of a member relying on this exemption in connection with the use of such model is an entity that is part of such company's consolidated supervised holding company group;

(4) and (5) No Change.

(d) Effect on Aggregation of Accounts

(1) No Change.

(2) Notwithstanding subparagraph (d)(1), the net delta of an option position held by an entity entitled to rely on this exemption, or by a separate and distinct trading unit of such entity, may be calculated without regard to positions in or relating to the security

underlying the option position held by an affiliated entity or by another trading unit within the same entity, provided that

(i) the entity demonstrates to the Exchange's satisfaction that no control relationship, as defined in [Commentary .06] section (k) to this Rule 1001; and

(ii) No Change.

(3) No Change.

(i) and (ii) No Change.

(e) Obligations of Members and Affiliates

(1) No Change.

(i) and (ii) No Change.

(2) and (3) No Change.

(f) Reporting.

Each member (other than an Exchange market-maker using the OCC model) that holds or carries an account that relies on this exemption shall report, in accordance with Rule 1003, all equity option positions (including those that are delta neutral) that are reportable thereunder. Each such member on its own behalf or on behalf of a designated aggregation unit pursuant to [Commentary .09]section (n)(1)(d) herein shall also report, in accordance with Rule 1003, for each such account that holds an equity option position subject to this exemption in excess of the levels specified in this Rule 1001, the net delta and the options contract equivalent of the net delta of such position.

(g) No Change.

**[.10] (o) Exemptions Granted by Other Options Exchanges.** [-]A member 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 the Exchange provided that such member:

([a]1) provides the Exchange 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 Exchange Regulatory staff to verify the validity of that exemption with the issuing options exchange, and

([b]2) fulfills all conditions precedent for such exemption and complies at all times with the requirements of such exemption with respect to the member's trading on the Exchange.

[-----]

### **Rule 1002. Exercise Limits**

**(a)** Except with the prior approval of the Exchange in each instance, no member or member organization shall exercise, for any account in which such member or member organization has an interest or for the account of any partner, officer, director or employee thereof or for the account of any customer, a long position in any option contract of a class of options dealt in on the Exchange (or, respecting an option not dealt in on the Exchange, another exchange if the member or member organization is not a member of that exchange) if as a result thereof such member or member organization, or partner, officer, director or employee thereof or customer, acting alone or in concert with others, directly or indirectly, has or will have exercised within any five (5) consecutive business days aggregate long positions in that class (put or call) as set forth as the position limit in Rule 1001, in the case of options on a stock or on an Exchange-Traded Fund Share, on a foreign currency, or stock index warrants; without regard to the exchange on which the options were purchased. Whether option or warrant positions should be aggregated under this Rule shall be determined in the manner described in the Commentary to Exchange Rule 1001. Index option position and exercise limits are governed by Rules 1001A and 1002A.

[••• *Commentary:* -----]

**[.01](b)** It shall be the responsibility of each member and member organization accepting orders for the purchase (in opening transactions) of option contracts of a class of options dealt in on the Exchange to inform their customers of the applicable exercise limits and not to accept any exercise of an option contract from any customer in any instance in which such member or member organization has reason to believe that such customer, acting alone or in concert with others, has exceeded or is attempting to exceed such exercise limits.

**[.02] (c)** The Exchange will not approve exercises exceeding the limits established pursuant to this Rule except in highly unusual circumstances. An exemption request must be in writing and set forth the facts justifying the exemption. An exemption requires the approval of an Options Exchange Official.

**[.03] (d)** The Exchange may establish different limits from time to time either across the board for all underlying securities or underlying foreign currencies covered by options traded in the Exchange or in respect to particular classes.

[-----]

### **Rule 1003. Reporting Of Options Positions**

(a) No Change.

(b) In addition to the reporting requirement described in paragraph (a) of this Rule, each member (other than an Exchange market[-] maker) that maintains a position in excess of 10,000 non-FLEX equity option contracts on the same side of the market on behalf of its own account or for the account of a customer, shall report information as to whether such positions are hedged, and

provide documentation as to how such contracts are hedged, in a manner and form prescribed by the Exchange.<sup>[1]</sup> For the purposes of this Rule, the term market maker is a Registered Option Trader or specialist. For the Nasdaq-100 Index Tracking Stock ("QQQ")® options, once the 10,000 contract reporting threshold of this paragraph is met, the Exchange will require members (other than an Exchange market[-] maker) to report each increase of 2,500 contracts on the same side of the market for the account of a customer and each increase of 5,000 contracts on the same side of the market for proprietary accounts. In addition, whenever the Exchange determines, based on a report to the Regulatory staff or otherwise, that a higher margin requirement is necessary in light of the risks associated with an under-hedged Non-FLEX equity option position in excess of 10,000 contracts on the same of the market, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position, pursuant to its authority under Exchange Rule 722d. Additionally, it should be noted that the clearing firm carrying the account will be subject to capital charges under SEC rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

(c) and (d) No Change.

• • • **Commentary:** -----

.01 - .03 No Change.

[<sup>1</sup> For the purposes of this Rule, the term market-maker is a Registered Option Trader or specialist.]

### **Rule 1006. Other Restrictions on Exchange Options Transactions and Exercises**

(a) Phlx may impose such restrictions on transactions or exercises in one or more series of options of any class traded on Phlx as the Exchange's Regulation Department 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 member or member organization 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, which shall include such expiration date for an option contract that expires on a business day, 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 business day of their expiration or, in the case of an option contract expiring on a day that is not a business day, 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 Options Clearing Corporation while trading in the option is delayed, halted, or suspended if it can be documented, in a form prescribed by Phlx 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 business day of expiration, or in the case of an option contract expiring on a day that is not a business day, 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 Rules 1047, 1047A and, 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) Phlx 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 Phlx 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 Phlx 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 Phlx 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, Phlx Regulation shall impose the requested restrictions as promptly as possible but no earlier than fifteen (15) minutes after members or member organizations shall have been notified and shall terminate such restrictions upon request of the underwriters or when Phlx Regulation otherwise discovers that stabilizing transactions by the underwriters has been terminated.

iii. For purposes of paragraph (b) of this Rule, 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.

[The Exchange shall have the power to impose, from time to time in its discretion, such restrictions on Exchange options transactions or the exercise of option contracts in one or more series of options of any class dealt in on the Exchange (whether stock or Exchange-Traded Fund Share options American style and European style or foreign currency options) as it deems advisable in the interests of maintaining a fair and orderly market in option contracts or in the underlying stocks or Exchange-Traded Fund Shares covered by such option contracts (in the case of options on stocks or Exchange-Traded Fund Shares), or otherwise deems advisable in the public interest or for the protection of investors. During the effectiveness of any such restriction, no member or member organization shall effect any Exchange options transaction or exercise any option contract in contravention of such restriction. Notwithstanding the foregoing, the Exchange shall not impose restrictions on the exercise of European style foreign currency option contracts, and during the ten (10) business days prior to the expiration date of a given series of American style options, which shall include such expiration date for an option contract that expires on a business day, no restriction on the exercise of such American style option contracts shall remain in effect.]

\* \* \* \* \*

**Rule 1021. Reserved.[Excessive Dealing In Options**

No member or member organization shall effect on the Exchange purchases or sales in options for any account in which he or it is directly or indirectly interested which purchases or sales are excessive in view of the market for such security.

••• *Commentary:* -----

**.01** The Exchange expects that all trading in options by members and member organizations will have a constructive effect on the market by adding to its orderliness and liquidity. In this regard, there are certain kinds of trading activity and trading patterns which should be avoided and which may be excessive in view of the market for an option. Among these are:



- (a) purchases in substantial quantity of offered options on plus or zero plus ticks in order to establish or increase a position where the members or member organization trading has shown a pattern buying and selling the same listed option on the same day;
- (b) a succession of purchases by a member or member organization to establish or increase a position at the same or successively higher prices in the same trading session; and
- (c) purchases to establish or increase a position where a member or member organization has reason to believe that members' transactions may have accelerated the price movement of an option.

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**Rule 1038. Reserved. [Open Orders On "Ex-Date"]**

Open orders for one or more option contracts dealt in on the Exchange held by members or member organizations prior to the effective date of an adjustment by the Options Clearing Corporation to the terms of a class of options pursuant to the rules of the Options Clearing Corporation shall be adjusted on the "ex-date" by such amount as the Options Clearing Corporation shall specify, unless otherwise instructed by the customer.]

**Rule 1040. Failure To Pay Premium**

Whenever [t]The Options Clearing Corporation ("OCC") shall reject an Exchange options transaction because of the failure of the clearing member acting on behalf of the purchaser to pay the premium due thereon as required by the [r]Rules of [the Options Clearing Corporation]OCC, the member or member organization acting as or on behalf of the seller (writer) shall have the right either to cancel the transaction by giving notice thereof to the defaulting clearing member or to enter into either a new opening writing transaction or closing sale transaction, as the case may be, in respect of the same option contract that was the subject of the rejected Exchange options transaction, charging any loss resulting therefrom (including any commissions paid or payable in connection with such new transaction) to the defaulting clearing member. Such action shall be taken as soon as possible and in any event not later than the close of trading on the day the Exchange options transaction was rejected by [the Options Clearing Corporation]OCC, unless the Exchange shall extend such time.

In the event the rejected transaction involves an option contract of a series in which trading has been terminated or suspended before a new Exchange options transaction can be effected to establish the amount of any loss the member or member organization acting as or on behalf of the seller shall have a claim against the defaulting clearing member for the amount of the premium due thereon.

**Rule 1041. Options Contracts Of Suspended Members**

When announcement is made of the suspension of a member or member organization, other than a clearing member, pursuant to the provisions of Rules 70 and 71, all open short positions of the suspended member or member organization in option contracts and all open positions resulting from exercise of option contracts, other than positions that are secured in full by a specific deposit in accordance with the rules of [t]The Options Clearing Corporation ("OCC"), shall be closed without unnecessary delay by all member organizations carrying such positions for the account of the suspended member or member organization; provided, however, that upon any such suspension the Board may, in its discretion, suspend the mandatory close-out provisions of this Rule and may, in its discretion, reinstate such provisions at such time as it may determine. No temporary suspension of the mandatory close-out provisions of this Rule shall relieve the suspended member or member organization of his or its obligations or for any damages incurred by member organizations carrying positions for the account of such suspended member or member organization. Should an open short position or an open position resulting from an exercise of an option contract not be closed when required to be closed by this Rule, the price for the purpose of determining shall be fixed by the price current at the time when such position should have been closed under this Rule. When a clearing member is suspended, the positions of such clearing member shall be closed out in accordance with the rules of [the Options Clearing Corporation]OCC.

#### **Rule 1042. Exercise Of Equity Option Contracts**

(a) – (c) No Change.

(d) *Submission of Contrary Exercise Advices ("CEAs")*. A CEA is a communication either to not exercise an option that would be automatically exercised pursuant to The Options Clearing Corporation's ("OCC")[s] Ex-by-Ex procedure, or to exercise an option that would not be automatically exercised pursuant to OCC's Ex-by-Ex procedure. A CEA may be submitted by a member or member organization either by using the Exchange's CEA Form, OCC's clearing system (ENCORE), or a CEA form of any other national securities exchange of which they are a member and where the option is listed, or via such other method as the Exchange may prescribe. A CEA may be canceled or resubmitted at any time up to the exercise cut-off time specified below.

For customer accounts, members and member organizations have until 7:30 p.m. (EST) to submit a CEA to the Exchange.

For non-customer accounts, members and member organizations have until 7:30 p.m. (EST) to submit a CEA to the Exchange if such member or member organization employs an electronic submission procedure with an electronic time stamp (with fixed procedures to ensure security of the time stamp) to indicate the time of the submission of exercise instructions by option holders. Members and member organizations are required to manually submit a CEA by 5:30 p.m. (EST) for non-customer accounts if such members and/or member organizations do not employ an electronic submission procedure with electronic time stamp for the submission of exercise instructions by option holders.

(e) –(i) No Change.

[••• *Commentary:* -----]

**[.01]** (j) For purposes of this Rule 1042, the terms "customer account" and "non-customer account" have the same meaning as in OCC by-laws [Articles I(C)(28) and I(N)(2), respectively].

**[.02]** (k) Reporting final exercise decisions contemplated by this Rule does not serve to substitute as the effective "exercise notice" to OCC for the exercise or non-exercise of expiring options.

**[.03]** (l) In the event of "unusual circumstances," Rule 1042(h)(i) provides that the Exchange may extend the cut-off times for exercise instructions and the submission of a CEA beyond the normal time frames specified in Rule 1042(c). For purposes of 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 quotes and/or deliver orders; or other similar occurrences. Rule 1042 (h)(ii) provides that the Exchange may also reduce such cut-off times for "unusual circumstances." For purposes of 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 the option contract expires, or, in the case of an option contract expiring on a day that is not a business day, the business day immediately prior to expiration.

**[.04]** Reserved.]

**[.05]** (m) Each member organization 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.

**[.06]** (n) It is contemplated by this Rule that effecting an exercise decision in an expiring option on the basis of material information obtained after the exercise cut-off time is activity inconsistent with just and equitable principles of trade.

**[.07]** (o) The exercise cut-off requirements contained in this Rule do not apply to any foreign currency or index option products listed on the Exchange.

**[.08]** (p) Each Member Organization shall prepare a memorandum of every exercise instruction received showing the time when such instruction was so received. Such memoranda will be subject to the requirements of SEC rule 17a-4(b).

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**Rule 1044. Delivery and Payment**

Delivery of the shares of underlying stock or Exchange-Traded Fund Shares (in the case of an option on a stock or Exchange-Traded Fund Share) upon the exercise of an option contract, and payment of the aggregate exercise price in respect thereof, shall be effected in accordance with the rules of [t]The Options Clearing Corporation ("OCC"). As promptly as practicable after the exercise of a stock or Exchange-Traded Fund Share option contract by a customer, the member organization shall require the customer to make full cash payment of the aggregate exercise price in the case of a call option contract or to deposit the underlying stock or Exchange-Traded Fund Shares in the case of a put option contract or, in either case, to make the required margin deposit in respect thereof if such transaction is effected in a margin account, in accordance with these Rules and the applicable regulations of the Federal Reserve Board. As promptly as practicable after the assignment to a customer of a stock or Exchange-Traded Fund Share option exercise notice, the member organization shall require the customer to deposit the underlying stock or Exchange-Traded Fund Share in the case of a call option contract if the underlying stock or Exchange-Traded Fund Share 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 option contract, or, in either case, to make the required margin deposit in respect thereof if such transaction is effected in a margin account, in accordance with these Rules and the applicable regulations of the Federal Reserve Board.

In accordance with the applicable rules of [the Options Clearing Corporation]OCC, upon exercise of an in-the-money U.S. dollar-settled foreign currency option structured as a call, the holder receives, from OCC, U.S. dollars representing the difference between the exercise strike price and the closing settlement value of the U.S. dollar-settled foreign currency options contract multiplied by the number of units of currency covered by the contract. For a U.S. dollar-settled foreign currency option structured as a put, the holder receives U.S. dollars representing the excess of the exercise price over the closing settlement value of the U.S. dollar-settled foreign currency option contract multiplied by the number of units of foreign currency covered by the contract.

**Rule 1045. Reserved. [Officers And Employees Restricted**

(a) Every salaried officer or employee of the Exchange and every salaried officer or employee of any corporation in which the Exchange owns the majority of the stock shall report promptly to the Exchange every purchase or sale for his own account or the account of others of any security which is the underlying security of any option contract admitted to dealings on the Exchange.

(b) No salaried officer or employee of the Exchange or salaried officer or employee of any corporation in which the Exchange owns the majority of the corporate stock may purchase or sell for his own account or for the account of others any option contract which entitles the purchaser to purchase or sell any security described in paragraph (a) of this Section or any foreign currency option contract admitted to dealings on the Exchange.]

\* \* \* \* \*

**Rule 1048. Stock Transfer Tax**

(a) Any stock transfer or similar tax payable in accordance with applicable laws and regulations of a taxing jurisdiction upon the sale, transfer or delivery of securities pursuant to the exercise of an option contract shall be the responsibility of the seller (writer) to whom the exercise notice is assigned in the case of a call option contract or the exercising holder in the case of a put option contract, except that (i) in the case of a call option contract where the incidents of the tax are attributable solely to the exercising holder, the member organization representing such holder or another member organization which acts on its behalf as a clearing member of [t]The Options Clearing Corporation (“OCC”), the tax shall be the responsibility of the exercising holder, and (ii) in the case of a put option contract where the incidents of the tax are attributable solely to the seller (writer) to whom the exercise notice is assigned, the member organization representing such seller (writer) or another member organization which acts on its behalf as a clearing member of [the Options Clearing Corporation]OCC, the tax shall be the responsibility of such seller (writer). Each delivery of securities subject to such tax must be accompanied by a sales ticket stamped in accordance with the regulations of the State imposing such tax or, if required by applicable law, such tax shall be remitted by the clearing member having responsibility therefore to the clearing corporation through which it customarily pays stock transfer taxes, in accordance with the applicable rules of such clearing corporation.

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#### **Rule 1090. Clerks**

The term "Clerk" means any registered on-floor person employed by or associated with a member or member organization who is not a member and is not eligible to effect transactions on the Options Floor as a Specialist, Registered Options Trader, or Floor Broker. For purposes of this Rule, an Inactive Nominee shall be deemed a Clerk.

**(a) Badges.** While on the trading floor, Clerks shall display prominently at all times the badge(s) supplied to them by the Exchange.

**(b) Conduct on the Trading Floor.** Clerks shall be primarily located at a post assigned to their employer or assigned to their employer's clearing firm unless such Clerk is:

- (i) entering or leaving the trading floor;
- (ii) transmitting, correcting, or checking the status of an order or reporting or correcting an executed trade;
- (iii) supervising other Clerks of his member organization if he is identified as a supervisor on the registration form submitted to the Exchange's Membership Department.

**(c) Registration Requirements.** A member or member organization who employs a Clerk that performs any function other than a solely clerical or ministerial function shall, prior to the time such Clerk performs any function as a Clerk, (i) comply with the registration requirement(s) set forth in Exchange Rules 611-616, where applicable; (ii) disclose in detail to the Exchange, on an annual basis, the specific nature of such additional function(s); and (iii) submit to the Exchange

written supervisory procedures relating to such Clerk's activities in accordance with Exchange Rule 748.

**(d) Clerks' Use of Vendor Quote Terminals[, DOT,] and Other Order-Entry Devices.**

A Clerk may enter an order under the direction of a member by way of a vendor quote terminal[, DOT machine,] or any other order handling entry device.

[•• *Commentary:* -----]

[.01]

**(e) Specialist Clerks** [(a) *Definition.*] A Specialist Clerk is any on-floor Clerk, not a member of the Exchange, employed by or associated with a member or member organization registered as a specialist.

[(b)1] *Registration Requirements.* Any member or member organization that employs a Specialist Clerk shall register such Specialist Clerk with the Exchange's Membership Department. A Specialist Clerk that performs any function other than a solely clerical or ministerial function shall, prior to performing any function as a Specialist Clerk, (i) comply with the registration requirement(s) set forth in Exchange Rules 611-616, where applicable; (ii) disclose in detail to the Exchange, on an annual basis, the specific nature of such additional function(s); and (iii) in accordance with Exchange Rule 748, submit to the Exchange written supervisory procedures relating to such Specialist Clerk's activities.

[(c)2] *Conduct on the trading floor.* A Specialist Clerk is permitted to communicate verbal market information (i.e., bid, offer, and size) in response to requests for such information, provided that such information is communicated under the direct supervision of his or her member employer. A Specialist Clerk may consummate electronic transactions under the express direction of his or her member employer by matching bids and offers. Such bids and offers and transactions effected under the supervision of a member employer are binding as if made by the member employer.

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