

Required fields are shown with yellow backgrounds and asterisks.

Page 1 of * 263	SECURITIES AND EXCHANGE COMMISSION WASHINGTON, D.C. 20549 Form 19b-4	File No.* SR - 2019 - * 17	Amendment No. (req. for Amendments *)
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Filing by Nasdaq 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 type="checkbox"/>	Exhibit 3 Sent As Paper Document <input type="checkbox"/>
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**Description**

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

Proposal to relocate rules related to the trading floor into the new Rulebook shell at Options 8, entitled Options Floor Trading.

**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 \* Angela Last Name \* Dunn

Title \* Principal Associate General Counsel

E-mail \* Angela.Dunn@nasdaq.com

Telephone \* (215) 496-5692 Fax

**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 04/16/2019 Global Chief Legal and Policy Officer

By Edward S. Knight

(Name \*)

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**

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Exhibit Sent As Paper Document

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

**Exhibit 3 - Form, Report, or Questionnaire**

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Exhibit Sent As Paper Document

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

**Exhibit 4 - Marked Copies**

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

**Exhibit 5 - Proposed Rule Text**

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 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> is filing with the Securities and Exchange Commission (“SEC” or “Commission”) a proposal to relocate rules related to the trading floor into the new Rulebook shell at Options 8, entitled “Options Floor Trading.”

A notice of the proposed rule change for publication in the Federal Register is attached as Exhibit 1. The text of the proposed rule change is attached 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 (the “Board”) on September 26, 2018. Exchange staff will advise the Board of any action taken pursuant to delegated authority. No other action is necessary for the filing of the rule change.

Questions and comments on the proposed rule change may be directed to:

Angela Saccomandi Dunn  
Principal Associate General Counsel  
Nasdaq, Inc.  
215-496-5692

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

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

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

a. Purpose

The purpose of this rule change is to relocate all rules that relate to the Exchange's trading floor into the new Rulebook shell at Options 8, titled "Floor Trading." The Exchange proposes to relocate the various rules or portion of rules into sections with titles within Options 8. Each rule in the new Options 8 will be described in greater detail below. The Exchange notes that cross-references within the relocated rules have been amended where appropriate to reflect relocations. Also, with respect to the relocation of a portion of a rule, a reference was added to the original rule. The Exchange is not substantively amending rule text unless noted otherwise within this rule change.

General Provisions

The Exchange proposes to add a title "General Provisions" into Options 8 along with two sections, Section 1, titled "Applicability" and Section 2, titled "Definitions." The Exchange's new proposed Section 1 seeks to clarify the interplay between Options 8 and the remainder of the Phlx Rulebook. A member may execute a transaction on Phlx electronically or from the trading floor. The Exchange seeks to identify which rules are applicable to the trading floor within Options 8. To the extent that a portion of a rule applied to the trading floor, the Exchange relocated only that portion of the rule to Options 8. The Exchange proposes to provide at Section 1,

(a) The Options 8 Rules shall apply to Exchange options transactions by and among members and member organizations physically located on the Exchange's options trading floor, including the trading crowds, and shall govern all activity that occurs in the physical space designated by the Exchange as "trading floor" as well as trading conducted through the Options Floor Based Management. All executions that occur

automatically within the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions (“System” or “Electronic System”) shall be governed by all other Options Rules except for the Options 8 Rules.

(b) All Options Rules shall apply to Exchange Floor Trading, in addition to the Options 8 Rules, however where the Options 8 Rules disagree with another Options Rule not within Options 8 a conflict shall be resolved in favor of the Options 8 Rule as it applies to the Exchange Trading Floor.

The Exchange seeks to make clear that the Options 8 Rules should be read together with rules in the remainder of the Rulebook and makes clear that in the event of a conflict, the Options 8 rules apply to the trading floor.

Today, Rules Applicable to Trading of Options on Indices are drafted in a similar fashion. With respect to the Rules Applicable to Trading of Options on Indices (Rules 1000A—1109A), Phlx Rule 1000A, “Applicability and Definitions,” currently provides:

The Rules in this Section are applicable only to index options (options on indices of securities as defined below). In addition, except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to stock options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of index options.

Similarly, Cboe Exchange, Inc. (“Cboe”) Rule 6.1A. Global Trading Hours has an applicability rule that is similarly drafted. The rule provides,

(a) Applicability of Rules. All Rules of the Exchange apply to trading during Global Trading Hours except as set forth in this Rule and except for Rules that by their terms are inapplicable during Global Trading Hours or where the context otherwise requires.<sup>3</sup>

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<sup>3</sup> Cboe Rule 613, Cboe Options Hybrid System Automatic Execution Feature, similarly has an applicability rule that provides, “...This rule is applicable only to those classes specifically designated for trading on the Cboe Options Hybrid System. The Cboe Options Hybrid System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange pursuant to the priority and allocation principles contained in Rule 6.45.”

Proposed Section 2 contains definitions applicable to the trading floor. Unless otherwise stated, the proposed relocations do not modify the existing definition. The term “floor” at proposed Section 2(1) is relocated from Rule 1(n). The term “Floor Broker” at proposed Section 2(2) is relocated from Rule 1060. The term is being modified to “Floor Broker” instead of “Options Floor Broker” because these rules appear in the Options section of the Phlx Rulebook. The term “Inactive Nominee” at proposed Section 2(3) is being relocated from Rule 1(p). The term “Presiding Exchange Officials” at proposed Section 2(4) is being relocated from Rule 1000(e). The term “Permit” at proposed Section 2(5) references Rule 1(z) and also relocates portions of Rule 908(b)(i). The term “Public Outcry” at proposed Section 2(6) is being relocated in part from Rule 1000(g). The term “Non-SQT ROT” at proposed Section 2(7) is being relocated from Rule 1014(b)(ii)(C) and renamed “Floor Market Maker.” The Exchange proposes to rename the term “Non-SQT ROT” throughout Options 8 as “Floor Market Maker.”

#### Administration

The Exchange proposes a new title “Administration” into new Options 8 along with new proposed Sections 3 – 10. Proposed Section 3, titled “Imposition” is being relocated from Rule 714. Proposed Section 4, titled “Rights and Privileges of A-1 Permits” is relocated in part from Rule 908(b)(i)<sup>4</sup> with the addition of the sentence, “A Series A-1 permit holder shall be subject to Rule 908.” Proposed Section 5, titled “Qualification as a Member Organization” is relocated in part from Rule 910(f)(3)<sup>5</sup> with the addition of the phrase, “In addition to the requirements of Rule 910.” Proposed

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<sup>4</sup> Specifically, the Exchange is relocating Rule 908(b)(i) and deleting (c)(i) which is now highlighted with proposed new Section 4.

<sup>5</sup> Specifically, the Exchange is relocating a portion of Rule 910(f)(3).

Section 6, titled “Registration of Floor Brokers” is being relocated from Rule 1061. Proposed Section 7, titled “Inactive Nominees” is being relocated from Rule 925. Proposed Section 8, “Trading Floor Registration” is being relocated from Rule 1260. Proposed Section 9, “Trading Floor Admittance” is being relocated from Rule 443. Proposed Section 10, “Training” is being relocated from Rule 625, in part<sup>6</sup> with the addition of the phrase, “In addition to Rule 625 requirements.” The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Market Participants

The Exchange proposes a new title “Market Participants” into new Options 8 along with new proposed Sections 11 and 12. Proposed Section 11 titled “Specialist Appointment” is being relocated in part from Rule 501<sup>7</sup> with the addition of the phrase, “In addition to the requirements specified in Rule 501 related to the appointment of a Specialist, each Specialist unit....” Proposed Section 12, titled “Clerks” is being relocated from Rule 1090. The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Regulation

The Exchange proposes a new title “Regulation” into new Options 8 along with new proposed Sections 13 – 19. Proposed Section 13, titled “Acts Detrimental to the Interest or Welfare of the Exchange” is being relocated, in part, from Rule 708<sup>8</sup> and adds

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<sup>6</sup> Specifically, the last sentence of Rule 625 is being relocated.

<sup>7</sup> Specifically, rule text is being relocated from Rule 501(d) and (f).

<sup>8</sup> Specifically, Commentary .01(e) to Rule 708 is being relocated.

the phrase, “In addition to Rule 708, acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to.” Proposed Section 14, titled, “Financial Responsibility and Reporting” is being relocated, in part, from Rule 703 and adding the phrase, “In addition to the obligations specified within Rule 703.”<sup>9</sup> Proposed Section 15, titled “Stopping” An Option” is being relocated from Rule 1018. Proposed Section 16, titled “Trading for Joint Account” is being relocated from Rule 772. Proposed Section 17, titled “Limitations on Members Trading Because of Customers’ Orders” is being relocated, in part, from Rule 452<sup>10</sup> and adding phrase, “In addition to the limitations in Rule 452.” Proposed Section 18, titled “General Responsibility of Floor Brokers” is being relocated from Rule 155. Proposed Section 19, titled “Responsibilities of Floor Brokers - Treasury Securities Options” is being relocated from Rule 1017D. The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Floor Trading Rules

The Exchange proposes a new title “Floor Trading Rules” into new Options 8 along with new proposed Sections 20 – 35. Proposed Section 20, titled “Dealings on Floor—Hours” is being relocated from Rule 102. Proposed Section 21, titled “Dealings on Floor—Persons” is being relocated from Rule 104. Proposed Section 22, titled “Execution of Options Transactions on the Trading Floor” is being relocated, in part, from Rule 1000(f) and (g). Proposed Section 23, titled “Precedence of Highest Bid” is

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<sup>9</sup> Specifically, sections of Rule 703(c)(vi) are being relocated.

<sup>10</sup> Specifically, rule text is being relocated from Supplementary Material .03 to Rule 452.

being relocated, in part, from Rule 119.<sup>11</sup> The Exchange proposes to replicate the first part of that rule, “The highest bid shall have precedence in all cases pursuant to Rule 119. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:” before the relocated sections of Rule 119(e) and (f). Proposed Section 24, titled “Bids And Offers—Premium” is being relocated from Rule 1033.<sup>12</sup>

Proposed Section 25, titled “Floor Allocation” is being relocated, in part, from Rule 1014(g)(i)-(vi) into Options 8, Section 25.<sup>13</sup> The Exchange proposes to add a sentence at the beginning of this rule as “a”, which states, “The following applies to the allocation of orders on the Trading Floor” to introduce the information which follows. The Exchange proposes to relocate the first paragraph of Commentary .01 to Rule 1014.<sup>14</sup> Commentary .05(c) of Rule 1014 will be relocated to Options 8, Section 25(f). Commentary .07 and .08 of Rule 1014 are being relocated to Options 8, Section 25(d)(1) and (e). Commentary .09 of Rule 1014 is being relocated to Options 8, Section 25(g).

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<sup>11</sup> Specifically, rule text is being relocated from Rule 119(e) and (f).

<sup>12</sup> The Exchange is capitalizing the “The” before “Options Clearing Corporation” to properly represent the name.

<sup>13</sup> The term “Options Floor Broker System” is being amended to “Options Floor Based System” to conform to the remainder of the rulebook. This term was amended in a prior rule change. See Securities Exchange Act Release No. 83656 (July 17, 2018), 83 FR 34899 (July 23, 2018) (SR-Phlx-2018-40). The same change was made to E-1, “Use of Identification Letters and Numbers.”

<sup>14</sup> The paragraph of Commentary .01 of Rule 1014 will remain within this rule. Commentary .02 - .04 and .06 of Rule 1014 rule text will remain within Rule 1014. Commentary .05(b) will remain within Rule 1014, except that “(a) RESERVED and (b)” will be deleted. Commentary .10 of Rule 1014 is being renumbered as “.07”. Commentary .15 and .16 of Rule 1014 are being renumbered as “.08” and “.09” respectively. Commentary .18 of Rule 1014 is being renumbered as “.10”.

Commentary .11, .12, .13 and .14 of Rule 1014 are being relocated to Options 8, Section 25(h)-(k). Commentary .17 of Rule 1014 is being relocated to Options 8, Section 25(l). Commentary .19 of Rule 1014 is being relocated to Options 8, Section 25(m).

Proposed Section 26, titled “Trading Halts” is being relocated in part from Rule 1047<sup>15</sup> and 1047A.<sup>16</sup> Proposed Section 27, titled “Quoting Obligations and Required Transactions” is being relocated, in part, from Rule 1014 to Options 8, Section 27. Specifically, current Rule 1014(b)(ii)(E) and (c)(i)(A)(1) are being relocated.<sup>17</sup> The Exchange proposes to add this sentence “Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:” prior to the current text within Rule 1014(c)(i)(A)(2). The Exchange also proposes to relocate Rule 1014(d), in part, and to replicate the phrase “Furthermore, an ROT should not:” in relocating Rule 1014(d)(ii) to proposed Options 8, Section 27(d). The Exchange proposes to renumber current Rule 1014(d)(iii) as (ii). The Exchange proposes to relocate Rule 1014(e) to proposed Options 8, Section 27(e). The Exchange proposes to amend Rule 1014(g) to reserve the rule text in (i)-(vi).<sup>18</sup> The Exchange proposes to relocate rule text from the second and third paragraphs of Commentary .01 to Rule 1014 into proposed Options 8, Section 27(f).

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<sup>15</sup> Specifically, the Commentary to Rule 1047 is being relocated.

<sup>16</sup> Specifically, the Exchange proposes to relocate Rule 1047A(f)(ii) and renumber the remaining paragraphs in Rule 1047A(f). The Exchange proposes to add the phrase “in addition to Rule 1047A.”

<sup>17</sup> The Exchange noted above that the term “non-SQT ROT” is being amended to Floor Market Maker throughout these rules.

<sup>18</sup> As noted above, Rule 1014(g)(i)-(vi) as well as Commentaries .01 (in part), .05 (in part), .07, .08, .09, .11-.14, .17 and .19 is being relocated to Options 8, Section 25 and no changes are proposed for Rule 1014(g)(vii) and (viii).

Proposed Section 28, titled “Responsibilities of Floor Brokers”, similar to current Rule 1063, is being relocated from “General Responsibility of Floor Brokers” in Rule 155, Rule 1063 and Rule 1069, titled “Snapshot Feature.” Current Rule 155 is relocated within Options 8, Section 28(a) in the first sentence. Current Rule 1069 is relocated at Options 8, Section 28(i). Proposed Section 29, titled “Use of Floor Based Management System by Registered Options Traders and Specialists” is being relocated from Rule 1085. The Exchange is not relocating the following outdated rule text:<sup>19</sup>

*The Exchange anticipates that it will make FBMS available to Registered Options Traders and Specialists during the Second Quarter of 2018. To facilitate the transition to FBMS, the Exchange will not require Registered Options Traders or Specialists to utilize FBMS until one month after the date on which the Commission approves the Exchange's proposal. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when FBMS will be available for use by Registered Options Traders and Specialists. The alert will also contain the mandatory start date.*

Proposed Section 30 is being “Reserved.” The Exchange will relocate Rule 1064, titled “Crossing, Facilitation and Solicited Orders” to Section 30 at a later date. Proposed Section 31, titled “Discretionary Transactions” is being relocated from 1065. Proposed Section 32 titled, “Certain Types of Floor-Based (Non-System) Orders Defined” is being relocated from Rule 1066 and retitled from “Certain Types of Floor Based (Non-PHLX XL) Orders Defined.” Proposed Section 33 titled, “Accommodation Transactions” is being relocated from Rule 1059. Proposed Section 34 is proposed to be reserved. The Exchange proposes to relocate current Rule 1079, titled “FLEX Index, Equity and Currency Options” into proposed Section 34. Proposed Section 35, titled “Disputes” is being relocated from Rule 124 and renamed from “Disputes-Options.” The proposed rule

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<sup>19</sup> This feature was made available in 2018 as per Options Trader Alert #2018-20.

changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Floor Trade Administration

The Exchange proposes a new title “Floor Trade Administration” into new Options 8 along with new proposed Sections 36 – 38. Proposed Section 36 is titled, “Resolution of Uncompared Trade” is being relocated from Rule 1039. Proposed Section 37, titled “Letters of Authorization” is being relocated from Rule 1062. Proposed Section 38 titled, “Communications and Equipment” is being relocated from Rule 606. The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Option Floor Procedure Advices and Order and Decorum Regulations

The currently titled “Option Floor Procedure Advices and Order and Decorum Regulations” within the Rulebook is proposed to be renamed “Options Minor Rule Violations and Order and Decorum Regulations” and numbered Section 39.<sup>20</sup> The Options Floor Procedure Advices related to the trading floor are being relocated to proposed Section 39 and all Order and Decorum Regulations are also being relocated within Section 39. The Exchange proposes to re-letter and re-number the rules within the current Rulebook that will continue to be located within the section proposed to be renamed “Options Minor Rule Violations.”

The Exchange proposes to delete reserved rules from this section. The following Option Floor Procedure Advices are proposed to be relocated into Section 39:

- A-2 “Options Floor Based Management System” (re-numbered as A-1)

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<sup>20</sup> The Exchange proposes to also retitle “Equity Floor Procedure Advices” as “Minor Rule Violations.”

- A-3 “Requesting Market Quotations” (re-numbered as A-2);
- A-9 “All-or-None Options Orders” (re-numbered as A-3);
- B-1 “Responsibility to Make Markets”;
- B-2 “Crowd Courtesy”;
- B-3 “Trading Requirements”;
- B-4 “Entering Orders from On-Floor and Off-Floor for Execution on the Exchange”;
- B-5 “Agency-Principal Restrictions”;
- B-6 “Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)”;
- B-7 “Options Floor Based Management System”
- B-8 “Use of Floor Brokers by an ROT While on the Floor” (renumbered as B-7);
- B-9 “Use of Tickets” (renumbered as B-8);
- B-10 “Responsibility for Mismatched or “Out” Trades
- B-11 “ROTs and Specialists Entering Orders for Execution on Other Exchanges in Multiply Traded Options” (renumbered as B-9);
- B-12 “ROTs and Specialists Entering Orders for Execution on Other Exchanges in Multiply Traded Options” (renumbered as B-11);
- C-1” Ascertaining the Presence of Registered Options Traders in a Trading Crowd”;
- C-2 “Options Floor Broker Management System”;
- C-3 “Handling Orders of ROTs and Other Registered Options Market Makers”;
- C-4 “Floor Brokers Handling Orders for Same Firm”;
- C-5 “ROTs Acting as Floor Brokers”;
- C-7 “Responsibility to Represent Orders to the Trading Crowd” (re-numbered as

C-6);

- C-9 “Floor Brokers and Clerks Trading in their Customer Accounts” (renumbered as C-7);
- Staffing is re-lettered from “E” to “D”;
- E-1 “Required Staffing of Options Floor” (re-lettered as D-1);
- Miscellaneous is re-lettered from “F” to “E”;
- F-1 Use of Identification Letters and Numbers (re-lettered and re-numbered to E-1);
- F-2 Allocation, Time Stamping, Matching and Access to Matched Trades (re-lettered and re-numbered to E-2);
- F-4 “Orders Executed as Spreads, Straddles, Combinations or Synthetics and Other Order Ticket Marking Requirements” (re-lettered and re-numbered to E-3);
- F-5 “Changes or Corrections to Material Terms of a Matched Trade” (re-lettered and re-numbered to E-4);
- F-6 “Option Quote Parameters,” in part, (re-lettered and re-numbered as E-5);
- F-8 “Failure to Comply with an Exchange Inquiry,” in part, (re-lettered and renumbered as E-6);
- F-9 “Affiliations,” in part, (re-lettered and renumbered as E-7);
- F-11 “Splitting Orders” (re-lettered and renumbered as E-8);
- F-12 “Responsibility for Assigning Participation” (re-lettered and renumbered as E-9);
- F-14 Executing Multi-leg and Synthetic Option Orders” (re-lettered and renumbered as E-10);
- F-16 Two-Way, Three Way and Multi-Spread Transactions (FOREIGN CURRENCY OPTION ONLY (re-lettered and renumbered as E-11);
- F-22 Intra-Day Addition of Strike Prices (re-lettered and renumbered as E-12);
- F-23 Clerks in the Crowd (re-lettered and renumbered as E-13);

- F-25 Fingerprinting Floor Personnel (re-lettered and renumbered as E-14);
- F-30 Options Trading Floor Training (re-lettered and renumbered as E-15);
- F-31 Communications and Equipment (re-lettered and renumbered as E-16);
- F-32 Solicitation of Quotations (re-lettered and renumbered as E-17);

Finally, all Regulations are being relocated to Section 41 and re-lettered from “H” to “F”.

The Exchange is retaining the following rules in the new Options Minor Rule

Plan Section:

- A-4 “Specialist as ROT” (re-numbered as A-1);
- F-6 “Option Quote Parameters” (re-numbered as F-1);
- F-8 “Failure to Comply with an Exchange Inquiry (re-numbered as (F-2);
- F-9 “Affiliations” (re-numbered as (F-3);
- F-10 “Unusual Market Conditions” (re-numbered as (F-4);
- F-13 “Supervisory Procedures Relating to ITSFEA” (re-numbered as (F-5);
- F-19 “Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts” (re-numbered as (F-6);
- F-27 “Options Exchange Official Rulings” (re-numbered as (F-7);
- F-33 “Failure to Provide Notification of Changes in Business Operations” (re-numbered as (F-9);
- F-34 “Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD” (re-numbered as (F-10); and
- F-35 Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts (re-numbered as (F-11).

The Exchange notes that were a rule applied to both the electronic market and floor

trading, the rule was replicated in both the Options Minor Rule Violations and the options Floor Procedure Advice with the applicable parts.<sup>21</sup> The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Other Administrative Changes

The Exchange proposes to amend references to “XL” or “Phlx XL” to “System” as the terms “XL” and “Phlx XL” are obsolete terms. The Exchange has removed “reserved” sections throughout the rules and also re-numbered and re-lettered various rules to bring conformity to the Rulebook. Finally, the Exchange proposes to capitalize the term “specialist” throughout the new proposed rules.

#### b. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>22</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>23</sup> in particular, in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules. The Exchange is not substantively amending rule text unless noted otherwise within this rule change. The Exchange’s proposal to relocate trading floor rules to new Options 8 will make clear which rules are applicable to the trading floor. The renaming of the term “Non-ROT SQT” as “Floor Market Maker” is a non-substantive rule change. Finally,

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<sup>21</sup> The following Options Floor Procedure Advices were replicated: F-6, “Option Quote Parameters;” F-8, “Failure to Comply with an Exchange Inquiry;” and F-9, “Affiliations.”

<sup>22</sup> 15 U.S.C. 78f(b).

<sup>23</sup> 15 U.S.C. 78f(b)(5).

renumbering, re-lettering, deleting reserved rules and obsolete rule text and amending cross-references and other minor technical changes will bring greater transparency to Phlx's Rules.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the amendments to relocate the floor trading rules are non-substantive. This rule change is intended to bring greater clarity to the Exchange's Rules. The renaming of the term "Non-ROT SQT" as "Floor Market Maker" is a non-substantive rule change. Finally, renumbering, re-lettering, deleting reserved rules and obsolete rule text and amending cross-references will bring greater transparency to Phlx's Rules. The Exchange is not substantively amending rule text unless noted otherwise within this rule change.

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

No written comments were either solicited or received.

6. Extension of Time Period for Commission Action

Not Applicable.

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

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(iii)<sup>24</sup> of the Act and Rule 19b-4(f)(6) thereunder<sup>25</sup> in that it effects a change

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

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 Exchange believes that this proposal does not significantly affect the protection of investors or the public interest because the rule changes are intended to reorganize the trading floor rules to make it easier for members and member organizations to understand the application of those rules. The proposed rule change does not impose any significant burden on competition because the rule changes are non-substantive in nature and intended to bring clarity to the rule. The renaming of the term “Non-ROT SQT” as “Floor Market Maker” is a non-substantive rule change. Finally, renumbering, re-lettering, deleting reserved rules and outdated rule text and amending cross-references will bring greater transparency to Phlx’s Rules.

Furthermore, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file a proposed rule change under that subsection at least five business days prior to the date of filing, or such shorter time as designated by the Commission. The Exchange has provided such notice.

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

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<sup>25</sup>

17 CFR 240.19b-4(f)(6).

the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of filing. Rule 19b-4(f)(6)(iii), however, permits the Commission to designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange requests that the Commission waive the operative delay to permit the Exchange to immediately relocate the rules to Options 8. The Exchange desires to bring greater clarity to its rules for the benefit of investors and the general public. The Exchange's relocation is part of a larger effort to reorganize its rules to organize its Rulebook across its Nasdaq affiliated markets. The floor rules are specific to Phlx and relocating these rules will make clear which rules apply to floor participants.

8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission  
Not applicable.
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 Change for publication in the Federal Register.
  5. Text of the proposed rule change.

**EXHIBIT 1**

SECURITIES AND EXCHANGE COMMISSION  
(Release No. \_\_\_\_\_ ; File No. SR-Phlx-2019-17)

April \_\_, 2019

Self-Regulatory Organizations; Nasdaq PHLX LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Relocate the Floor Trading Rules to Options 8

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 April 16, 2019, Nasdaq 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 relocate rules related to the trading floor into the new Rulebook shell at Options 8, entitled “Options Floor Trading.”

The text of the proposed rule change is available on the Exchange’s Website at <http://nasdaqphlx.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

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

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

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 rule change is to relocate all rules that relate to the Exchange's trading floor into the new Rulebook shell at Options 8, titled "Floor Trading." The Exchange proposes to relocate the various rules or portion of rules into sections with titles within Options 8. Each rule in the new Options 8 will be described in greater detail below. The Exchange notes that cross-references within the relocated rules have been amended where appropriate to reflect relocations. Also, with respect to the relocation of a portion of a rule, a reference was added to the original rule. The Exchange is not substantively amending rule text unless noted otherwise within this rule change.

General Provisions

The Exchange proposes to add a title "General Provisions" into Options 8 along with two sections, Section 1, titled "Applicability" and Section 2, titled "Definitions." The Exchange's new proposed Section 1 seeks to clarify the interplay between Options 8 and the remainder of the Phlx Rulebook. A member may execute a transaction on Phlx electronically or from the trading floor. The Exchange seeks to identify which rules are applicable to the trading floor within Options 8. To the extent that a portion of a rule applied to the trading floor, the Exchange relocated only that portion of the rule to Options 8. The Exchange proposes to provide at Section 1,

(a) The Options 8 Rules shall apply to Exchange options transactions by and among members and member organizations physically located on the Exchange's options trading floor, including the trading crowds, and shall govern all activity that occurs in the physical space designated by the Exchange as "trading floor" as well as trading conducted through the Options Floor Based Management. All executions that occur automatically within the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions ("System" or "Electronic System") shall be governed by all other Options Rules except for the Options 8 Rules.

(b) All Options Rules shall apply to Exchange Floor Trading, in addition to the Options 8 Rules, however where the Options 8 Rules disagree with another Options Rule not within Options 8 a conflict shall be resolved in favor of the Options 8 Rule as it applies to the Exchange Trading Floor.

The Exchange seeks to make clear that the Options 8 Rules should be read together with rules in the remainder of the Rulebook and makes clear that in the event of a conflict, the Options 8 rules apply to the trading floor.

Today, Rules Applicable to Trading of Options on Indices are drafted in a similar fashion. With respect to the Rules Applicable to Trading of Options on Indices (Rules 1000A—1109A), Phlx Rule 1000A, "Applicability and Definitions," currently provides:

The Rules in this Section are applicable only to index options (options on indices of securities as defined below). In addition, except to the extent that specific rules in this Section govern, or unless the context otherwise requires, the provisions of the Option Rules applicable to stock options and of the By-Laws and all other Rules and Policies of the Board of Directors shall be applicable to the trading on the Exchange of index options.

Similarly, Cboe Exchange, Inc. ("Cboe") Rule 6.1A. Global Trading Hours has an applicability rule that is similarly drafted. The rule provides,

(a) Applicability of Rules. All Rules of the Exchange apply to trading during Global Trading Hours except as set forth in this Rule and except for Rules

that by their terms are inapplicable during Global Trading Hours or where the context otherwise requires.<sup>3</sup>

Proposed Section 2 contains definitions applicable to the trading floor. Unless otherwise stated, the proposed relocations do not modify the existing definition. The term “floor” at proposed Section 2(1) is relocated from Rule 1(n). The term “Floor Broker” at proposed Section 2(2) is relocated from Rule 1060. The term is being modified to “Floor Broker” instead of “Options Floor Broker” because these rules appear in the Options section of the Phlx Rulebook. The term “Inactive Nominee” at proposed Section 2(3) is being relocated from Rule 1(p). The term “Presiding Exchange Officials” at proposed Section 2(4) is being relocated from Rule 1000(e). The term “Permit” at proposed Section 2(5) references Rule 1(z) and also relocates portions of Rule 908(b)(i). The term “Public Outcry” at proposed Section 2(6) is being relocated in part from Rule 1000(g). The term “Non-SQT ROT” at proposed Section 2(7) is being relocated from Rule 1014(b)(ii)(C) and renamed “Floor Market Maker.” The Exchange proposes to rename the term “Non-SQT ROT” throughout Options 8 as “Floor Market Maker.”

#### Administration

The Exchange proposes a new title “Administration” into new Options 8 along with new proposed Sections 3 – 10. Proposed Section 3, titled “Imposition” is being relocated from Rule 714. Proposed Section 4, titled “Rights and Privileges of A-1

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<sup>3</sup> Cboe Rule 613, Cboe Options Hybrid System Automatic Execution Feature, similarly has an applicability rule that provides, “...This rule is applicable only to those classes specifically designated for trading on the Cboe Options Hybrid System. The Cboe Options Hybrid System is a trading platform that allows automatic executions to occur electronically and open outcry trades to occur on the floor of the Exchange pursuant to the priority and allocation principles contained in Rule 6.45.”

Permits” is relocated in part from Rule 908(b)(i)<sup>4</sup> with the addition of the sentence, “A Series A-1 permit holder shall be subject to Rule 908.” Proposed Section 5, titled “Qualification as a Member Organization” is relocated in part from Rule 910(f)(3)<sup>5</sup> with the addition of the phrase, “In addition to the requirements of Rule 910.” Proposed Section 6, titled “Registration of Floor Brokers” is being relocated from Rule 1061. Proposed Section 7, titled “Inactive Nominees” is being relocated from Rule 925. Proposed Section 8, “Trading Floor Registration” is being relocated from Rule 1260. Proposed Section 9, “Trading Floor Admittance” is being relocated from Rule 443. Proposed Section 10, “Training” is being relocated from Rule 625, in part<sup>6</sup> with the addition of the phrase, “In addition to Rule 625 requirements.” The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Market Participants

The Exchange proposes a new title “Market Participants” into new Options 8 along with new proposed Sections 11 and 12. Proposed Section 11 titled “Specialist Appointment” is being relocated in part from Rule 501<sup>7</sup> with the addition of the phrase, “In addition to the requirements specified in Rule 501 related to the appointment of a Specialist, each Specialist unit....” Proposed Section 12, titled “Clerks” is being

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<sup>4</sup> Specifically, the Exchange is relocating Rule 908(b)(i) and deleting (c)(i) which is now highlighted with proposed new Section 4.

<sup>5</sup> Specifically, the Exchange is relocating a portion of Rule 910(f)(3).

<sup>6</sup> Specifically, the last sentence of Rule 625 is being relocated.

<sup>7</sup> Specifically, rule text is being relocated from Rule 501(d) and (f).

relocated from Rule 1090. The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

### Regulation

The Exchange proposes a new title “Regulation” into new Options 8 along with new proposed Sections 13 – 19. Proposed Section 13, titled “Acts Detrimental to the Interest or Welfare of the Exchange” is being relocated, in part, from Rule 708<sup>8</sup> and adds the phrase, “In addition to Rule 708, acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to.” Proposed Section 14, titled, “Financial Responsibility and Reporting” is being relocated, in part, from Rule 703 and adding the phrase, “In addition to the obligations specified within Rule 703.”<sup>9</sup> Proposed Section 15, titled “Stopping” An Option” is being relocated from Rule 1018. Proposed Section 16, titled “Trading for Joint Account” is being relocated from Rule 772. Proposed Section 17, titled “Limitations on Members Trading Because of Customers’ Orders” is being relocated, in part, from Rule 452<sup>10</sup> and adding phrase, “In addition to the limitations in Rule 452.” Proposed Section 18, titled “General Responsibility of Floor Brokers” is being relocated from Rule 155. Proposed Section 19, titled “Responsibilities of Floor Brokers - Treasury Securities Options” is being relocated from Rule 1017D. The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

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<sup>8</sup> Specifically, Commentary .01(e) to Rule 708 is being relocated.

<sup>9</sup> Specifically, sections of Rule 703(c)(vi) are being relocated.

<sup>10</sup> Specifically, rule text is being relocated from Supplementary Material .03 to Rule 452.

### Floor Trading Rules

The Exchange proposes a new title “Floor Trading Rules” into new Options 8 along with new proposed Sections 20 – 35. Proposed Section 20, titled “Dealings on Floor—Hours” is being relocated from Rule 102. Proposed Section 21, titled “Dealings on Floor—Persons” is being relocated from Rule 104. Proposed Section 22, titled “Execution of Options Transactions on the Trading Floor” is being relocated, in part, from Rule 1000(f) and (g). Proposed Section 23, titled “Precedence of Highest Bid” is being relocated, in part, from Rule 119.<sup>11</sup> The Exchange proposes to replicate the first part of that rule, “The highest bid shall have precedence in all cases pursuant to Rule 119. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:” before the relocated sections of Rule 119(e) and (f). Proposed Section 24, titled “Bids And Offers—Premium” is being relocated from Rule 1033.<sup>12</sup>

Proposed Section 25, titled “Floor Allocation” is being relocated, in part, from Rule 1014(g)(i)-(vi) into Options 8, Section 25.<sup>13</sup> The Exchange proposes to add a sentence at the beginning of this rule as “a”, which states, “The following applies to the allocation of orders on the Trading Floor” to introduce the information which follows.

The Exchange proposes to relocate the first paragraph of Commentary .01 to Rule

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<sup>11</sup> Specifically, rule text is being relocated from Rule 119(e) and (f).

<sup>12</sup> The Exchange is capitalizing the “The” before “Options Clearing Corporation” to properly represent the name.

<sup>13</sup> The term “Options Floor Broker System” is being amended to “Options Floor Based System” to conform to the remainder of the rulebook. This term was amended in a prior rule change. See Securities Exchange Act Release No. 83656 (July 17, 2018), 83 FR 34899 (July 23, 2018) (SR-Phlx-2018-40). The same change was made to E-1, “Use of Identification Letters and Numbers.”

1014.<sup>14</sup> Commentary .05(c) of Rule 1014 will be relocated to Options 8, Section 25(f). Commentary .07 and .08 of Rule 1014 are being relocated to Options 8, Section 25(d)(1) and (e). Commentary .09 of Rule 1014 is being relocated to Options 8, Section 25(g). Commentary .11, .12, .13 and .14 of Rule 1014 are being relocated to Options 8, Section 25(h)-(k). Commentary .17 of Rule 1014 is being relocated to Options 8, Section 25(l). Commentary .19 of Rule 1014 is being relocated to Options 8, Section 25(m).

Proposed Section 26, titled “Trading Halts” is being relocated in part from Rule 1047<sup>15</sup> and 1047A.<sup>16</sup> Proposed Section 27, titled “Quoting Obligations and Required Transactions” is being relocated, in part, from Rule 1014 to Options 8, Section 27. Specifically, current Rule 1014(b)(ii)(E) and (c)(i)(A)(1) are being relocated.<sup>17</sup> The Exchange proposes to add this sentence “Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:” prior to the current text within Rule 1014(c)(i)(A)(2). The Exchange also proposes to relocate Rule 1014(d), in part, and to replicate the phrase “Furthermore, an ROT should not:” in relocating Rule 1014(d)(ii) to proposed Options 8,

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<sup>14</sup> The paragraph of Commentary .01 of Rule 1014 will remain within this rule. Commentary .02 - .04 and .06 of Rule 1014 rule text will remain within Rule 1014. Commentary .05(b) will remain within Rule 1014, except that “(a) RESERVED and (b)” will be deleted. Commentary .10 of Rule 1014 is being renumbered as “.07”. Commentary .15 and .16 of Rule 1014 are being renumbered as “.08” and “.09” respectively. Commentary .18 of Rule 1014 is being renumbered as “.10”.

<sup>15</sup> Specifically, the Commentary to Rule 1047 is being relocated.

<sup>16</sup> Specifically, the Exchange proposes to relocate Rule 1047A(f)(ii) and renumber the remaining paragraphs in Rule 1047A(f). The Exchange proposes to add the phrase “in addition to Rule 1047A.”

<sup>17</sup> The Exchange noted above that the term “non-SQT ROT” is being amended to Floor Market Maker throughout these rules.

Section 27(d). The Exchange proposes to renumber current Rule 1014(d)(iii) as (ii). The Exchange proposes to relocate Rule 1014(e) to proposed Options 8, Section 27(e). The Exchange proposes to amend Rule 1014(g) to reserve the rule text in (i)-(vi).<sup>18</sup> The Exchange proposes to relocate rule text from the second and third paragraphs of Commentary .01 to Rule 1014 into proposed Options 8, Section 27(f).

Proposed Section 28, titled “Responsibilities of Floor Brokers”, similar to current Rule 1063, is being relocated from “General Responsibility of Floor Brokers” in Rule 155, Rule 1063 and Rule 1069, titled “Snapshot Feature.” Current Rule 155 is relocated within Options 8, Section 28(a) in the first sentence. Current Rule 1069 is relocated at Options 8, Section 28(i). Proposed Section 29, titled “Use of Floor Based Management System by Registered Options Traders and Specialists” is being relocated from Rule 1085. The Exchange is not relocating the following outdated rule text:<sup>19</sup>

*The Exchange anticipates that it will make FBMS available to Registered Options Traders and Specialists during the Second Quarter of 2018. To facilitate the transition to FBMS, the Exchange will not require Registered Options Traders or Specialists to utilize FBMS until one month after the date on which the Commission approves the Exchange's proposal. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when FBMS will be available for use by Registered Options Traders and Specialists. The alert will also contain the mandatory start date.*

Proposed Section 30 is being “Reserved.” The Exchange will relocate Rule 1064, titled “Crossing, Facilitation and Solicited Orders” to Section 30 at a later date. Proposed Section 31, titled “Discretionary Transactions” is being relocated from 1065. Proposed

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<sup>18</sup> As noted above, Rule 1014(g)(i)-(vi) as well as Commentaries .01 (in part), .05 (in part), .07, .08, .09, .11-.14, .17 and .19 is being relocated to Options 8, Section 25 and no changes are proposed for Rule 1014(g)(vii) and (viii).

<sup>19</sup> This feature was made available in 2018 as per Options Trader Alert #2018-20.

Section 32 titled, “Certain Types of Floor-Based (Non-System) Orders Defined” is being relocated from Rule 1066 and retitled from “Certain Types of Floor Based (Non-PHLX XL) Orders Defined.” Proposed Section 33 titled, “Accommodation Transactions” is being relocated from Rule 1059. Proposed Section 34 is proposed to be reserved. The Exchange proposes to relocate current Rule 1079, titled “FLEX Index, Equity and Currency Options” into proposed Section 34. Proposed Section 35, titled “Disputes” is being relocated from Rule 124 and renamed from “Disputes-Options.” The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Floor Trade Administration

The Exchange proposes a new title “Floor Trade Administration” into new Options 8 along with new proposed Sections 36 – 38. Proposed Section 36 is titled, “Resolution of Uncompared Trade” is being relocated from Rule 1039. Proposed Section 37, titled “Letters of Authorization” is being relocated from Rule 1062. Proposed Section 38 titled, “Communications and Equipment” is being relocated from Rule 606. The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Option Floor Procedure Advices and Order and Decorum Regulations

The currently titled “Option Floor Procedure Advices and Order and Decorum Regulations” within the Rulebook is proposed to be renamed “Options Minor Rule Violations and Order and Decorum Regulations” and numbered Section 39.<sup>20</sup> The Options Floor Procedure Advices related to the trading floor are being relocated to

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<sup>20</sup> The Exchange proposes to also retitle “Equity Floor Procedure Advices” as “Minor Rule Violations.”

proposed Section 39 and all Order and Decorum Regulations are also being relocated within Section 39. The Exchange proposes to re-letter and re-number the rules within the current Rulebook that will continue to be located within the section proposed to be renamed “Options Minor Rule Violations.”

The Exchange proposes to delete reserved rules from this section. The following Option Floor Procedure Advices are proposed to be relocated into Section 39:

- A-2 “Options Floor Based Management System” (re-numbered as A-1)’
- A-3 “Requesting Market Quotations” (re-numbered as A-2);
- A-9 “All-or-None Options Orders” (re-numbered as A-3);
- B-1 “Responsibility to Make Markets”;
- B-2 “Crowd Courtesy”;
- B-3 “Trading Requirements”;
- B-4 “Entering Orders from On-Floor and Off-Floor for Execution on the Exchange”;
- B-5 “Agency-Principal Restrictions”;
- B-6 “Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)”;
- B-7 “Options Floor Based Management System”
- B-8 “Use of Floor Brokers by an ROT While on the Floor” (renumbered as B-7);
- B-9 “Use of Tickets” (renumbered as B-8);
- B-10 “Responsibility for Mismatched or “Out” Trades
- B-11 “ROTs and Specialists Entering Orders for Execution on Other Exchanges in Multiply Traded Options” (renumbered as B-9);
- B-12 “ROTs and Specialists Entering Orders for Execution on Other Exchanges

in Multiply Traded Options” (renumbered as B-11);

- C-1” Ascertaining the Presence of Registered Options Traders in a Trading Crowd”;
- C-2 “Options Floor Broker Management System”;
- C-3 “Handling Orders of ROTs and Other Registered Options Market Makers”;
- C-4 “Floor Brokers Handling Orders for Same Firm”;
- C-5 “ROTs Acting as Floor Brokers”;
- C-7 “Responsibility to Represent Orders to the Trading Crowd” (re-numbered as C-6);
- C-9 “Floor Brokers and Clerks Trading in their Customer Accounts” (renumbered as C-7);
- Staffing is re-lettered from “E” to “D”;
- E-1 “Required Staffing of Options Floor” (re-lettered as D-1);
- Miscellaneous is re-lettered from “F” to “E”;
- F-1 Use of Identification Letters and Numbers (re-lettered and re-numbered to E-1);
- F-2 Allocation, Time Stamping, Matching and Access to Matched Trades (re-lettered and re-numbered to E-2);
- F-4 “Orders Executed as Spreads, Straddles, Combinations or Synthetics and Other Order Ticket Marking Requirements” (re-lettered and re-numbered to E-3);
- F-5 “Changes or Corrections to Material Terms of a Matched Trade” (re-lettered and re-numbered to E-4);
- F-6 “Option Quote Parameters,” in part, (re-lettered and re-numbered as E-5);
- F-8 “Failure to Comply with an Exchange Inquiry,” in part, (re-lettered and renumbered as E-6);
- F-9 “Affiliations,” in part, (re-lettered and renumbered as E-7);
- F-11 “Splitting Orders” (re-lettered and renumbered as E-8);

- F-12 “Responsibility for Assigning Participation” (re-lettered and renumbered as E-9);
- F-14 Executing Multi-leg and Synthetic Option Orders” (re-lettered and renumbered as E-10);
- F-16 Two-Way, Three Way and Multi-Spread Transactions (FOREIGN CURRENCY OPTION ONLY (re-lettered and renumbered as E-11);
- F-22 Intra-Day Addition of Strike Prices (re-lettered and renumbered as E-12);
- F-23 Clerks in the Crowd (re-lettered and renumbered as E-13);
- F-25 Fingerprinting Floor Personnel (re-lettered and renumbered as E-14);
- F-30 Options Trading Floor Training (re-lettered and renumbered as E-15);
- F-31 Communications and Equipment (re-lettered and renumbered as E-16);
- F-32 Solicitation of Quotations (re-lettered and renumbered as E-17);

Finally, all Regulations are being relocated to Section 41 and re-lettered from “H” to “F”.

The Exchange is retaining the following rules in the new Options Minor Rule

Plan Section:

- A-4 “Specialist as ROT” (re-numbered as A-1);
- F-6 “Option Quote Parameters” (re-numbered as F-1);
- F-8 “Failure to Comply with an Exchange Inquiry (re-numbered as (F-2);
- F-9 “Affiliations” (re-numbered as (F-3);
- F-10 “Unusual Market Conditions” (re-numbered as (F-4);
- F-13 “Supervisory Procedures Relating to ITSFEA” (re-numbered as (F-5);
- F-19 “Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts” (re-numbered as (F-6);
- F-27 “Options Exchange Official Rulings” (re-numbered as (F-7);

- F-33 “Failure to Provide Notification of Changes in Business Operations” (re-numbered as (F-9));

- F-34 “Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD” (re-numbered as (F-10)); and

- F-35 Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts (re-numbered as (F-11)).

The Exchange notes that where a rule applied to both the electronic market and floor trading, the rule was replicated in both the Options Minor Rule Violations and the options Floor Procedure Advice with the applicable parts.<sup>21</sup> The proposed rule changes are non-substantive rule changes that simply seek to relocate and add transparency to the current rule text.

#### Other Administrative Changes

The Exchange proposes to amend references to “XL” or “Phlx XL” to “System” as the terms “XL” and “Phlx XL” are obsolete terms. The Exchange has removed “reserved” sections throughout the rules and also re-numbered and re-lettered various rules to bring conformity to the Rulebook. Finally, the Exchange proposes to capitalize the term “specialist” throughout the new proposed rules.

#### 2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,<sup>22</sup> in general, and furthers the objectives of Section 6(b)(5) of the Act,<sup>23</sup> in particular,

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<sup>21</sup> The following Options Floor Procedure Advices were replicated: F-6, “Option Quote Parameters;” F-8, “Failure to Comply with an Exchange Inquiry;” and F-9, “Affiliations.”

<sup>22</sup> 15 U.S.C. 78f(b).

in that it is designed to promote just and equitable principles of trade and to protect investors and the public interest by bringing greater transparency to its rules. The Exchange is not substantively amending rule text unless noted otherwise within this rule change. The Exchange's proposal to relocate trading floor rules to new Options 8 will make clear which rules are applicable to the trading floor. The renaming of the term "Non-ROT SQT" as "Floor Market Maker" is a non-substantive rule change. Finally, renumbering, re-lettering, deleting reserved rules and obsolete rule text and amending cross-references and other minor technical changes will bring greater transparency to Phlx's Rules.

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

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act. The Exchange believes that the proposed amendments do not impose an undue burden on competition because the amendments to relocate the floor trading rules are non-substantive. This rule change is intended to bring greater clarity to the Exchange's Rules. The renaming of the term "Non-ROT SQT" as "Floor Market Maker" is a non-substantive rule change. Finally, renumbering, re-lettering, deleting reserved rules and obsolete rule text and amending cross-references will bring greater transparency to Phlx's Rules. The Exchange is not substantively amending rule text unless noted otherwise within this rule change.

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)(iii) of the Act<sup>24</sup> and subparagraph (f)(6) of Rule 19b-4 thereunder.<sup>25</sup>

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 necessary or appropriate in the public interest, for the protection of investors, or 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:

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<sup>24</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>25</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, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

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-2019-17 on the subject line.

Paper comments:

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

All submissions should refer to File Number SR-Phlx-2019-17. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet Web site (<http://www.sec.gov/rules/sro.shtml>).

Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change; the Commission does not edit personal identifying information from submissions. You should submit only information that you wish to make available publicly.

All submissions should refer to File Number SR-Phlx-2019-17 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>26</sup>

Eduardo A. Aleman  
Assistant Secretary

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<sup>26</sup> 17 CFR 200.30-3(a)(12).

**EXHIBIT 5**

New text is underlined; deleted text is in brackets.

**Nasdaq PHLX Rules****Rules of the Exchange****Definitions (Rule 1)****Rule 1. Definitions**

The terms defined herein shall have the meanings specified herein for all purposes of Rules of the Board of Directors and of rules and regulations of Standing Committees of the Exchange, unless the context of a rule or regulation requires otherwise.

\* \* \* \* \*

**Exchange Review Council**

(k) The term "Exchange Review Council" means the committee authorized and directed to act for the Board of Directors of the Exchange in a manner consistent with the Exchange Rules with respect to (1) an appeal or review of a disciplinary proceeding; (2) a statutory disqualification decision; (3) a review of a membership proceeding; (4) a review of an offer of settlement, a letter of acceptance, waiver, and consent, and a minor rule violation plan letter; (5) the exercise of exemptive authority; (6) an appeal of proceedings involving Exchange Rules [124]Options 8, Section 35, 1092, 3219, 3220, and 3312; and (7) such other proceedings or actions authorized by the Exchange Rules.

\* \* \* \* \*

**[Floor]**

(n) Reserved. [The term "floor" means the floor of the Exchange.]

\* \* \* \* \*

**[Inactive Nominee]**

(p) Reserved. [The term "inactive nominee" shall mean a natural person associated with and designated as such by a member organization and who has been approved for such status and is registered as such with the Membership Department. An inactive nominee shall have no rights or privileges under a permit unless and until said inactive nominee becomes admitted as a member of the Exchange pursuant to the By-Laws and Rules of the Exchange. An inactive nominee merely stands ready to exercise rights under a permit upon notice by the member organization to the Membership Department on an expedited basis.]

\* \* \* \* \*

**[SCCP]**

(ff) Reserved.[The term "SCCP" shall mean the Stock Clearing Corporation of Philadelphia.]

\* \* \* \* \*

**[Rules 2—49. Reserved.**  
Reserved.]

**[Rule 50. Reserved]**

**[Rule 51. Reserved]**

\* \* \* \* \*

**[Rule 54. Reserved]**

**[Rule 55. Reserved]**

\* \* \* \* \*

**[Rule 60. Reserved]**

\* \* \* \* \*

**[Rule 98. Reserved**  
Reserved.]

\* \* \* \* \*

**[Rule 100. Reserved**  
Reserved.]

\* \* \* \* \*

**[Rule 102. Dealings on Floor—Hours**

Dealings upon the Exchange shall be limited to the hours during which the Exchange is open for the transaction of business; and no member shall make any bid, offer or transaction upon the Floor before or after those hours, except that loans of money or securities may be made after the official closing of the Exchange.]

\* \* \* \* \*

**[Rule 104. Dealings on Floor—Persons**

No member shall, while on the Floor, make a transaction with any non-member in any security admitted to dealings on the Exchange.]

**[Rule 105. Reserved**  
Reserved.]

**[Rule 106. Reserved**  
Reserved.]

**[Rule 107. Reserved]**  
Reserved.]

**[Rule 108. Reserved]**

**[Rule 109. Reserved]**  
Reserved.]

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**[Rule 111. Reserved]**  
Reserved.]

**[Rule 113. Reserved]**  
Reserved.]

**[Rule 114. Reserved]**  
Reserved.]

**[Rule 115. Reserved]**  
Reserved.]

**[Rule 116. Reserved]**

**[Rule 117. Reserved]**  
Reserved.]

**[Rule 118. Reserved]**  
Reserved.]

**Rule 119. Precedence of Highest Bid**

The highest bid shall have precedence in all cases. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:

Precedence of first bid

(a) - (d) No change.

[Sale removes bid from Floor

(e) A sale shall remove all bids from the Floor except that if the number of shares of stock or principal amount of bonds offered exceeds the number of shares or principal amount specified in the bid having priority or precedence, a sale of the unfilled balance to other bidders shall be governed by the provisions of these rules as though no sales had been made to the bidders having priority or precedence.

Subsequent bids

(f) After bids have been removed from the Floor under the provisions of paragraph (e) hereof, priority and precedence shall be determined, in accordance with these rules, by subsequent bids.]

\* \* \* \* \*

**[Rule 121. Reserved**

Reserved.]

**[Rule 122. Reserved**

Reserved.]

**[Rule 123. Reserved**

Reserved.]

**[Rule 124. Disputes-Options**

(a) Disputes occurring on and relating to the trading floor, if not settled by agreement between the members interested, shall be settled, if practicable, by vote of the members knowing of the transaction in question; if not so settled, they shall be settled by an Options Exchange Official.

In issuing decisions for the resolution of trading disputes, an Options Exchange Official shall institute the course of action deemed to be most fair to all parties under the circumstances at the time. An Options Exchange Official may direct the execution of an order on the floor, or adjust the transaction terms or participants to an executed order on the floor. An Options Exchange Official may nullify a transaction if the Options Exchange Official determines the transaction to have been in violation of Rules 1014 (Obligations and Restrictions Applicable to Specialists and Registered Options Traders) or 1033 (Bids and Offers- Premium). This Rule 124 shall not apply to options transactions that are the result of an Obvious Error or Catastrophic Error (as defined in Rule 1092). Options transactions that are the result of an Obvious Error or Catastrophic Error shall be subject to the provisions and procedures set forth in Rule 1092.

(b) All rulings rendered by an Options Exchange Official are effective immediately and must be complied with promptly. Failure to promptly comply with an initial Options Exchange Official ruling may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement. Failure to promptly comply with other Options Exchange Official rulings issued pursuant to Order and Decorum Regulations (Rule 9216(c)) or Floor Procedure Advices (Rule 9216(b)) and not concerning a trading dispute may result in an additional violation.

(c) Review—Options Exchange Official rulings issued pursuant to Order and Decorum Regulations are reviewable pursuant to Rule 9216(c). Options Exchange Official rulings issued pursuant to Floor Procedure Advices are subject to the Rule 9000 Series. All other Options Exchange Official rulings are reviewable pursuant to paragraph (d) of this Rule.

(d) Review of Options Exchange Official Rulings (Trading Disputes)—All Options Exchange Official rulings are reviewable by the Exchange Review Council.

(i) Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the Exchange Review Council. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings (including those concerning the nullification or adjustment of transactions) may be sustained, overturned or modified by the Exchange Review Council. The Exchange Review Council may act as a panel with a minimum of three Committee members, of which no more than 50% can be engaged in market making activity or employed by an Exchange member organization whose revenues from market making activity exceed ten percent of its total revenues.

In making a determination, the Exchange Review Council may consider facts and circumstances not available to the ruling Options Exchange Official as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge and related trading activity).

(ii) All decisions made by the Exchange Review Council in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to this paragraph (d) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Securities Exchange Act of 1934, as amended, and the rules thereunder.

(iii) A member or member organization seeking review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the Exchange Review Council. In addition, in instances where the Exchange, on behalf of a member or member organization, requests a review by another options exchange, the Exchange will pass any resulting charges through to the relevant member organization.

(iv) Decisions of the Exchange Review Council shall be final and may not be appealed to the Exchange's Board of Directors.

(v) All decisions of the Exchange Review Council are effective immediately and must be complied with promptly. Failure to promptly comply with a decision of the Exchange Review Council may result in referral to the Phlx Regulation Department, Department of Market Regulation or Department of Enforcement.

••• *Commentary:* -----

.01 Exchange staff may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. For purposes of this Rule, and without limitation, a conflict of interest exists where an Options Exchange Official: (a) is directly or indirectly affiliated with a party seeking an Options Exchange Official ruling; (b) is a participant or is directly or indirectly affiliated with a participant in a transaction that is the subject of a Option Exchange Official ruling; (c) is a debtor or creditor of a party seeking an Options Exchange Official ruling; or (d) is an immediate family member of a party seeking an Options Exchange Official ruling. Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.

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**[Rule 125. Reserved**  
Reserved]

**[Rule 126. Reserved**  
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**[Rule 127. Reserved**  
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**[Rule 129. Reserved**  
Reserved.]

**[Rule 130. Reserved**  
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**[Rule 131. Reserved]**

**[Rule 132. Reserved]**

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**[Rule 134. Reserved**  
Reserved.]

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**[Rule 150. Reserved**  
Reserved.]

**[Rule 151. Reserved**  
Reserved.]

**[Rule 152. Reserved**  
Reserved.]

**[Rule 153. Reserved**  
Reserved.]

**[Rule 154. Reserved**  
Reserved.]

**[Rule 155. General Responsibility of Floor Brokers**

A Floor Broker handling an order is to use due diligence to cause the order to be executed at the best price or prices available to him in accordance with the Rules of the Exchange.]

**[Rule 160. Reserved**  
Reserved.]

**[Rule 161. Reserved**  
Reserved.]

**[Rule 162. Reserved**  
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**[Rule 163. Reserved**  
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**[Rule 164. Reserved**  
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**[Rule 165. Reserved**  
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**[Rule 180. Reserved**  
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**[Rule 291. Reserved**  
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**[Rule 411. Reserved**  
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**[Rule 421. Reserved**  
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**[Rule 422. Reserved**  
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**[Rule 423. Reserved**  
Reserved.]

\* \* \* \* \*

**[Rule 443. Trading Floor Admittance**

No employee of a member or member organization shall be admitted to the trading floor unless that person is registered with and approved by the Exchange, which may in its discretion require the payment of a fee with respect to each employee so approved, and may at any time in its discretion withdraw any approval so given. Notwithstanding the foregoing, Options Regulation 5 describes the procedures for non-member visitors.]

\* \* \* \* \*

**Rule 452. Limitations on Members' Trading Because of Customers' Orders**

(a) – (c) No change.

••• *Supplementary Material:* -----

**.01 and .02** No change.

**.03** Reserved.[This Rule 452 shall also apply to a member organization's member on the Floor, who may not execute a proprietary order at the same price, or at a better price, as an unexecuted customer order that he or she is representing, except to the extent the member organization itself could do so under this Rule.]

**.04 and .05** No change

\* \* \* \* \*

### **Rule 501. Specialist Appointment**

(a) – (c) No change.

(d) To be approved as a specialist unit and to retain the privilege of such status, an options or foreign currency options specialist unit must maintain the approved clearing arrangements and capital structure stated on their application as described in (b)(2) and (b)(3) above. Changes regarding the requirements in (b)(4) must be submitted and approved by the Exchange. [In addition, each unit must consist of at least the following staff for each trading floor specialist post: (1) one head specialist; and (2) one assistant specialist that must be associated with the specialist unit. The Exchange, in its discretion, may require a unit to obtain additional staff depending upon the number of assigned options classes and associated order flow.]

(e) No change.

(f) A[n options specialist currently operating from the Exchange's physical trading floor or a] Remote Streaming Quote Trader ("RSQT"), as defined in Rule 1014, may submit an application as described above to be approved in one or more classes as a Remote Specialist as defined in Rule 1020(a)(ii).

[i] In making a determination regarding the application of an options specialist currently operating from the Exchange's physical trading floor that requests authorization to operate as a Remote Specialist, the Exchange will evaluate whether the change is in the best interest of the Exchange and may consider information that it believes will be of assistance to it. Factors to be considered may include, but are not limited to, any one or more of the following: performance, operational capacity of the Exchange or options specialist, efficiency, number and experience of personnel of the options specialist who will be performing functions related to the trading of the applicable securities, number of securities involved, number of ROTs and SQTs affected and trading volume of the securities.]

[i[i] A Remote Specialist does not need to meet the assistant specialist staffing requirement pursuant to paragraph (d) of this rule.

[••• Commentary: -----

.01 Reserved.]

\* \* \* \* \*

**[Rule 606. Communications and Equipment**

(a) No member or member organization shall establish or maintain any private wire connection, private radio, television or wireless system, between the Exchange Trading Floor and a non-member without application to and approval by the Exchange.

Every such means of communication shall be registered with the Exchange. Notice of the discontinuance of any such means of communication shall be promptly given to the Exchange.

(b)(1) No member, member organization or person associated with a member organization shall establish or maintain any telephonic communication between the Options Floor and any other location, or between locations on the Options Floor, without the prior written approval of the Exchange.

(2) No member, member organization or person associated with a member organization shall:

(i) establish or maintain any telephonic, electronic or wireless transmitting system or device, including related antennas, on the Options Floor or

(ii) operate any other equipment on the Options Floor that creates radio frequency (RF) or other interference with the systems of the Exchange or other members.

(c) The Exchange may remove any telephonic, electronic or wireless equipment that has not received written approval under subsection (b)(1) from any Exchange facility.

(d) The Exchange may remove any telephonic, electronic or wireless equipment that violates subsection (b)(2) from any Exchange facility.

(1) The Exchange may deny, limit or revoke the use of any communication device whenever it determines that use of such communication device: (1) interferes with normal operation of the Exchange's own systems or facilities or with the Exchange's regulatory duties, (2) is inconsistent with the public interest, the protection of investors or just and equitable principles of trade, or (3) interferes with the obligations of a member or member organization to fulfill its duties under, or is used to facilitate any violation of, the Securities Exchange Act or rules thereunder, or Exchange rules.

(2)

(e)(1) *Registration.* Members and member organizations must register, prior to use, any new telephone to be used on the Options Floor. Each phone registered with the Exchange must be registered by category of user. If there is a change in the category of any user, the member or member organization must immediately inform the Exchange in writing on the same day as when the change occurs. At the time of registration, members and member organization representatives must sign a statement that they are aware of and understand the rules and procedures governing the use of telephones on the Options Floor.

(2) *Capacity and Functionality.* No person on the Options Floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers, but is not limited to, intercoms, walkie-talkies and any similar devices, and open mic and web-based communication applications. Speed-dialing features are permitted on any member telephone.

(3) *Specialists and Registered Options Traders.*

(a) Specialists and Registered Options Traders ("ROT") may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Options Floor).

(b) ROTs located off the Options Floor may not place an order by calling a Floor Broker who is present in a trading crowd. ROTs located off the Options Floor may not otherwise place an order by calling the specialist phone in the trading crowd. Any telephonic order entered from off the Options Floor must be placed with a person located in a member organization booth.

(4) *Floor Brokers.*

(a) Floor Brokers may use cellular and cordless telephones, but only to communicate with persons located on the Options Floor. These telephones may not use a call forwarding or open mic feature on the Options Floor; if a call forwarding or open mic feature is available on the phone then such feature must be disengaged at all times when the phone is on the Options Floor. Headsets are permitted for Floor Brokers, but if the Exchange determines that a Floor Broker is maintaining a continuous open line through the use of a headset, the Floor Broker will be prohibited from future use of any headset for a length of time to be determined by the Exchange.

(b) All orders phoned to Floor Brokers must be received initially at the Floor Broker's booth. Floor Brokers may not receive telephonic orders while in the trading crowd except from their booth. Any telephonic order entered from off the Options Floor must be placed with a person located in a member organization booth.

(5) *Clerks.*

- (a) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.
- (b) Reserved.
- (c) The Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems or capacity problems resulting from the number of such phones then in use on the Options Floor.

(6) Reserved.

(7) *Telephone Records.* Members must maintain logs of calls and chats, including their cellular or cordless telephone records and logs of calls placed, for a period of not less than three years, the first two years in an easily accessible place. The Exchange reserves the right to inspect and/or examine such telephone records.

(8) *Exchange Liability.* The Exchange assumes no liability to members or member organizations due to conflicts between telephones in use on the Options Floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

••• *Supplementary Material:* -----

.01 The Exchange has established a Wireless Telephone System policy. Violations of the Wireless Telephone System policy may result in disciplinary action by the Exchange.

.02 This Rule and any relevant Exchange policy are intended to apply to all communication and other electronic devices on the floor of the Exchange, including, but not limited to, wireless, wired, tethered, voice, and data.]

\* \* \* \* \*

**Rule 625. Training**

All members and persons employed by or associated with such member or a member organization shall successfully complete mandatory training, as required by the Exchange. Training topics include, but are not limited to, training related to that person's function at the Exchange, changes in existing automated systems or any new technology that is utilized by the Exchange, compliance with Exchange Rules and federal securities laws, and issues related to conduct, health and safety on the trading floor. [In addition, floor members shall complete mandatory training programs, on at least a semi-annual basis, that address compliance with the federal securities laws and the Exchange's Rules in place to prevent and deter unlawful trading by floor members.]

\* \* \* \* \*

**Rule 703. Financial Responsibility and Reporting**

(a) and (b) No change.

(c) *Reporting and Recordkeeping*.—Member organizations shall make the following reports of their compliance with their pertinent financial responsibility rules:

(i) – (v) No change.

(vi) Each member organization whose principal business is acting as a broker on PSX, who is not self-clearing and for which the Exchange is the DEA must establish and maintain an account with a clearing firm for the sole purposes of carrying positions resulting from errors made in the course of its brokerage business. [Each organization whose principal business is as a floor broker on the Exchange and who is not self-clearing must establish and maintain an account with a clearing member organization of the Exchange, for the sole purpose of carrying positions resulting from errors made in the course of its floor brokerage business. ]Such an account for options transactions must be maintained with an entity which is also a clearing member of the Options Clearing Corporation. A [floor broker or such ]broker on PSX, prior to effecting any transactions, must file with the Exchange a letter from its clearing member organization stating that this account has been established and that the clearing member organization guarantees the financial responsibilities of the [floor broker or such ]broker on PSX with respect to all orders entrusted [on the floor or ]on PSX with[, respectively, the floor broker or] such broker on PSX as well as all transactions and balances carried within the account. This letter shall remain in effect until the Exchange receives written notice from the clearing member organization of its intent to no longer clear or carry transactions for such [floor broker or such ]broker on PSX. Written notice received at least one-half hour before the normal opening of trading shall take effect on the day of receipt; written notice received less than one-half hour before the opening of trading shall take effect on the opening of the business day following Exchange receipt.

(d) – (f) No change.

••• *Commentary:* -----

.01 and .02 No change.

\* \* \* \* \*

**Rule 708. Acts Detrimental to the Interest or Welfare of the Exchange**

A member, member organization, or person associated with or employed by a member or member organization shall not engage in acts detrimental to the interest or welfare of the Exchange.

*Commentary:* -----

.01 Acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to, the following:

(a) – (d) No change.

[(e) misconduct on the trading floor, in violation of the Exchange's Order and Decorum Regulations, that is repetitive, egregious or of a publicly embarrassing nature to the Exchange.]

\* \* \* \* \*

**[Rule 714. Imposition**

The Board of Directors may, from time to time, fix and impose a charge upon members and member organizations measured by their respective net commissions on transactions effected on the Floor of the Exchange.]

\* \* \* \* \*

**[Rule 772. Trading for Joint Account**

(a) No member, while on the Floor, shall, without the prior approval of the Exchange, initiate the purchase or sale on the Exchange of any security for any account in which he, his member organization or a participant therein, is directly or indirectly interested with any person other than such member organization or participant therein.

(b) The provisions of this section shall not apply to any purchase or sale by any member for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions.]

\* \* \* \* \*

**Rule 908. Rights and Privileges of A-1 Permits**

(a) No change.

(b) A Series A-1 permit shall only be issued to an individual who is a natural person of at least twenty-one (21) years of age. A Series A-1 permit shall only be issued to a corporation who meets the eligibility and application requirements set forth in the By-Laws and Rules, and no individual shall hold more than a single Series A-1 permit. Series A-1 permits issued in accordance with this Rule 908 shall be in such limited or unlimited number and may be issued from time to time by the Exchange, in each case as determined by the Board of Directors in its sole discretion.

[(i) Notwithstanding applicable By-Laws and Rules conditioning membership, a Series A-1 permit holder on the Exchange's trading floor may be affiliated with up to two (2) member organizations (a primary and a secondary member organization) that are under common ownership. Both the primary and secondary member organizations shall notify the Membership Department of such an affiliation. This notification shall include: (i) an attestation of common ownership; (ii) the names of the

individuals responsible for supervision of the permit holder; and (iii) the Exchange account numbers for billing purposes. For purposes of this Rule, "common ownership" shall be defined as at least 75% common ownership between the member organizations.]

(c) Any Series A-1 permit holder who is associated with a duly qualified and registered member organization (unless such holder's permit has been terminated or the rights and privileges thereof have been suspended or restricted) shall, subject to the By-Laws (including, without limitation, Section 6-1 thereof) and these Rules, be:

(i) entitled to all the rights, privileges and obligations of a member of the Exchange and may enter into foreign currency options transactions on the Exchange, subject to (A) the general criteria set forth in these Rules or the By-Laws with respect to testing, capital, allocation and other matters, as well as such requirements as are applicable to specific Exchange activities, and further subject to the payment of any generally applicable fees, dues and other charges[, as well as those relating to the conduct of such specific activities on the floor of the Exchange,] and (B) any product-specific criteria set forth in these Rules or the By-Laws, and further subject to any applicable fees, dues and charges relating to trading any product of the Exchange;

(ii) and (iii) No change.

(d) - (h) No change.

#### **Rule 910. Qualification as Member Organization**

(a) – (e) No change.

(f)(1) and (2) No change.

(3) An applicant that is an approved member in good standing of The Nasdaq Stock Market, LLC ("Nasdaq") or Nasdaq BX, Inc. ("BX") shall have the option to apply to become a member of the Exchange and to register with the Exchange all associated persons of the firm whose registrations with the firm are approved with Nasdaq or BX in categories recognized by the Rules of the Exchange through an expedited process. The expedited process requires applicants to complete an Organization Membership Application and attest that the application material previously provided and reviewed as part of the Nasdaq or BX application is complete and accurate but does not require the applicant to submit duplicative documentation which was previously produced. [Applicants seeking membership on the Exchange trading floor are also required to demonstrate knowledge of Exchange Options Floor Rules and Procedures through an on-floor examination.]

(g) – (i) No change.

\* \* \* \* \*

#### **[Rule 925. Inactive Nominees**

A member organization may designate an individual as an "Inactive Nominee." The member organization shall pay an Inactive Nominee Fee for the privilege of maintaining the Inactive Nominee status.

- (i) The following requirements shall apply to Inactive Nominees:
  - (a) To be eligible for Inactive Nominee status, an individual must be approved as eligible to hold a permit in accordance with the By-Laws and Rules of the Exchange.
  - (b) An Inactive Nominee shall meet all membership requirements including examinations administered by the Exchange.
  - (c) An Inactive Nominee shall have no rights or privileges of a permit holder unless and until said Inactive Nominee becomes an effective permit holder and all applicable Exchange fees are paid.
  - (d) An Inactive Nominee's status will terminate after six (6) months unless it has been reaffirmed in writing by the member organization or terminated prior thereto.
- (ii) In order to designate an Inactive Nominee as an effective permit holder the member organization shall:
  - (a) Notify the Membership Department, in writing, prior to the opening of trading on any business day the name of the Inactive Nominee that the member organization desires to designate as an effective permit holder. The notice must identify the name of the permit holder that the Inactive Nominee will be acting on behalf of as well as the expected duration that such Inactive Nominee will remain activated.
  - (b) Notwithstanding paragraph (ii)(a), a member organization may notify the Membership Department, in writing, of its desire to designate an Inactive Nominee as an effective permit holder intra-day in the event of an unforeseen emergency. The notice must identify the name of the Inactive Nominee, the name of the permit holder that the Inactive Nominee will be acting on behalf of, and the expected duration that such Inactive Nominee will remain activated. Such intra-day designations must be approved by the Chief Regulatory Officer or his/her designee prior to such Inactive Nominee becoming an effective permit holder.]

\* \* \* \* \*

**Rule 1000. Applicability, Definitions and References**

(a) – (d) No change.

(e) Reserved. **Presiding Exchange Officials.** The President of the Exchange and his designated staff shall have general supervision over: (i) the options trading floor as well as general supervision of the dealings of members on the trading floor and on Exchange

trading systems, and of the premises of the Exchange immediately adjacent thereto; (ii) the activities of specialists, registered option traders, floor brokers, or other types of market makers and shall establish standards and procedures for the training and qualification of members active on the trading floor; (iii) all trading floor employees of members, and shall make and enforce such rules with respect to such employees as it may deem necessary; (iv) all connections or means of communications with the options trading floor and may require the discontinuance of any such connection or means of communication when, in the opinion of the President or his designee, it is contrary to the welfare or interest of the Exchange; (v) the location of equipment and the assignment and use of space on the options trading floor; and (vi) relations with other options exchanges.]

[(f) All Exchange options transactions shall be executed in one of the following ways:

- (i) automatically by the Exchange Trading System pursuant to Rule 1080 and other applicable options rules; or
- (ii) through the Options Floor Based Management System. Members authorized to operate on the floor are not permitted to execute orders in the Exchange's options trading crowd, except as follows:
  - (A) The Exchange may determine to permit executions otherwise than in accordance with subparagraphs (i) - (ii) above respecting an option or all options in the event of a problem with Exchange systems.
  - (B) In addition, members can execute orders in the options trading crowd pursuant to Rule 1059, Accommodation Transactions (cabinet trades), and Rule 1079, FLEX Equity, Index and Currency Options.
  - (C) Multi-leg orders with more than 15 legs can be executed in the trading crowd.
  - (D) The following split price orders that, due to FBMS system limitations, require manual calculation:
    - (I) simple orders not expressed in the applicable minimum increment ("sub-MPV") and that cannot be evenly split into two whole numbers to create a price at the midpoint of the minimum increment; and (II) complex and multi-leg orders with at least one option leg with an odd-numbered volume that must trade at a sub-MPV price or one leg that qualifies under (I) above.
  - (E) As set forth in Rule 1069, members may use the Snapshot feature of the Options Floor Based Management System to provisionally execute orders in the options trading crowd.

Surveillance staff must approve all executions submitted under this Rule 1000(f)(ii)(A)-(D) to validate that each abides by applicable priority and trade through rules. Under subsection (f)(ii)(D), the rounding of prices may be used

only where necessary to execute the trade at the MPV, and only to the benefit of a customer order or, where multiple customers' orders are involved, for the customer order that is earliest in time. If no customer order is involved, rounding of prices is available to the non-customer order that is earliest in time.

(g) **Manner of Bidding and Offering.** Bids and offers to be effective must either be entered electronically in a form and manner prescribed by the Exchange (as quotes or orders) or made by public outcry in the trading crowd (to which Rule 110 applies). All bids and offers shall be general ones and shall not be specified for acceptance by particular members.

**Public Outcry -** Pursuant to Rule 110, bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

With respect to using the Options Floor Based Management System to execute an order pursuant to Rule 1000(f), a member must audibly say "out" before the order is submitted into the FBMS for execution and, if the order is not executed, the member must audibly say "out" before each time the member resubmits the order for execution.]

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

(a)- (l) **No change.**

**(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:

(i) and (ii) No change.

(iii) *Facilitation Procedure:* compliance with the facilitation procedures of [Rule 1064(b)]Options 8, Section 30(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.

(iv) and (v) No change.

(n) – (o) No change.

\* \* \* \* \*

**Rule 1010. Withdrawal of Approval of Underlying Securities or Options**

(a) Whenever the Exchange determines that an underlying security previously approved for Exchange option transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, the Exchange shall not open for trading any additional series of options of the class covering that underlying security and may therefore prohibit any opening purchase transactions in series of options of that class previously opened (except that (i) opening transactions by Market Makers executed to accommodate closing transactions of other market participants and (ii) opening transactions by member organizations to facilitate the closing transactions of public customers executed as crosses pursuant to and in accordance with [Rule 1064(b)]Options 8, Section 30(b) may be permitted), to the extent it shall deem such action necessary or appropriate; provided, however, that where exceptional circumstances have caused an underlying security not to comply with the Exchange's current approval maintenance requirements, regarding number of publicly held shares of publicly held principal amount, number of shareholders, trading volume or market price the Exchange may, in the interest of maintaining a fair and orderly market or for the protection of investors, determine to continue to open additional series of option contracts of the class covering that underlying security. When all option contracts in respect of any underlying security that is no longer approved have expired, the Exchange may make application to the Securities and Exchange Commission to strike from trading and listing all such option contracts.

\* \* \* \* \*

**Rule 1014. Obligations and Restrictions Applicable to Specialists and Registered Options Traders**

(a) No change.

(b) *ROT*.

(i) No change.

(ii) (A) and (B) No change.

[(C) *Non-SQT ROT*. A non-SQT ROT is an ROT who is neither an SQT nor an RSQT.

(1) A non-SQT ROT shall notify the Exchange of each option, on an issue-by-issue basis, in which such non-SQT ROT intends to be assigned to make markets. Such notification shall be in writing on a form prescribed by the Exchange (an "ROT Assignment Form"). Any change to such ROT Assignment Form shall be made in writing by such non-SQT ROT prior to the end of the trading session in which such change is to take place.

(2) Receipt of the properly completed ROT Assignment Form by a duly qualified non-SQT ROT applicant constitutes acceptance by the Exchange of such non-SQT ROT's assignment in, or termination of assignment in (as indicated on the ROT Assignment Form), the options listed on such ROT Assignment Form. All such assignments shall not be effective, and shall be terminated, in the event that such non-SQT ROT applicant fails to qualify as an ROT on the Exchange.

(D) Reserved.

(E) *Non-SQT ROTs Obligations.*

(1) *No Continuous Electronic Quoting Obligation:* A non-SQT ROT will not be obligated to quote electronically in any designated percentage of series.

(2) *Continuous Open Outcry Quoting Obligation:* In response to any request for quote by a Floor Broker, specialist, Options Exchange Official, or other ROT (including an SQT), non-SQT ROTs must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i) (in the case of equity options and U.S. dollar-settled FCOs). Such non-SQT ROTs shall provide such quotations with a size of not less than 10 contracts.]

(c) *In Classes of Option Contracts to Which Assigned—Affirmative Obligations.* [With respect to classes of option contracts to which his assignment extends, a Specialist and an ROT, whenever the ROT (except an RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker, to make a market, are expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

(i) *Options on Equities (including Exchange-Traded Fund Shares), Index Options, and U.S. dollar- settled Foreign Currency Options.*

(A)(1) *Quote Spread Parameters (Bid/Ask Differentials)—*

(a) Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the

prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

- (b) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but less than \$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the prevailing bid is \$20.00 or more. The Exchange may establish differences other than the above for one or more series or classes of options.]

Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

[(2) Electronic Quotations]

- [(a)1] Options on equities (including Exchange-Traded Fund Shares), and on index options may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in subparagraph (c)(i)(A)(1) above shall apply during opening rotation). [Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the legal bid/ask differential requirements described in subparagraph (c)(i)(A)(1) above and not in this sub-paragraph (c)(i)(A)(2).]
- [(b)2] Options on U.S. dollar-settled FCO may be quoted electronically with a difference not to exceed \$5.00 between the bid and offer regardless of the price of the bid. The bid/ask differentials set forth in this subparagraph (c)(i)(A)(2) (b) only apply to electronic quotations and only following the opening rotation in each security (i.e., the bid/ask differentials specified in subparagraph (c)(i)(A)(1) above shall apply during opening rotation). [Quotations provided in open outcry may not be made with bid/ask differentials set forth in this subparagraph (c)(i)(A)(2) (b) and instead must comply with the legal bid/ask differential requirements described in subparagraph (c)(i)(A)(1) above and not in this sub-paragraph (c)(i)(A)(2)(b).]

(d) *In Classes of Option Contracts Other Than Those Which Appointed.* [With respect to classes of option contracts other than those to which his appointment extends, an ROT (other than an RSQT), whenever he enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a floor broker to make a market, shall undertake the obligations specified in paragraph (c) of this Rule.] Furthermore, an ROT should not:

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

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

(ii[i]) Be conspicuous in the general market or in the market in a particular option.

(e) Reserved.[Except in accordance with paragraphs (c) and (d), no ROT shall:

(i) initiate an Exchange options transaction while on the Floor for any account in which he has an interest and execute as Floor Broker an off-floor order in options on the same underlying interest during the same trading session, or

(ii) retain priority over an off-floor order while establishing or increasing a position for an account in which he has an interest while on the Floor of the Exchange.]

(f) The provisions of the foregoing paragraphs (d) and (e) of this Rule shall not apply to:

(i) any transaction by a registered specialist in an option in which he is so registered; or

(ii) any transaction, other than a transaction for an account in which an ROT has an interest, made with the prior approval of an Options Exchange Official to permit a member to contribute to the maintenance of a fair and orderly market in an option, or any purchase or sale to reverse any such transaction; or

(iii) any transaction to offset a transaction made in error.

(g) *Equity Option, Index Option and U.S. dollar-settled Foreign Currency Option Priority and Parity*

(i) – (vi) Reserved.

[(A) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, index option and U.S. dollar-settled foreign currency

option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (2) below.

For the purpose of paragraph (g) of this Rule, "Initiating Order" means an incoming contra-side order.

- (1) Respecting transactions that are executed and allocated in open outcry by a participant other than the specialist, "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Rule 1014(g)(i). The Remainder of the Order shall be allocated pursuant to this Rule 1014.

Orders of controlled accounts, other than ROTs and Specialists market making in person, must be (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and (2) recorded as for a controlled account by making the appropriate notation the Options Floor Broker Management System.

The Enhanced Specialist Participation is a percentage of the Remainder of the Order to which the specialist is entitled.

- (2) An Initiating Order executed manually by the specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Rule 1014(g)(vii). "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (2).

- (B) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales).

When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer.

The Exchange may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made on the Exchange's website. This paragraph shall only apply to transactions that are effected in open outcry.

- (ii) *Enhanced Specialist Participation* —In equity option, index option and U.S. dollar-settled foreign currency options classes, when the registered specialist is on parity with a controlled account as defined in subparagraph (i) above, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the specialist is entitled to receive 60% of the Remainder of the Order; or (2) where there are two controlled accounts on parity, in which case, the specialist is entitled to receive 40% of the Remainder of the Order.

The Exchange shall reduce the level of Enhanced Specialist Participation authorized under this Rule to a parity level of participation in accordance with Rules 119 and 120 with respect to any options class if the specialist in such class is determined to be performing below any minimum standards or not satisfying any conditions that the Exchange may establish. The Exchange may reinstate Enhanced Specialist Participation for a particular options class if it determines that the specialist in such class is performing at or above all established minimum standards and is satisfying all established conditions.

(iii) Reserved.

(iv) Reserved.

- (v) *Allocation of the Remainder of the Order Among Specialist and ROTs on Parity.* After the application of Rule 1014(g)(i) to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in Rule 1014(g)(vi)) as follows:

(A) *Entitlement.* ROTs and specialists on parity are entitled to their Defined Participation (as described below), subject to: (1) any Waiver, as described below; and (2) rounding, as described below.

(B) *Size.* The term "stated size" in respect of an order or electronic quotation shall mean:

- (1) in the case of orders handled manually by the specialist:

- (a) (i) if a crowd participant (including the specialist) has actually stated a size ("Actual Size"), such crowd participant's stated size shall be his or her Actual Size;
  - (ii) if the specialist, an SQT or RSQT is disseminating an electronic quotation at the Exchange's disseminated price in a particular series at the time of the execution of an Initiating Order in such series, such specialist, SQT or RSQT's disseminated size at the Exchange's disseminated price shall be his or her Actual Size, and such specialist, SQT and/or RSQT shall be deemed a "crowd participant" for purposes of this Rule 1014(g)(v);
- (b) unless the specialist has an Actual Size, the stated size of the specialist shall be the amount (if any) by which the disseminated size exceeds the sum of (x) the aggregate size of limit orders included in the disseminated size and (y) the aggregate sizes of all ROTs who have Actual Sizes;
- (c) the stated size of an ROT who does not have an Actual Size is zero.
- (2) in the case of floor brokered orders, each crowd participant's stated size shall be his or her Actual Size.
- (C) *Defined Participation.* Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:
- (1) in the case of a specialist entitled to an Enhanced Specialist Participation, the Enhanced Specialist Participation, up to the specialist's stated size, as set forth in sub-paragraph (g)(ii) of this Rule, as applicable. The specialist may decline to receive the Enhanced Specialist Participation, in which case the specialist shall be entitled to participate as one crowd participant, up to the specialist's stated size.
  - (2) except as provided in (1) above, the Defined Participation of the specialist and ROTs on parity is determined as follows:
    - (a) where all participants have equal stated sizes, their Defined Participations shall be equal;
    - (b) where participants have unequal stated sizes, the Defined Participations shall equal their Base Participations (as defined below) plus their Supplemental Participations (as defined below):
      - (i) the "Base Participations" of all of the participants shall equal the stated size of the smallest participant; to the extent that there remains any excess to be allocated after all participants have been allocated their Base Participations, the smallest participant shall have no Supplemental

Participation, and the other participants shall have "Supplemental Participations" as determined under (ii) and (iii) below;

- (ii) if the remaining stated sizes (*i.e.*, after taking into account Base Participations) of all participants having Supplemental Participations is equal, then their Supplemental Participations shall be equal; otherwise the initial Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated their initial Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have further "Supplemental Participations" as determined under (iii) below; and
- (iii) if the remaining stated sizes (*i.e.*, after taking into account Base Participations and prior Supplemental Participations) of all participants having *further* Supplemental Participations is equal, then their *further* Supplemental Participations shall be equal; otherwise the next Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated the next Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have successive further Supplemental Participations determined in the same manner as provided in this clause (iii).

The process described in clause (iii) shall be followed to determine successive further Supplemental Participations until the sum of the Defined Participations equals the amount of the Remainder of the Order.

- (iv)
  - (a) If the sum of the Base Participations pursuant to sub-paragraph (i) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Base Participations, subject to rounding.
  - (b) If the sum of the Supplemental Participations pursuant to sub-paragraph (ii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Supplemental Participations, subject to rounding.
  - (c) If the sum of the further Supplemental Participations pursuant to sub-paragraph (iii) above exceeds the number of contracts remaining

to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive further Supplemental Participations, subject to rounding.

- (3) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Rule 1014. Notwithstanding the limitation set forth in sub-paragraph (C)(1) that limits the specialist's entitlement to his/her stated size, for all contracts executed in excess of the disseminated size, the specialist shall be entitled to receive the Enhanced Specialist Participation as set forth in sub-paragraph (g)(ii) of this Rule, as applicable, but not to exceed the specialist's Actual Size (if the specialist has an Actual Size) in such excess contracts.
- (D) *Waiver.* (1) An ROT (other than an RSQT) or specialist may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an " Offer to Waive").
- (a) Any Offer to Waive shall be made by stating it in a loud and audible voice to the other members of the trading crowd and the Allocating Participant.
- (b) If the Allocating Participant has determined that the other crowd participant(s) then on parity is willing to take the number of contracts that are subject to the Offer to Waive, the Allocating Participant may (but shall not be required to), accept such Offer to Waive by (i) allocating the Remainder of the Order in accordance with this Rule 1014(g)(v), taking into account the Offer to Waive; or (ii) otherwise indicating, following the execution of the Remainder of the Order, that such Offer to Waive will be accepted (in which case, it shall be referred to as a " Waiver"). No Offer to Waive shall be an effective Waiver until the Allocating Participant has allocated the order or otherwise indicated that it is accepted.
- (c)
- (i) In the case of an option which is not subject to an Enhanced Specialist Participation, as set forth in sub-paragraph (g)(ii) of this Rule, if the specialist or an ROT effects a Waiver in the manner provided above, the number of contracts to which such specialist or ROT is entitled under this Rule 1014(g)(v) shall be reduced by the number of contracts waived, and the entitlements of the other participants on parity shall be determined by redistributing the waived number of contracts to willing participants (including the specialist) in accordance with this Rule 1014(g)(v).
- (ii) In the case of an option which is subject to an Enhanced Specialist Participation, as set forth in sub-paragraph (g)(ii) of this Rule, and one or more ROTs effect Waivers of their entire entitlements ("Total Waivers"),

the number of ROTs with whom the specialist is deemed to be on parity for purposes of determining the Enhanced Specialist Participation shall be reduced by the number of ROTs effecting Total Waivers and the following additional Rules shall apply:

- (A) in the event that one or more ROTs on parity with the specialist effect a Total Waiver of their respective entitlements such that the specialist is on parity with three or more ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the specialist shall be that which the specialist would be entitled to receive under Rule 1014(g)(ii), as if the specialist had been on parity with three ROTs.
  - (B) in the event that one or more ROTs on parity with the specialist effect a Total Waiver of their respective entitlements such that the specialist is on parity with two ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the specialist shall be that which the specialist would be entitled to receive under Rule 1014(g)(ii) as if the specialist had been on parity with two ROTs.
  - (C) In the event that one or more ROTs on parity with the specialist effect a Total Waiver of their respective entitlements such that the specialist is on parity with one ROT, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the specialist shall be that which the specialist would be entitled to receive under Rule 1014(g)(ii) as if the specialist had been on parity with one ROT. In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Waiver(s).
- (iii) *Partial Waiver.* In the case of an option which is subject to an Enhanced Specialist Participation, in the event that one or more ROTs effect a Waiver of a portion of their respective entitlements, but not a Total Waiver, in the manner provided above (a "Partial Waiver"), the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the specialist shall not be entitled to receive a number of contracts that is greater than 40% of the Remainder of the Order except in the situation referred to in the following sentence, unless all remaining crowd participants on parity have waived their entitlements or have been satisfied. In the case of the specialist being on parity with only one ROT, the specialist shall not be entitled to receive a number of contracts that is greater than 60% of the

Remainder of the Order unless all remaining crowd participants on parity have waived their entitlements or have been satisfied.

In no event shall any non-waiving ROT be required participate in fewer contracts than he/she would have received absent the Partial Waiver(s).

(iv) In no event shall two or more crowd participants enter into any agreement regarding the number of contracts to be waived by any crowd participant ( *i.e.*, subject to the provisions of sub-paragraph (D)(1)(b) above, any decision by a crowd participant to waive all or a portion of such crowd participant's entitlement must be an individual decision, and not the subject of an agreement among crowd participants).

(E) *Rounding*. In situations where the allocation of contracts pursuant to this Rule result in fractional amounts of contracts to be allocated to crowd participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.

(F) *Just and Equitable Principles of Trade*. (1) It shall be considered conduct inconsistent with just and equitable principles of trade for a member: (a) to allocate initiating orders other than in accordance with this Rule 1014; (b) to enter into any agreement with another member concerning allocation of trades; or (c) to harass, intimidate or coerce any member to enter into any Waiver, or to make or refrain from making any complaint or appeal.

(2) A pattern or practice of waiving all or a portion of a crowd participant's entitlement, with the result that such crowd participant receives no allocation or a lesser allocation than he or she would otherwise have been entitled to, may be considered conduct inconsistent with just and equitable principles of trade.

(G) Notwithstanding the first sentence of Rule 1014(g)(i), neither Rule 119(b) and (c) concerning precedence based on the size of bids on parity, nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of orders covered by this Rule 1014(g)(v).

(vi) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System.

(a) in a trade involving a floor broker, the floor broker shall so do, provided that a floor broker may delegate this responsibility to the specialist (or an assistant to the specialist under the specialist's direct supervision) if the specialist agrees to

accept such responsibility, and, in the event of such delegation, the specialist (or an assistant to the specialist under the specialist's direct supervision) shall do so:

- (b) in all other cases where the specialist is a participant (i.e., where there is no floor broker), the specialist (or an assistant to the specialist under the specialist's direct supervision) shall do so;
- (c) in any other case (i.e., where there is no floor broker and no specialist is involved), the largest on-floor participant shall do so (for example, where several Registered Options Traders are involved); and
- (d) if there is only one seller and one buyer (no floor broker and no specialist is involved), the seller shall do so (for example, where only two Registered Options Traders are involved), unless either the seller or the buyer is an RSQT, in which case the on-floor participant in the transaction shall do so.

The person responsible for trade allocation (the "Allocating Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself by initiating the trade tickets. In the case of a trade executed using the Floor Based Management System the Allocating Participant shall allocate the trade using the Options Floor Based Management System.]

(vii) and (viii) No change.

••• *Commentary:* -----

**.01** [An ROT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him on the floor in his capacity as an ROT. For purposes of this commentary, the term "transactions initiated and effected on the floor" shall not include transactions initiated by an ROT off the floor, but which are considered "on-floor" pursuant to Commentaries .07 and .08 of Rule 1014. ]Similarly, an RSQT electing to engage in Exchange options transactions is designated as a specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

[A non-SQT ROT is required to trade either (a) 1,000 contracts and 300 transactions, or (b) 10,000 contracts and 100 transactions, on the Exchange each quarter. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

In addition, in order for an ROT (other than an RSQT or a Remote Specialist) to receive specialist margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options. Transactions executed in the trading crowd where the contra-side is an ROT are not included.]

The off-floor orders for which an ROT receives specialist margin treatment shall be subject to the obligations of Rule 1014(a) and, in general, be effected for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. An ROT is responsible for evidencing compliance with these provisions. The Exchange may exempt one or more classes of options from this calculation.

**.02 - .04** No change.

**.05** [(a) RESERVED

(b) ]The Exchange shall assign SQTs and RSQTs in accordance with Rule 507 and allocate one or more options to Remote Specialists in accordance with Rule 501. An SQT or RSQT may be assigned to and a Remote Specialist may be allocated (and thus submit quotes electronically in) any option for which they are approved by the Exchange.

[(c) *Non-Electronic Orders.*

- (i) In the event that a Floor Broker or specialist presents a non-electronic order in which an RSQT is assigned or which is allocated to a Remote Specialist, and/or in which an SQT assigned in such option is not a crowd participant, such Remote Specialist, SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant Remote Specialist, SQT and/or RSQT at the time of execution.

- (ii) Notwithstanding the foregoing, respecting crossing, facilitation and solicited orders (as defined in Rule 1064) that are represented and executed in open outcry, priority shall be afforded to in-crowd participants (including, for purposes of this rule only, Floor Brokers), over Remote Specialists, RSQTs, out-of crowd SQTs, and out-of-crowd broker-dealer limit orders on the limit order book, but not over public customer orders. Such orders shall be allocated in accordance with Exchange Rules.
- (iii) The specialist and/or SQTs participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Rule 1033(a)(ii).
- (iv) For purposes of this Rule, an SQT or non-SQT ROT shall be deemed to be participating in a crowd if such SQT is, at the time an order is represented in the crowd, physically located in a specific "Crowd Area." A Crowd Area shall consist of a specific physical location marked with specific, visible physical boundaries on the options floor, as determined by the Exchange. An SQT or non-SQT ROT who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant in such a Crowd Area, provided that such SQT or non-SQT ROT fulfills the requirements set forth in this Rule 1014. An SQT or non-SQT ROT shall be deemed to be participating in a single Crowd Area.]

**.06** No change.

**[.07** The term "on the Floor" means the Trading Floor of the Exchange; the rooms, lobbies, and other premises immediately adjacent thereto made available by the Exchange for use by members generally; other rooms, lobbies and premises made available by the Exchange primarily for use by members generally; and the telephone and other facilities in any such place.

The provisions of this Rule do not apply to transactions initiated by an ROT for an account in which he has an interest unless such transactions are either initiated by an ROT while on the Floor or unless such transactions although originated off the Floor are deemed on-Floor transactions under the provisions of these Rules.

**.08** An off-Floor order for an account in which a member has an interest is to be treated as an on-Floor order if it is executed by the member who initiated it.

In addition to transactions originated on the Floor by an ROT for an account in which he has an interest, the following transactions are considered on-Floor trading:

- (a) Any transaction for an account in which an ROT has an interest if such transaction is initiated off the Floor by such ROT after he has been on the Floor during the same day.
- (b) Any transaction for a member organization for an account in which it has an interest:
  - (i) which results from an order entered off the Floor following a conversation relating thereto with a member on the Floor who is a partner of or stockholder in such member organization; or
  - (ii) which results from an order entered off the Floor following the unsolicited submission from the Floor to the office of a quotation in a stock or Exchange-Traded Fund Share and the size of the market by a member on the Floor who is a partner of or stockholder in such member organization; or
  - (iii) which results from an order entered off the Floor which is executed by a member on the Floor who is a partner of or stockholder in such member organization and who had handled the order on a "not-held" basis; provided, however, that the following are not on-Floor orders and such restrictions shall not apply to an order:
    - (A) to sell an option for an account in which the member organization is directly or indirectly interested if in facilitating the sale of a large block of stock or Exchange-Traded Fund Shares, the member organization acquired its position because the demand on the Floor was not sufficient to absorb the block at a particular price or prices; or
    - (B) to purchase or sell an option for an account in which the member organization is directly or indirectly interested if the member or his member organization was invited to participate on the opposite side of a block transaction by another member, member organization or a partner or stockholder therein because the market on the Floor could not readily absorb the block at a particular price or prices; or
    - (C) to purchase or sell an option for an account in which the member organization is directly or indirectly interested if the transaction is on the opposite side of a block order being executed by the member organization for the account of its customer and the transaction is made to facilitate the execution of such order; or

(iv) which results from an order entered off the Floor which is executed by a member on the Floor who is a partner of or stockholder in such member organization and who has changed the terms of the order.

(c) Any transaction for the account of an RSQT.

**.09** Orders given out by an ROT to commission brokers—An on-Floor order given by an ROT to a commission broker, for an account in which the ROT has an interest, is subject to all the Rules restricting ROTs. When an ROT gives out such an order on the Floor to another member, the order must be so marked to indicate that it is for an account in which the ROT has an interest, unless it is exempt from this Rule, in order that the other member may know whether it may be entitled to priority or parity.]

**[.10].07** A specialist acting in the course of his specializing function, as agent or principal, on the Exchange is prohibited from charging a commission or fee for the execution of an order. A specialist shall also not charge a commission or fee for the handling, execution or processing of an order delivered through the Exchange's automated trading system, Phlx XL II, whether the specialist is acting as principal or agent for the order.

**[.11** Pair-offs before opening—An ROT cannot acquire a "long" option by pairing off with a sell order before the opening, unless all off-Floor bids at that price are filled.

**.12** The number of ROTs in a trading crowd who are establishing or increasing a position may temporarily be limited when, in the judgment of an Options Exchange Official, the interests of a fair and orderly market are served by such limitation.

**.13** Within each quarter an ROT must execute in person, and not through the use of orders (except that non-streaming ROTs can use orders entered in person), a specified number of contracts, such number to be determined from time to time by the Exchange.

**.14** An ROT may not initiate orders from off the floor as a market maker in reliance upon the market maker exemption contained in Section 11(a)(1) of the Securities Exchange Act of 1934.]

**[.15].08** The price of an opening transaction in an option series must be within an acceptable range (as determined by the

Exchange and announced to Exchange members and member organizations on the Exchange's website) compared to the highest offer and the lowest bid (e.g., the upper boundary of the acceptable range may be 125% of the highest quote offer and the lower boundary may be 75% of the lowest quote bid).

**[.16].09** The trading hours for foreign currency options are constituted by various trading sessions as defined by the Board of Directors. Each trading session is considered separate and distinct from each other for the purposes of the prohibition contained in Rule 1014 paragraph (e).

**[.17** In the interest of fair and orderly markets, the Exchange may adopt policies affecting the location of members in the trading crowd on a crowd-by-crowd basis.]

**[.18].10** An ROT who wishes to place a limit order on the limit order book must submit such a limit order electronically.

**[.19** Floor brokers are able to achieve split price priority in accordance with Rule 1014(g)(i)(C), provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Phlx member broker-dealer ("Phlx member BD") must ensure that the Phlx member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.]

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**[Rule 1018. "Stopping" An Option**

(a) An agreement to "stop" an option at a specified price constitutes a guarantee by the member who "grants the stop" that the order of the member who, "accepts the stop" will be executed at the stop price or better. No member is required to agree to grant or accept a stop.

(b) A member shall not accept a stop for an account in which he or another member has an interest unless:

(i) he is acting for an order originated off the Floor; or

(ii) in the case of an order originated on the Floor, the member granting the stop is also acting for an account in which he or another member has an interest; or

- (iii) he is effecting a transaction to offset a transaction made in error; or
  - (iv) he is engaged in bona fide arbitrage.
- (c) No specialist may stop an option against the book or for his own account at a price at which he holds an order capable of execution at that price; except;
- (i) in connection with an opening or reopening; or
  - (ii) when there is a competing bid or offer in the crowd at the same price at which the stop is granted; or
  - (iii) when the specialist does not have an executable order at the stop price; or
  - (iv) when a broker makes an unsolicited request that a specialist grant him a stop, and
- (A) the spread in the quotation is not less than twice the permitted minimum increment in the option;
- (B) after the granting of the stop, the spread between the bid and the offer is reduced;
- (C) the specialist does not reduce the size of the market following the granting of the stop; and
- (D) on the election of the stop, the order or orders on the specialist's book entitled to priority will be executed against the stopped option.

••• *Commentary:* -----

Each "stopped" transaction shall be reported for printing on the tape in the form and manner prescribed by the Exchange.

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**[Rule 1033. Bids And Offers—Premium**

(a)(i) *Size of Bid/Offer and Disseminated Size Guarantee.* All bids or offers made on the Floor for option contracts shall be deemed to be for one option contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract shall be deemed to be for the amount thereof or a smaller number of option contracts. Responsibility for ensuring that customer orders are filled to a minimum of the disseminated size at the disseminated price is as set forth in Exchange Rule 1082.

- (ii) *Solicitation of Quotations.* In response to a floor broker's solicitation of a single bid or offer, the members of a trading crowd (including the specialist and ROTs) may discuss, negotiate and agree upon the price or prices at which an order of a size

greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the specialist and ROTs).

(b) *Premiums.* Except as provided in paragraph (c) and (d), all bids or offers made on the Floor for option contracts shall be expressed as follows:

(i) In the case of options on stocks or Exchange-Traded Fund Shares, in terms of dollars per share of the underlying stock or Exchange-Traded Fund Share (e.g., a bid of "5" shall represent a bid to pay a premium of \$500 for an option contract having a unit of trading consisting of 100 shares of an underlying stock or Exchange-Traded Fund Share, or a bid to pay a premium of \$550 for an option contract having a unit or trading consisting of 110 shares of an underlying stock Exchange-Traded Fund Share).

(ii)

(A) —In the case of options on foreign currencies in terms of U.S. dollars per unit of the underlying foreign currency.

E.g., a bid of "3.25" for a premium on a \$170 strike price option on the British pound shall represent a bid to pay \$325 per option contract.

(iii) *Mini Options.* Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of ".50" shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares.

(c) *Contract Adjustments.* All bids or offers for an option contract for which the Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the by-laws of the Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading (e.g., where the adjusted unit of trading of an option contract consists of 110 shares of an underlying stock or Exchange-Traded Fund Share plus 15 rights, a bid of "5" shall represent a bid to pay a premium of \$550 for each option contract covering both the shares of underlying stock or Exchange-Traded Fund Share and the rights).

(d) *Spread Priority.* When a member holding a multi-leg order, as defined in Rule 1066 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a multi-leg

order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than established bid or offer for that option contract AND no option leg is executed at a price outside of the established bid or offer for that option contract.

(e) *Synthetic Option Orders.* When a member holding a synthetic option order, as defined in Rule 1066, and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a synthetic option order at the total credit or debit with one other member, provided that the option leg is executed at a better price than the established bid or offer for that option contract, in accordance with Rule 1014. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of public customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price.

(f) *Three-Way Spread Type Priority.* When a member holding a three-way order for foreign currency options determines that the order will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the three-way order, seek to execute the order at a total credit or debit with one other member provided that at least one of the individual legs to the order is effected at a price better than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract. For purposes of this Rule, three-way orders include spread, straddle and combination orders of three individual series in the same foreign currency options where (i) the order size for each of the three individual series are equal to each other, or (ii) the combined order size of any two series on the same side of the market is either equal to the order size of the third series by a or differs from the order size of the third series by a permissible ratio. For purposes of this paragraph, a permissible ratio is any one of the following: one-to-one, one-to-two, one-to-three and two-to-three.

(g) *Ratio Spread Type Priority.* A spread order may consist of different numbers of contracts so long as the number of contracts differ by a permissible ratio (a "Ratio Spread"). Similarly, the legs to a straddle or combination order may consist of different numbers of puts and calls so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) *Multi-Spread Priority.* When a member holding two spread type orders (spreads, straddles or combinations, as defined in Rule 1066) for the same account determines that the orders will be best served by bidding or offering on the basis of a total net credit or

debit, the member may, after seeking bids and offers for the total of the two spread type orders, seek to execute both orders as a single transaction at a total net credit or debit with one other member, provided that at least one of the individual legs of each individual spread is executed at a better price than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract.

(i) *Spread Type Priority.* Through FBMS, Spread Type Orders consisting of a conforming ratio may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.]

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#### **[Rule 1039. Resolution Of Uncompared Trade**

When a disagreement between members or member organizations arising from an uncompared Exchange options transaction cannot be resolved by mutual agreement prior to 10:00 a.m. on the first business day following the trade date (in the case of options on stocks or Exchange-Traded Fund Shares) or prior to 8:30 a.m. on the first business day following the trade date (in the case of options on foreign currencies), the parties shall promptly, but not later than 3:30 p.m. on such day (in the case of options on stocks or Exchange-Traded Fund Shares) or 2:00 p.m. on such day (in the case of options on foreign currencies (unless otherwise excused by the Exchange) close out the transaction in the following manner. The member or member organization representing the purchaser in the uncompared Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to purchase the option contract that was the subject of the uncompared Exchange options transaction. The member or member organization representing the writer in the uncompared Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to sell (write) the option contract that was the subject of the uncompared Exchange options transaction. Any claims for damages resulting from such transactions must be made promptly for the accounts of the members or member organizations involved and not for the accounts of their respective customers. Notwithstanding the foregoing, if either member or member organization is acting for a firm account in an uncompared Exchange options transaction and not for the account of a customer, such member organization need not enter into a new transaction, in which event money differences will be based solely on the closing transaction of the other party to the uncompared transaction.

In the event an uncompared 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 not at fault may claim damages against the other member or member organization involved

in the transaction based on the terms of such transaction. All such claims for damages shall be made promptly.]

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**Rule 1047. Trading Halts**

(a) – (c) No change.

(d) This paragraph shall be in effect during a pilot period to coincide with the pilot period for the Plan to Address Extraordinary Market Volatility Pursuant to Rule 608 of Regulation NMS, as it may be amended from time to time ("LULD Plan"), except as specified in subparagraph (v) below. Capitalized terms used in this paragraph shall have the same meaning as provided for in the LULD Plan. During a Limit State and Straddle State in the Underlying NMS stock:

(i) No change.

(ii) After the opening, the Exchange shall reject Market Orders, as defined in [Rule 1066(a)]Options 8, Section 32(a) (including Complex Orders, as defined in Rule 1098), and shall notify Participants of the reason for such rejection. The Exchange shall cancel Complex Orders that are Market Orders residing in the System if they are about to be executed by the System.

(iii) After the opening, the Exchange shall elect Stop Orders, as defined in Options 8, Section 32(c)(1)[Rule 1066(c)(1)], and, because they become Market Orders, shall cancel them back and notify Participants of the reason for such rejection.

(iv) and (v) No change.

(e) – (g) No change.

[••• *Commentary* :-----

Manual Rotations. Pursuant to the authority in paragraph (b) above and in accordance with the procedures enumerated in these commentaries, a manual trading rotation may be held on the opening in the event that the Exchange's System is not available, and a closing rotation may be held on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

**.01** For purposes of this Rule, a trading rotation is a series of very brief time periods during each of which bids, offers and transactions in only a single, specified option contract can be made. An Options Exchange Official may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market and shall specify, for each rotation so employed, the particular option contracts to be included and the sequence of such option contracts in the rotation. Trading rotations, which shall be conducted by the specialist, shall be conducted in the following manner:

- (a) **Opening Rotations.**—In the case of options on stocks or Exchange-Traded Fund Shares, the opening rotation in each class of options shall be held promptly following the opening of the underlying security on the primary market where it is traded. An underlying security shall be deemed to have opened on the primary market where it is traded if such market has (i) reported a transaction in the underlying security or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening. In the case of options on foreign currencies, the opening rotation in each option shall be held promptly following the opening of trading. In either case, respecting openings conducted manually, the specialist should proceed in the following manner: Taking each option in which he is assigned in turn, the specialist should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The specialist shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions, except as provided below.
- (b) **Modified Rotations**—(i) Modified rotations include reverse and shotgun rotations. A reverse rotation is an opening rotation where the Specialist should first open the one or more series of options of a given class having the most distant expiration, then proceed to the next nearest expiration, and so forth, ending with the nearest expiration, until all series have been opened. A shotgun rotation is an opening rotation in which each option series opens in the same manner and sequence as during a regular trading rotation stated above in paragraph (a), but is permitted to freely trade once all option series with the same expiration month have been opened.
- (ii) A reverse trading rotation must be employed in connection with openings and reopenings involving a heavy influx of orders, unless exempted by an Options Exchange Official.

A second rotation requires the approval of an Options Exchange Official. In addition, a modified rotation may be employed in connection with delayed openings, halts or suspensions of options trading or other unusual market conditions, but in a different manner and sequence of trading than described

above provided an Options Exchange Official determines that such procedure should be implemented.

(iii) This Commentary .01(b) shall apply only to manual openings conducted in accordance with the Commentary to Rule 1017.

(c) **Closing Rotations at Expiration**—On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last trading day prior to expiration with respect to expiring stock option contracts a closing rotation in each series of expiring options shall be commenced at 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by an Options Exchange Official, the specialist may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance where an Options Exchange Official, determines to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time

(d) **Quarterly Rotations**—On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:00 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:00 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

**.02** In the event that trading in an underlying stock or Exchange-Traded Fund Share has not opened in the primary market for such stock or Exchange-Traded Fund Share within a reasonable time after the opening of business, or, in the event that current quotations for any underlying foreign currency are for any reason unavailable, the specialist shall report such delay or unavailability to the Regulatory staff and the appropriate steps will be taken to determine the cause for such delay or unavailability. The opening of trading in such option shall be delayed until the underlying stock has opened or until current quotations for the underlying foreign currency become available, as the case may be, unless an Options Exchange Official,

determines that the interests of a fair and orderly market are best served by opening trading in such options.

**.03** Stock or Exchange-Traded Fund Share Options Trading after 4:00 p.m. With the prior approval of an Options Exchange Official a trading rotation in any class of stock option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., provided:

- (a) Promptly after trading in the underlying security opens or re-opens, an opening or re-opening rotation in the corresponding options class is commenced; or
- (b) Such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor and the rotation does not commence until five minutes after the notice is disseminated.
- (c) If prior to 4:00 p.m. a trading rotation is in progress and an Options Exchange Official determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m.

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**[Rule 1059. Accommodation Transactions**

(a) A "cabinet order" is a closing limit order at a price of \$1 per option contract for the account of a customer, firm, specialist or ROT. An opening order is not a "cabinet order" but may in certain cases be matched with a cabinet order pursuant to subsection (a)(iii) below. Only Floor Brokers may represent cabinet orders. Cabinet trading shall be available for each series of options open for trading on the Exchange under the following terms and conditions:

- (i) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein or unless the context otherwise requires.
- (ii) Cabinet orders may be submitted to Floor Brokers and represented by them in the designated trading crowd of the option class. Floor Brokers must use the designated cabinet transaction forms provided by the Exchange to document receipt of a cabinet order and the execution of a cabinet transaction. Rule 1063(e)(i) shall not apply to cabinet orders.
- (iii)

(A) *Floor Broker Holds the Cabinet Order Only.* If a Floor Broker holds a cabinet order but does not hold contra-side interest, he shall follow the procedures set forth in this subsection (iii)(A). In the trading crowd, and in the presence of at least one marketmaker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet order to the trading crowd to solicit interest to participate on the closing position. All matching cabinet orders shall be assigned priority based upon the sequence in which such orders are received by the Floor Broker. If there is no matching cabinet order, the Floor Broker may match the cabinet order with a matching opening buy or sell limit order priced at \$1 per option contract. If there is no matching cabinet order or opening order, the Floor Broker may seek matching bids or offers for accounts of specialists and ROTs. Specialists and ROTs can only participate after all other orders have been matched.

(B) *Floor Broker Holds the Cabinet Order and also a Contra-Side Cabinet Order.* If the Floor Broker holds a cabinet order as well as contra-side cabinet order, the Floor Broker shall follow the procedures set forth in this subsection (iii)(B). In the trading crowd, and in the presence of at least one market-maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet orders to the trading crowd. The cabinet orders shall then be immediately crossed by the Floor Broker.

(C) *Floor Broker Holds Cabinet Order and a Contra-Side Opening Order.* If the Floor Broker holds a cabinet order as well as contra-side opening order, the Floor Broker shall follow the procedures set forth in this subsection (iii)(C). In the trading crowd, and in the presence of at least one market-maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet order to the trading crowd. If there is a matching cabinet order, the Floor Broker shall match the two cabinet orders. If there is no matching cabinet order, the cabinet order shall then be immediately crossed by the Floor Broker with the opening order held by the Floor Broker.

(iv) Once the cabinet order has been either crossed or matched, the Floor Broker shall submit the designated cabinet form to the Nasdaq Market Operations staff for clearance and reporting at the close of the business day.

(v) Specialists and ROTs shall not be subject to the requirements of Rule 1014 in respect of orders placed pursuant to this Rule. The provisions of Rule 1033(b) and (c) and Rule 1034 shall not apply to orders placed in the cabinet. Cabinet transactions shall not be reported on the ticker.

(b) Any (i) member, (ii) member organization, or (iii) other person who is a non-member broker or dealer and who directly or indirectly controls, is controlled by, or is under common control with, a member or member organization (any such other person being referred to as an affiliated person) may effect any transaction as principal in the over-the-counter market in any class of option contracts listed on the Exchange for a premium not in excess of \$1.00 per contract.

••• *Commentary* : -----

**.01** For each transaction executed by a member, member organization or affiliated person pursuant to paragraph (b) a record of such transaction shall be maintained by the member or member organization and shall be available for inspection by the Exchange for a period of three years. Such record shall include the circumstances under which the transaction was executed in conformity with this Rule.

**.02 Limit Orders Priced Below \$1:** Limit orders with a price of at least \$0 but less than \$1 per option contract may trade under the terms and conditions in Rule 1059 above in each series of option contracts open for trading on the Exchange, except that:

(a) Bids and offers for opening transactions are only permitted to accommodate closing transactions.

(b) These procedures are available for trading in all options classes trading on the Exchange, including options classes participating in the Penny Pilot Program.

(c) Transactions shall be reported for clearing utilizing forms, formats and procedures established by the Exchange.

**.03** Pursuant to Rule 1079(g), open FLEX option positions are eligible to be closed in accordance with this Rule 1059 at the minimum increments specified herein. The FLEX option cabinet order may be executed against contraside interest which closes a FLEX option position or, to the extent permitted under Rule 1059(a)(iii), against contraside interest which opens a FLEX option position. Sections (a) and (b) of Rule 1079 shall not apply to FLEX option transactions executed pursuant to Rule 1079(g) and Rule 1059. However, Sections (c) - (g) of Rule 1079 shall apply to any FLEX option position opened pursuant to Rule 1059.

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**[Rule 1060. Floor Broker Defined**

An Options Floor Broker is an individual who is registered with the Exchange for the purpose, while on the Options Floor, of accepting and handling options orders.

**Rule 1061. Registration of Floor Brokers**

An applicant for registration as an Option Floor Broker shall file his application in writing with Regulatory staff on such form or forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's ability as demonstrated by his passing an Options Floor Broker's examination prescribed

by the Exchange, and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Floor Broker.

**Rule 1062. Letters of Authorization**

(a) *Required of each Options Floor Broker.* No Options Floor Broker shall act as such on the Exchange unless there is in effect and filed with the Exchange a Letter of Authorization that has been issued for such Options Floor Broker by a Clearing Member.

(b) *Terms of Letter of Authorization.* A Letter of Authorization shall provide that the issuing Clearing Member shall be responsible for the clearance of the Exchange transactions of the Options Floor Broker when the name of such Clearing Member is given up.

(c) *Revocation of Letter of Authorization.* A Letter of Authorization shall remain in effect until a written notice of revocation has been filed with the Exchange. If such written notice has not been filed for at least one hour prior to the opening of trading on a particular business day, such revocation shall not become effective until the close of trading on such day.

**Rule 1063. Responsibilities of Floor Brokers**

(a) *General Responsibility.* In addition to the Provisions of Rule 155 concerning due diligence, an Options Floor Broker shall ascertain that at least one Registered Options Trader is present at the trading post prior to representing an order for execution. This Rule 1063(a) shall not apply to a Floor Broker in any foreign currency option if no Registered Options Trader registered in such foreign currency option is present on the Exchange's trading floor at that time.

(b) *Contingency order.* An Options Floor Broker handling a contingency order that is dependent upon the price of the underlying security shall be responsible for satisfying the dependency requirement on the basis of the last reported price of the underlying security in the primary market that is generally available on the Options Floor at any given time. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such reported price is subsequently found to have been erroneous.

(c) *Combination orders at the opening or close.* A Floor Broker shall not be held responsible for the execution of a single order combining different series of options based upon transaction prices that are established at the opening or close of trading or during any trading rotation.

(d) *Orders for Registered Options Traders.* An Options Floor Broker must inform the crowd when he is representing an order for a registered options trader and must comply with Commentaries .10, .11, .12, and .13 of Rule 1014.

(e) (i) *Options Floor Based Management System*. In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional, market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(ii) Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Floor Brokers execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(iii) *Complex Calculator*. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(iv) *Execution*. FBMS is designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange

rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

(v) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Floor Brokers as set forth in Rule 1069.

(f) Floor Brokers or their employees shall enter the required information (as described in paragraph (e) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

•• *Commentary:* -----

.01 A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

.02 Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a customer or a broker-dealer. If it is ascertained that the order is for the account of a broker-dealer, the responsible Floor Broker must advise the crowd of that fact prior to bidding/offering on behalf of the order or submitting the order for execution. The Floor Broker or his employees must make the appropriate notation on the Options Floor Based Management System when it has been determined that the order is for an account of a broker/dealer.

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**[Rule 1065. Discretionary Transactions**

No Floor Broker shall execute or cause to be executed any order or orders on this Exchange with respect to which such Floor Broker is vested with discretion as to: (i) the choice of the class of options to be bought or sold, (ii) the number of contracts to be bought or sold, or (iii) whether any such transaction shall be one of purchase or sale.

However, the provisions of this Rule shall not apply to any discretionary transaction executed by a Registered Options Trader for an account in which he has an interest.

••• *Commentary:* -----

**.01** No Options Floor Broker shall hold a "not held" market order to buy and a "not held" market order to sell (or orders which have the effect of such "not held" market orders to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Also no Floor Broker shall leg a combination order for a Registered Options Trader or accept opening or discretionary orders for a Registered Options Trader who is associated with the same member organization as such Floor Broker or who is associated with another member organization which is pursuant to Exchange Rule 793 affiliated with the same member organization as such Floor Broker. Holding or accepting such orders can be interpreted as allowing the Floor Broker discretion respecting whether to purchase or sell such options.

**.02** An Options Floor Broker may not exercise any discretion with respect to the order of a ROT or the order of an options market maker registered on another exchange.

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**Rule 1066. Certain Types of Floor-Based (Non-PHLX XL) Orders Defined**

These order types are eligible for entry by a member for execution through the Options Floor Based Management System ("FBMS").

- (a) *Market Order.* A market order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.
- (b) *Limit Order.* A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.
- (c) *Contingency Order.* A contingency order is a limit or market order to buy or sell that is contingent upon a condition being satisfied while the order is at the post.
- (1) *Stop-Limit Order.* A stop-limit order is a contingency order to buy or sell at a limited price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-limit order to buy becomes a limit order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A stop-limit order to sell becomes a limit order

executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

*Stop (stop-loss) Order.* A stop order is a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop order to buy becomes a market order when the option contract trades or is bid on the Exchange at or above the stop price. A stop order to sell becomes a market order when the option contract trades or is offered on the Exchange at or below the stop price.

Notwithstanding the foregoing, a stop or stop-limit order shall not be elected by a trade that is reported late or out of sequence.

(2) Reserved.

(3) Reserved.

(4) *All or None Order.* An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.

(5) Reserved.

(6) Reserved.

(7) *Cancel-Replacement Order.* A cancel-replacement order is a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety the replacement order is automatically canceled or reduced by such number.

(8) *Immediate or Cancel Order.* An immediate-or-cancel ("IOC") order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.

(d) *Not Held Order.* A not held order is an order marked "not held", "take time" or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed.

(e) Reserved.

(f) *Multi-leg Orders.* A multi-leg order is any spread type order (including a spread, straddle and combination order) for the same account or tied hedge order as defined below:

- (1) *Spread Order*. A spread order is an order to buy a stated number of option contracts and to sell a stated number of option contracts in a different series of the same option and may be bid for or offered on a total net debit or credit basis.
- (2) *Straddle Order*. A straddle order is an order to buy a number of call option contracts and the same number of put option contracts with respect to the same underlying security (in the case of options on a stock or Exchange-Traded Fund Share) or the same underlying foreign currency (in the case of options on a foreign currency) and having the same exercise price and expiration date; or an order to sell a number of call option contracts and the same number of put option contracts with respect to the same underlying security (in the case of options on a stock or Exchange-Traded Fund Share) or the same underlying foreign currency (in the case of options on a foreign currency) and having the same exercise price and expiration date (e.g., an order to buy two XYZ July 50 calls and to buy two XYZ July 50 puts is a straddle order). In the case of adjusted stock option contracts, a straddle order need not consist of the same number of put and call contracts if such contracts both represent the same number of shares at option.
- (3) *Combination Order*. A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security and representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same number of foreign currency units (if the underlying security is a foreign currency). A combination order includes a conversion (generally, buying a put, selling a call and buying the underlying stock or Exchange-Traded Fund Share) and a reversal (generally, selling a put, buying a call and selling the underlying stock or Exchange-Traded Fund Share). In the case of adjusted option contracts, a combination order need not consist of the same number of shares at option.
- (4) *Tied Hedge Order*. A tied hedge order is an option order that is tied to a hedge transaction as defined in Rule 1064(d)(iii), following the receipt of an option order in a class determined by the Exchange as eligible for "tied hedge" transactions.
- (5) *Synthetic Option*. A synthetic option order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying stock or convertible security or the number of units of the underlying stock or convertible security necessary to create a delta neutral position, or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock as, and on the opposite side of the market from, the stock or convertible security portion of the order.
- (6) *Spread Type Order* - A spread type order is a multi-leg order submitted through the Floor Based Management System ("FBMS") involving the simultaneous purchase

and/or sale of two or more different options series (up to 15) in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A spread type order may include as one of the legs a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery.

(7) Complex Order. A Complex Order is a multi-leg order that meets the definition of Complex Order in Rule 1098(a)(i).

(8) DNA Order. A DNA Order is an order submitted through FBMS that meets the definition of DNA Order in Rule 1098(a)(viii).

(g) Reserved.

(h) *Routing order types.* In the System, the following order types will be available and governed by Rule 1080(m): DNR (do not route), FIND and SRCH.

••• *Commentary:* -----

.01 Reserved.

.02 For options on foreign currencies, a multi-spread transaction consisting of spread, straddle or combination orders may be executed. A multi-spread transaction combines any two spread type orders for the same account as defined in Rule 1066(f). A permissible multi-spread transaction combines any of the following: a two-way transaction with another two-way transaction of the same spread type; a three-way transaction with another three-way transaction of the same spread type; or a two-way transaction with a three-way transaction of the same spread type. In addition, a multi-spread transaction includes the combination of a spread type order with a ratio spread type order. The ratio between the spread type order and the ratio spread type order comprising the multi-spread transaction may range from one-to-one to three-to-one, which will be determined by the Exchange.

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**Rule 1068. Directed Orders**

(a) Specialists, RSQTs and SQTs may receive Directed Orders (as defined in this Rule) in accordance with the provisions of this rule.

## (i) Definitions

(A) The term "Directed Order" means any order (other than a stop or stop-limit order as defined in [Rule 1066]Options 8, Section 32) to buy or sell which has been directed to a particular Specialist, RSQT, or SQT by an Order Flow Provider, as defined below. To qualify as a Directed Order, an order must be delivered to the Exchange via the System.

(B) – (C) No change.

(ii) – (iv) No change.

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**[Rule 1069. Snapshot Feature**

(a) The Snapshot feature of FBMS records the market prevailing at the time the Snapshot is triggered. It records all information required to determine compliance with priority and trade-through requirements, including the following: (1) Away Best Bid and Offer; (2) the Exchange Best Bid and Offer; (3) customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders.

## (i) Availability.

(A) A member is permitted to trigger the Snapshot feature only at the time he or she provisionally executes a trade in the trading crowd. For purposes of this provision, provisional execution occurs when either: (1) the participants to a trade reach a verbal agreement in the trading crowd as to the terms of the trade; or (2) a member announces that he is crossing an order in accordance with Rule 1064(a).

(B) A member is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

(C) A member may have only one Snapshot outstanding across all options classes and series at a given time.

(D) Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.

(ii) Snapshot Timer. After triggering the Snapshot feature, the member will have no more than 30 seconds to submit the provisionally executed trade along with the Snapshot into the System. The Snapshot will automatically become unavailable and expire if the member fails to submit a provisionally executed trade along with the Snapshot within 30 seconds after triggering the Snapshot.

- (iii) Verification. After the member submits the provisionally executed trade along with the Snapshot, the System then determines whether the terms of the provisionally executed trade submitted by the member is consistent with applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot.
- (A) If the provisionally executed trade submitted with the Snapshot is consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will report the trade to the Consolidated Tape.
- (B) If the provisionally executed trade is not consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will reject the trade.
- (C) If an order exists on the Exchange's limit order book that has priority at the time when a member seeks to take a Snapshot, the System will not prevent the member from taking a Snapshot, but the member must clear the order on the book, re-announce and provisionally re-execute the trade, and take a new Snapshot before submitting the provisionally executed trade to the System or else the System will reject the trade upon submission.

(iv) Taking a New Snapshot

(A) A member may take a new Snapshot and trigger a new 30-second timer provided that the member first re-announces and provisionally re-executes the trade in the crowd, as described in paragraphs (i) through (iii) above, if: (1) the Snapshot expired before the member submitted a provisional execution to the Trading System; (2) the Trading System rejected a provisional execution that is subject to a Snapshot; or (3) the member affirmatively canceled a Snapshot or permitted it to expire in anticipation of the Trading System rejecting the provisional execution that is subject to it.]

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**[Rule 1079. FLEX Index, Equity and Currency Options**

A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the Rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange Rules, this Rule takes precedence with respect to FLEX options.

**(a) Characteristics:**

- (1) Underlying interest —

- (A) any index upon which options currently trade on the Exchange. The applicable index multiplier shall be the same multiplier, in the case of U.S. dollar-denominated FLEX index options, that applies to non-FLEX index options on the same underlying index;
  - (B) any security which is options-eligible pursuant to Rule 1009; or
  - (C) any foreign currency which is options-eligible pursuant to Rule 1009 and which underlies non-FLEX U.S. dollar-settled foreign currency options that are trading on the Exchange.
- (2) Type—put, call or hedge order (as defined in Rule 1066);
- (3) Exercise price—
- (A) with respect to FLEX index options, may be specified in terms of a specific index value number, a percentage of the index value calculated as of the open or close of trading on the Exchange on the trade date, or a method for fixing such number;
  - (B) with respect to FLEX equity options, may be specified in terms of a specific dollar amount rounded to the nearest \$.10 or a percentage of the underlying security rounded to the nearest minimum increment; or
  - (C) with respect to FLEX currency options, may be specified in terms of a specific dollar amount rounded to the nearest hundredth of a dollar.
- (4) Quote format—
- (A) in the case of FLEX index options and equity options, a bid and/or offer in the form of a decimal price (*e.g.* .10 or .25), pursuant to Rule 1034, a specific dollar amount, or a percentage of the underlying equivalent value, in the case of FLEX index options, or security, in the case of FLEX equity options, rounded to the nearest minimum increment; or
  - (B) in the case of FLEX currency options, in the form of dollars per unit of underlying foreign currency in the minimum increments set forth for U.S. dollar settled foreign currency options in Rule 1034(a).
- (5) Exercise style—American or European in the case of FLEX index options and FLEX equity options, and European only in the case of FLEX U. S. dollar-settled foreign currency options;
- (6) Expiration date—

- (A) any month, business day and year within five years for FLEX index options and within three years for FLEX currency options, except that (i) a FLEX index option that expires on or within two business days prior or subsequent to a third Friday-of-the-month expiration day for a non-FLEX option (except quarterly expiring index options) or underlying currency may only have an exercise settlement value on the expiration date determined by reference to the reported level of the index as derived from the opening prices of the component securities ("a.m. settlement") and (ii) all FLEX currency options will expire at 11:59 p.m. eastern time on their designated expiration date; or
- (B) any month, business day and year within three years for FLEX equity options, provided, however, that a Requesting Member may request a longer term to a maximum of five years, and upon the assessment of the Regulatory staff that sufficient liquidity exists among FLEX equity participants, such request may be granted. Regulatory staff are Exchange employees responsible for, among other things, assessing that sufficient liquidity exists among FLEX equity participants requesting a term exceeding three years to a maximum of five years. The Exchange may also designate other qualified Exchange employees to assist the Regulatory staff as the need arises.
- (C) Provided the options on an underlying security or index are otherwise eligible for FLEX trading, FLEX options shall be permitted in puts and calls that do not have the same exercise style, same expiration date and same exercise price as non-FLEX options that are already available for trading on the same underlying security or index. FLEX options shall also be permitted before the options are listed for trading as non-FLEX options. Once and if the option series are listed for trading as non-FLEX options, then (i) all existing open positions established under the FLEX trading procedures shall be fully fungible with transactions in the respective non-FLEX option series, and (ii) any further trading in the series would be as non-FLEX options subject to the non-FLEX trading procedures and Rules. However, in the event the Non-FLEX series is added intra-day, a position established under the FLEX trading procedures would be permitted to be closed using the FLEX trading procedures for the balance of the trading day on which the Non-FLEX series is added against another closing only FLEX position. For such FLEX series, the Exchange will make an announcement that the FLEX series is now restricted to closing transactions; a FLEX Request for Quotes ("RFQ") may not be disseminated for any order representing a FLEX series having the same terms as a Non-FLEX series, unless such FLEX Order is a closing order (and it is the day the Non-FLEX series has been added); and only responses that close out an existing FLEX position are permitted. Any transactions in a restricted series that occur that do not conform to these requirements will be nullified by the Exchange.
- (7) Requesting quotes—to request a quote in FLEX options, an RFQ shall be submitted pursuant to paragraph (b) of this Rule;

(8) Minimum size—

- (A) **Opening**—If there is no open interest in the particular series when an RFQ is submitted, the minimum size of an RFQ is:
- (i) One contract in the case of FLEX market index options, and one contract in the case of FLEX industry index options;
  - (ii) One contract in the case of FLEX equity options; and
  - (iii) 50 contracts in the case of FLEX currency options.
- (B) **Opened**—If there is open interest, the minimum size of an RFQ is:
- (i) respecting FLEX index options, \$1 million underlying equivalent value, or the remaining size on a closing transaction, whichever is less;
  - (ii) respecting FLEX equity options, the lesser of 100 contracts or the number of contracts overlying \$1 million of the underlying securities in the case of an opening transaction, or 25 contracts or the remaining size in the case of a closing transaction, whichever is less; or
  - (iii) respecting FLEX currency options, 25 contracts, or the remaining size on a closing transaction, whichever is less.
- (C) **Responsive**—The minimum value size for a responsive quote, other than an assigned ROT or assigned Specialist, is (includes non-assigned ROTs and a non-assigned Specialist):
- (i) respecting FLEX index options, \$1 million underlying equivalent value respecting index options, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned Specialist are required to respond with at least \$10 million underlying equivalent value respecting FLEX market index options, and \$5 million underlying equivalent value respecting FLEX industry index options or Alpha Index options, or the size amount requested in the RFQ, whichever is less;
  - (ii) respecting FLEX equity options, 25 contracts, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned Specialist are required to respond with at least 250 contracts, or the size amount requested in the RFQ, whichever is less; or
  - (iii) respecting FLEX currency options, 50 contracts, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned Specialist are required to respond with at least 250 contracts, or the size amount requested in the RFQ, whichever is less.

(D) "Underlying equivalent value" means the aggregate value of a FLEX index option (index multiplier times the current index value) multiplied by the number of FLEX index options.

(9) Settlement

(A) respecting FLEX index options, the settlement value may be specified as the index value reported at the: (i) close (P.M.-settled); (ii) opening (A.M.-settled) of trading on the Exchange, or (iii) as an average over a specified period of time, within parameters established by the Exchange. American style index options exercised prior to the expiration date can only settle based on the closing value on the exercise date. FLEX index options are settled in U.S. dollars; or

(B) The settlement value for FLEX options on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona shall be the Exchange Spot Price at 12:00:00 Eastern Time (noon) on expiration day, unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances. FLEX currency options are settled in U.S. dollars. FLEX currency options will cease trading at 10:15 a.m. eastern time on their designated expiration date.

(10) Requesting Member—a member of the Exchange qualified to trade FLEX options pursuant to paragraph (c) of this Rule who initiates an RFQ for a FLEX option.

(11) Request for Quotes—the term "Request for Quotes" means the initial request supplied by a Requesting Member to initiate FLEX bidding and offering.

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

(13) FLEX Quote - the term "FLEX Quote" means (i) FLEX bids and offers entered by Specialists and Registered Options Traders and (ii) orders to purchase and orders to sell FLEX Options entered by Floor Brokers, in each case in response to a Request for Quotes.

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

(15) BBO Improvement Interval—the term "BBO Improvement Interval" means the minimum period of time, to be established by the Exchange, during which members

may submit FLEX Quotes to meet or improve the BBO established during the Request Response Time.

**(b) Procedure for Quoting and Trading FLEX Options.** FLEX options will not be continuously quoted and series are not pre-established. The Exchange's electronic quoting and trading system will not be available for FLEX options. The variable terms of FLEX options shall be established through the process described in this Rule. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, which may include yielding priority to customer orders.

**(1) Requesting Quotations.** The Requesting Member may initiate a Request-for-Quote ("RFQ") by first announcing all of the following contract terms to the trading crowd of the non- FLEX option and then submitting an RFQ ticket to the post: (1) underlying index, security or foreign currency; (2) type, size, and crossing intention; (3) in the case of FLEX index options and FLEX equity options, exercise style; (4) expiration date; (5) exercise price; and (6) respecting index options, the settlement value. Thereafter, on receipt of an RFQ in proper form, the assigned Specialist or the Requesting Member shall cause the terms of the RFQ to be disseminated as an administrative text message through the Options Price Reporting Authority ("OPRA").

**(2) Responses.** Members may enter at the FLEX post FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the Request Response Time. Each FLEX Quote shall refer to a reference indicator as the Exchange determines appropriate from time to time. All FLEX Quotes may be entered, modified or withdrawn at any point during the request response time. At the expiration of the Request Response Time, the BBO shall be identified in accordance with the price and time priority principles set forth by the Exchange.

**(3) Formation of Contracts Following the Process of Initial Quotes.** At the expiration of the Request Response Time, the assigned Specialist, or if none, the Requesting Member shall determine the BBO and the BBO shall be displayed on such market data systems as are available. If the Requesting Member has not indicated an intention to cross or act as principal with respect to any part of the FLEX trade, the member shall promptly accept or reject the displayed BBO: provided, however, that if such a Requesting Member either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX participating members other than the Requesting Member will have an opportunity during the BBO Improvement Interval in which to match, or improve, (as applicable), the BBO. At the expiration of any such BBO Improvement Interval, the Requesting Member must promptly accept or reject the BBO(s). If the Requesting Member has indicated an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the Requesting Member must indicate at the post the price at which the member expects to trade. In these circumstances, the Requesting Member may participate with all

other FLEX-participating members in attempting to improve or match the BBO during the BBO Improvement Interval. At expiration of the BBO Improvement Interval, the Requesting Member must promptly accept or reject the BBO(s). The Requesting Member has no obligation to accept any FLEX bid or offer. Whenever, following the completion of FLEX bidding and offering responsive to a given RFQs, the Requesting Member rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the RFQs, members may accept the entire order or the unfilled balance of the BBO.

- (4) **Priority.** The highest bid shall have priority, but where the two or more best bids are submitted at the same price, the bid(s) submitted first in time will have priority. The lowest offer shall have priority, but where the two or more best offers are submitted at the same price, the offer(s) submitted first in time will have priority.
  - (5) **BBO Improvement Interval.** In the case of FLEX equity options only and notwithstanding Rule 1079(b)(4), whenever the Requesting Member has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the Requesting Member will be permitted to execute the contra side of the trade that is the subject of the RFQs, to the extent of at least 40% of the trade, provided the order is a public customer order or an order respecting the Requesting Member's firm proprietary account. Notwithstanding the foregoing, all market participants may effect crossing transactions.
  - (6) **Reporting Requirements.** RFQs, responsive quotes and completed trades will be promptly reported to OPRA and disseminated as an administrative text message.
  - (7) **Trading Rotations.** There will be no trading rotations in FLEX options, either at the opening or at the close of trading.
  - (8) **Hours of Trading.** FLEX options trading must be effected during the hours established by the Exchange. Such hours shall be within regular Exchange trading hours (for the non-FLEX option) on each business day, except that the Exchange in its discretion may determine at any time to narrow or expand FLEX trading hours to encompass, but not exceed, the trading hours of the non-FLEX option.
- (c) Who May Trade FLEX Options.
- (1) **Assigned ROTs and Assigned Specialists.** An ROT or Specialist may apply on a form prescribed by the Exchange to be assigned in FLEX options. At least two members shall be assigned to each FLEX option. Only the Specialist in the non-FLEX option may be the assigned Specialist in that FLEX option ("FLEX Specialist"). The provisions of Rule 1014(c) regarding market making obligations shall be applicable to assigned ROTs and assigned Specialists, such that a market must be provided in any FLEX option when requested by an Options Exchange Official.

- (2) **Financial Requirements.** An assigned ROT in FLEX index options shall be required to maintain a minimum of \$100,000 in net liquid assets. An assigned Specialist in FLEX index options shall be required to maintain a minimum of \$1,000,000 in net capital. Floor Brokers shall be required to maintain a minimum of \$50,000 in net capital to qualify to trade FLEX options. Each such assigned ROT, assigned Specialist or Floor Broker shall immediately inform the Exchange upon failure to be in compliance with such requirements. The Exchange may waive the financial requirements of this Rule in unusual circumstances.
- (3) **Letters of Guarantee.** No ROT or Specialist shall effect any FLEX option unless a Letter of Guarantee has been issued by a clearing member organization and filed with the Exchange pursuant to Rule 703 specifically accepting financial responsibility for all FLEX option transactions made by such person and such letter has not been revoked.

(d) **Position Limits.**

- (1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options; 36,000, 48,000, or 60,000 contracts respecting industry index options, depending on the position limit tier determined pursuant to Rule 1001A(b)(i); the same number of contracts respecting Alpha Index options that would apply to such Alpha Index options if they were not FLEX; the same number of contracts respecting MSCI EM Index options that would apply to such MSCI EM Index options if they were not FLEX; and the same number of contracts respecting MSCI EAFE Index options that would apply to such MSCI EAFE Index options if they were not FLEX. Reduced value or mini-size FLEX index option contracts shall be aggregated with full value or full-size FLEX index option contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract). Positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to Rule 1101A(b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. However, except as provided in subsection (4) of this section (d), positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options. There shall be no position limits for full value options on the Russell 2000<sup>®</sup> Index ("Full Value Russell 2000<sup>®</sup> Options") and for one tenth (1/10th) value options on the Russell 2000<sup>®</sup> Index ("Reduced Value Russell 2000<sup>®</sup> Options"). There shall be no position limits for full value options on the Nasdaq 100 Index ("Full Value Nasdaq 100 Options") and for the reduced value options on the Nasdaq 100 Index ("Reduced Value Nasdaq 100 Options"). Options on the Full Value and Reduced Value Russell Indexes for the following products (collectively "Russell U.S. Indexes"): Russell 3000<sup>®</sup> Index, Russell 3000<sup>®</sup> Value Index, Russell 3000<sup>®</sup> Growth Index, Russell 2500<sup>™</sup> Index, Russell 2500<sup>™</sup> Value Index, Russell 2500<sup>™</sup> Growth Index, Russell 2000<sup>®</sup> Value Index, Russell 2000<sup>®</sup> Growth Index, Russell 1000<sup>®</sup> Index, Russell 1000<sup>®</sup> Value

Index, Russell 1000<sup>®</sup> Growth Index, Russell Top 200<sup>®</sup> Index, Russell Top 200<sup>®</sup> Value Index, Russell Top 200<sup>®</sup> Growth Index, Russell MidCap<sup>®</sup> Index, Russell MidCap<sup>®</sup> Value Index, Russell MidCap<sup>®</sup> Growth Index, Russell Small Cap Completeness<sup>®</sup> Index, Russell Small Cap Completeness<sup>®</sup> Value Index and Russell Small Cap Completeness<sup>®</sup> Growth Index, are subject to an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.

- (2) FLEX equity options shall not be subject to a separate FLEX position limit. Except as provided in subsection (4) of this section (d), positions in FLEX equity options shall not be taken into account when calculating position limits for non-FLEX equity options, or FLEX or non-FLEX index options.

However, each member or member organization (other than a Specialist or ROT) that maintains a position on the same side of the market in excess of the standard limit under Rule 1001 for non-FLEX equity options of the same class on behalf of its own account or for the account of a customer shall report information on the FLEX equity option position, positions in any related instrument, the purpose or strategy for the position and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX equity option position in excess of the standard limit for non-FLEX equity options of the same class, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position. 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 requirement.

- (3) Positions in FLEX currency options will be aggregated with positions in non-FLEX U.S. dollar-settled foreign currency option contracts for purposes of determining compliance with the position limits established by Rule 1001.

- (4) As long as the options positions remain open, positions in FLEX index options that expire on a third Friday-of-the-month shall be aggregated with positions in non-FLEX index options on the same underlying security ("comparable non-FLEX index options"), positions in FLEX equity options that expire on a third Friday-of-the-month shall be aggregated with positions in non-FLEX equity options on the same underlying security ("comparable non-FLEX equity options"), and shall be subject to the position and exercise limits set forth in this Rule 1079, and 1001, 1002, 1001A, and 1002A, as applicable.

(e) Exercise Limits. In determining compliance with Rules 1002 and 1002A, exercise limits for FLEX options shall be equivalent to position limits established in this Rule. Positions in FLEX options shall not be taken into account when calculating exercise limits for non-FLEX options, except as provided in paragraph (d) above. The minimum exercise size shall be the lesser of \$1 million underlying equivalent value for FLEX index

options, and 25 contracts for FLEX equity and currency options, or the remaining size of the position.

(f) FLEX equity and currency options shall be subject to the exercise-by-exception procedure of Rule 805 of The Options Clearing Corporation.

(g) Notwithstanding Rule 1079(a)(4) regarding FLEX Index, Equity and Currency Options minimum increments, open FLEX option positions are eligible to be closed in accordance with Rule 1059, Accommodation Transactions, at the minimum increments specified therein. The FLEX option cabinet order may be executed against contraside interest to close a FLEX option position or, to the extent permitted under Rule 1059(a)(iii), against contraside interest which opens a FLEX option position. Sections (a) and (b) of Rule 1079 shall not apply to FLEX option transactions executed pursuant to Rule 1079(g) and Rule 1059. Sections (c) - (g) of Rule 1079 shall apply to any FLEX option position opened pursuant to Rule 1059.

••• *Commentary:* -----

.01 Reserved.

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#### **Rule 1080. Electronic Acceptance of Quotes and Orders**

(a) **Entry and Display of Orders and Quotes.** Members may enter orders and quotes into the System as specified below.

(i) The Exchange offers members the following protocols for entering orders and quotes respectively:

(A) and (B) No change.

(C) **Options Floor Based Management System or ("FBMS")** is a component of the System designed to enable members and/or their employees to enter, route and report transactions stemming from options orders received on the Exchange. The FBMS also is designed to establish an electronic audit trail for options orders negotiated, represented and executed by members on the Exchange, to the extent permissible [under Rule 1000(f)]pursuant to Options 8, Section 22(a), such that the audit trail provides an accurate, time-sequenced record of electronic and other orders, quotations and transactions on the Exchange, beginning with the receipt of an order by the Exchange, and further documenting the life of the order through the process of execution, partial execution, or cancellation of that order. The features of FBMS are described in [Rules 1063(e)]Options 8, Sections 28(e) and 29 [1085]. In addition, a non-member or member may utilize an FBMS FIX interface to create and send an order into FBMS to be represented by a Floor Broker for execution.

(b) – (p) No change.

••• *Commentary:* -----

.01 - .05 No change.

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**[Rule 1085. Use of Floor Based Management System by Registered Options Traders and Specialists**

(a) *Options Floor Based Management System.* In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders negotiated by Registered Options Traders and Specialists on the Exchange's Options Floor, a Registered Options Trader, a Specialist, or their respective employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Registered Options Trader or Specialist onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Registered Options Trader or Specialist shall be recorded by such Registered Options Trader, Specialist, or their respective employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Registered Options Trader or Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, a Registered Options Trader or Specialist shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders, Specialists, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

*The Exchange anticipates that it will make FBMS available to Registered Options Traders and Specialists during the Second Quarter of 2018. To facilitate the transition to FBMS, the Exchange will not require Registered Options Traders or Specialists to utilize FBMS until one month after the date on which the Commission approves the Exchange's proposal. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when FBMS will be available for use by Registered Options Traders and Specialists. The alert will also contain the mandatory start date.*

(b) Pursuant to Rule 1000(f), Registered Options Traders and Specialists are not permitted to execute orders in the Exchange's options trading crowd (subject to certain

exceptions). In the event that Registered Options Traders or Specialists execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii), Registered Options Traders or Specialists shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders, Specialists, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(c) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(d) Execution. FBMS is designed to execute orders entered by Registered Options Traders or Specialists, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Registered Options Trader or Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options trader or Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced in an Options Trader Alert, after which it will be returned to the Registered Options Trader or Specialist on the FBMS. The Registered Options Trader or Specialist may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Registered Options Traders and Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

(e) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Registered Options Traders and Specialists as set forth in Rule 1069.

(f) Registered Options Traders, Specialists or their employees shall enter the required information (as described in paragraph (a) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Registered Options Traders, Specialists or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

*Commentary:* -----

.01 A Registered Options Trader or Specialist who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

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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 Rule 1210, 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 and Other Order-Entry Devices.**

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

**(e) Specialist Clerks.** 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.

(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 Rule 1210, 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.

(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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#### **Rule 1001A. Position Limits**

(a)- (f) No change.

••• *Commentary:* -----

#### **.01 Index Hedge Exemption.**

(a) – (f) No change.

**.02 Firm Facilitation Exemption**—A member organization may be exempt from established position limits for index 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) and (b) No change.

(c) *Facilitation Procedure:* compliance with the facilitation procedures of [Rule 1064(b)]Options 8, Section 30(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) – (e) No change.

**.03 - .04** No change.

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**Rule 1047A. Trading Rotations, Halts or Reopenings**

(a)– (e)

(f) **Index Options Trading after 4:00 P.M.:** With the prior approval of an Options Exchange Official, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. provided:

(i) Promptly after trading in underlying securities opens or re-opens, the trading rotation in any Exchange commences an opening or re-opening rotation in the corresponding options class pursuant to paragraphs (a), (b) or (d) above; or

[(ii) Such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor, and the rotation does not commence until five minutes after the notice is disseminated.]

(ii[i]) If prior to 4:00 P.M., a trading rotation is in progress and an Options Exchange Official, determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 P.M. Any trading rotation commenced after 4:00 P.M. must be approved by an Options Exchange Official.

(iii[v]) Index Options Trading after 4:15 P.M.—in applying this provision to broad-based index options, the relevant time is 4:15 P.M.

\* \* \* \* \*

**Rule 1015D. Accommodation Trading - Treasury Securities Options**

Accommodation trading under the applicable terms and conditions of [Rule 1059]Options 8, Section 33 shall be available in each series of Treasury securities option contracts open for trading on the Exchange. However, bids or offers for opening transactions at a price of \$1 per option contract may be executed only with closing transactions that cannot at that time in open outcry be executed with another closing transaction.

\* \* \* \* \*

**[Rule 1017D. Responsibilities of Floor Brokers - Treasury Securities Options**

A Floor Broker handling a contingency order for Treasury securities options that is dependent upon quotations or prices other than those originating on the floor shall be responsible for satisfying the dependency requirement on the basis of the most reliable information reasonably available to him concerning such quotations and prices but, in no event, shall be held to an execution of such an order. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such information is subsequently found to have been erroneous.]

\* \* \* \* \*

**[Rule 1260. Trading Floor Registration**

(a) Trading Floor Member Registration - Each Floor Broker, Specialist and Registered Options Trader on the Exchange trading floor must be registered as "Member Exchange" ("ME") under "PHLX" on Form U4. In addition, each Floor Broker, Specialist and Registered Options Trader must successfully complete the appropriate floor trading examination(s), if prescribed by the Exchange, in addition to requirements imposed by other Exchange Rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the trading status of any such member who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

(b) Non-member/Clerk Registration-All trading floor personnel, including clerks, interns, stock execution clerks and any other associated persons, of a member organization not required to register pursuant to Rule 1260(a) must be registered as "Floor Employee" ("FE") under "PHLX" on Form U4. Further, the Exchange may require successful completion of an examination, in addition to requirements imposed by other Exchange Rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the status of any such personnel of a member organization who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a member organization principal, officer, or member of the member organization with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

(c) Members whose activities are limited to the Exchange's options trading floor and who are registered pursuant to Rule 1260(a) as well as associated persons whose activities are limited to the Exchange's options trading floor and are registered pursuant to Rule 1260(b) are exempt from the representative registration requirements (but not the principal registration requirements, including any prerequisite representative registration requirement) of Rules 1210 and 1220.]

\* \* \* \* \*

**E[QUITY]quity [FLOOR PROCEDURE ADVICES]Minor Rule Violations**

\* \* \* \* \*

**[OPTION FLOOR PROCEDURE ADVICES AND ORDER & DECORUM REGULATIONS]Options Minor Rule Violations****A. SPECIALISTS****[A-1 Reserved]****A-2 Options Floor Based Management System**

*Options Floor Based Management System.* In order to create an electronic audit trail for options orders negotiated by Specialists on the Exchange's Options Floor, a Specialist or such Specialist's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Specialist onto the electronic Options Floor Based Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Specialist shall be recorded by such Specialist or such Specialist's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Rule 1000(f), Specialists are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Specialists execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii) (other than for the use of Snapshot, as set forth in Rule 1000(f)(ii)(E)), Specialists shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Specialists or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Specialists or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Specialists or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by Specialists, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the

time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Specialist on the FBMS. The Specialist may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

A Specialist is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **A-3 Requesting Market Quotations**

A Specialist may request an ROT in the crowd to state his current bid and offer (including size) for any series of options traded at the post. A Specialist may request that staff or an Options Exchange Official call for additional ROTs to enter the trading crowd.

FINE SCHEDULE

Fine not applicable]

### **A-[4] Specialist as ROT**

Specialists who are also ROTs shall not have their Specialist activity included in the calculation for required trading as an ROT.

FINE SCHEDULE

Fine not applicable

**[A-5 Reserved**

**A-6 Reserved**

**A-7 Reserved.****A-8 Reserved****A-9 All-or-None Option Orders**

An all-or-none option order is a limit order which is to be executed in its entirety, or not at all. Unlike a fill-or-kill order, an all-or-none order is not cancelled if it is not executed as soon as it is represented in the trading crowd. An all-or-none order has no standing respecting executions in the crowd except with respect to other all-or-none orders.

When represented in the crowd, all-or-none orders are not included as part of the bid or offer.

When entered electronically pursuant to Rule 1080 or into Options Floor Based Management System pursuant to Rule 1063 or 1085, an all-or-none order has standing and is eligible for execution in time priority with all other customer orders and all-or-none professional orders (as specified in Rule 1000(b)(14)) at that price if the all-or-none contingency can be met.

## FINE SCHEDULE

Fine not applicable

**A-10 Reserved****A-11 Reserved****A-12 Reserved**

Reserved.

**A-13 Reserved****A-14 Reserved**

Reserved.]

**B. REGISTERED OPTIONS TRADERS****[B-1 Responsibility to Make Markets**

An ROT shall not refuse a request by a Floor Broker, Specialist, or Options Exchange Official to make a two sided market for any option series trading in the same crowd at which such ROT is trading.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00



4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement
2. Quarterly requirement to trade 50% in assigned options	
1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

(b) For any calendar quarter, in addition to the requirements of paragraph (a) above, in order for an ROT (other than an RSQT or a Remote Specialist) to receive Specialist margin treatment for off-floor orders in accordance with Rule 1014, Commentary .01, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options. Violations of this trading requirement are subject to Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement review.

#### **B-4 ROTs Entering Orders from On-Floor and Off-Floor for Execution on the Exchange**

An ROT may not enter from off the floor opening orders for his market maker accounts, but may enter from off the floor or on the floor opening orders for his customer account. An ROT may enter from off the floor closing orders for either his market maker or customer account.

However, an ROT who has executed the greater of 1,000 contracts or 80% of his total contracts in a calendar quarter in person and 75% of his total contracts that quarter in assigned options may enter an opening transaction from off the floor for his market maker account if such transaction is for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. The off-floor orders for which an ROT receives Specialist margin treatment shall be subject to the obligations of Rule 1014(a) and an ROT is responsible for evidencing reliance of these provisions. Violations of this paragraph are subject to Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement review.

An ROT who enters an order from off the floor must advise the person receiving the order that it is an order for an ROT and must state whether the order is opening or

closing, for a customer or market maker account, or opening from off-floor pursuant to the previous paragraph.

While on the floor, an ROT may place opening orders for his market maker account with a Floor Broker or with a Specialist which may then be executed even if the ROT has left the floor prior to its execution.

An ROT may cancel from off the floor opening or closing orders for his market maker or customer accounts; but if he wishes to effect a change in the terms of an opening order (e.g., security, price, volume, series, class or contingencies) from off the floor such changed order must be executed in his customer account, except in accordance with the second paragraph of this Advice.

An ROT shall not give discretion to a Floor Broker and shall not give a Floor Broker "not held" orders. With respect to delta orders placed with a Floor Broker for the account of an ROT, such orders may only be placed as day orders and must have the applicable delta legibly recorded on both the broker's floor ticket and the ROT's record of the order.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **B-5 Agency-Principal Restrictions**

Except under extraordinary circumstances and with the prior approval of an Options Exchange Official, a member may not act as an ROT and as a Floor Broker during the same trading session in options on the same underlying security. A member has acted as a Floor Broker if he has accepted an order even though such order was not executed. However, an ROT may close out positions held in his customer account in options on the same underlying security while he is acting as an ROT in those options.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00

4th Occurrence and Sanction is discretionary with Phlx Regulation Department,  
Thereafter Department of Market Regulation, or Department of Enforcement

**B-6 Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)**

**Section A**

Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, index option and U.S. dollar-settled foreign currency option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (ii) below.

For the purposes of this Advice, "Initiating Order" means an incoming contra-side order.

- (i) Respecting transactions that are executed and allocated in open outcry by a participant other than the Specialist, "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Advice. The Remainder of the Order shall be allocated pursuant to this Advice.
- (ii) An Initiating Order executed manually by the Specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Section F of this Advice. "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (ii).

**Section B**

Orders of controlled accounts, other than ROTs and Specialists market making in-person, must be

- (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and
- (2) recorded as for a controlled account by making the appropriate notation in the Options Floor Based Management System.

In any instance where an order is misrepresented in this fashion due to factors which give rise to the concern that it was the result of anything other than an inadvertent error, the Exchange may determine to bypass the fine schedule below and refer the incident to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement for possible disciplinary proceedings in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

### **Section C**

The Enhanced Specialist Participation is a percentage of the Remainder of the Order to which the Specialist is entitled.

Enhanced Specialist Participation - In equity option, index option and U.S. dollar-settled foreign currency option classes, when the registered Specialist is on parity with a controlled account, as defined above, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the Specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances:

- (1) where there is one controlled account on parity, in which case the Specialist is entitled to receive 60% of the Remainder of the Order; or
- (2) where there are two controlled accounts on parity, in which case the Specialist is entitled to receive 40% of the Remainder of the Order.

### **Section D**

Reserved.

### **Section E**

Allocation of the Remainder of the Order Among Specialist and ROTs on Parity. After the application of this Advice to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in Rule 1014(g)(vi)) as follows:

- (A) *Entitlement.* ROTs and Specialists on parity are entitled to their Defined Participation (as described below), subject to: (1) any Waiver, as described below; and (2) rounding, as described below.
- (B) *Size.* The term "stated size" in respect of an order or electronic quotation shall mean:
  - (1) in the case of orders handled manually by the Specialist:

- (a)(i) if a crowd participant (including the Specialist) has actually stated a size ("Actual Size"), such crowd participant's stated size shall be his or her Actual Size;
  - (ii) if the Specialist, an SQT or RSQT is disseminating an electronic quotation at the Exchange's disseminated price in a particular series at the time of the execution of an Initiating Order in such series, such Specialist, SQT or RSQT's disseminated size at the Exchange's disseminated price shall be his or her Actual Size, and such Specialist, SQT and/or RSQT shall be deemed a "crowd participant" for purposes of this Advice;
- (b) unless the Specialist has an Actual Size, the stated size of the Specialist shall be the amount (if any) by which the disseminated size exceeds the sum of (x) the aggregate size of limit orders included in the disseminated size and (y) the aggregate sizes of all ROTs who have Actual Sizes;
- (c) the stated size of an ROT who does not have an Actual Size is zero.
- (2) in the case of floor brokered orders, each crowd participant's stated size shall be his or her Actual Size.
- (C) *Defined Participation.* Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:
- (1) in the case of a Specialist entitled to an Enhanced Specialist Participation, the Enhanced Specialist Participation, up to the Specialist's stated size, as set forth in C of this Advice, as applicable. The Specialist may decline to receive the Enhanced Specialist Participation, in which case the Specialist shall be entitled to participate as one crowd participant, up to the Specialist's stated size.
  - (2) except as provided in (1) above, the Defined Participation of the Specialist and ROTs on parity is determined as follows:
    - (a) where all participants have equal stated sizes, their Defined Participations shall be equal;
    - (b) where participants have unequal stated sizes, the Defined Participations shall equal their Base Participations (as defined below) plus their Supplemental Participations (as defined below):
      - (i) the "Base Participations" of all of the participants shall equal the stated size of the smallest participant; to the extent that there remains any excess to be allocated after all participants have been allocated their Base Participations, the smallest participant shall have no Supplemental Participation, and the

other participants shall have "Supplemental Participations" as determined under (ii) and (iii) below;

- (ii) if the remaining stated sizes (i.e., after taking into account Base Participations) of all participants having Supplemental Participations is equal, then their Supplemental Participations shall be equal; otherwise the initial Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated their initial Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have further "Supplemental Participations" as determined under (iii) below; and
- (iii) if the remaining stated sizes (i.e., after taking into account Base Participations and prior Supplemental Participations) of all participants having further Supplemental Participations is equal, then their further Supplemental Participations shall be equal; otherwise the next Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated the next Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have successive further Supplemental Participations determined in the same manner as provided in this clause (iii).

The process described in clause (iii) shall be followed to determine successive further Supplemental Participations until the sum of the Defined Participations equals the amount of the Remainder of the Order.

- (iv) (iv) (a) If the sum of the Base Participations pursuant to sub-paragraph (i) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Base Participations, subject to rounding.
- (b) If the sum of the Supplemental Participations pursuant to sub-paragraph (ii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Supplemental Participations, subject to rounding.
- (c) If the sum of the further Supplemental Participations pursuant to sub-paragraph (iii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive further Supplemental Participations, subject to rounding.

(3) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Advice. Notwithstanding the limitation set forth in sub-paragraph (C)(1) that limits the Specialist's entitlement to his/her stated size, for all contracts executed in excess of the disseminated size, the Specialist shall be entitled to receive the Enhanced Specialist Participation as set forth in Section C of this Advice, as applicable, but not to exceed the Specialist's Actual Size (if the specialist has an Actual Size) in such excess contracts.

(D) *Waiver.* (1) Any ROT (other than an RSQT) or Specialist may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an "Offer to Waive").

(a) Any Offer to Waive shall be made by stating it in a loud and audible voice to the other members of the trading crowd and the Allocating Participant.

(b) If the Allocating Participant has determined that the other crowd participant(s) then on parity is willing to take the number of contracts that are subject to the Offer to Waive, the Allocating Participant may (but shall not be required to), accept such Offer to Waive by (i) allocating the Remainder of the Order in accordance with this Advice, taking into account the Offer to Waive; or (ii) otherwise indicating, following the execution of the Remainder of the Order, that such Offer to Waive will be accepted (in which case, it shall be referred to as a "Waiver"). No Offer to Waive shall be an effective Waiver until the Allocating Participant has allocated the order or otherwise indicated that it is accepted.

(c) (i) In the case of an option which is not subject to an Enhanced Specialist Participation, as set forth in Section C of this Advice, if the Specialist or an ROT effects a Waiver in the manner provided above, the number of contracts to which such Specialist or ROT is entitled under this Advice shall be reduced by the number of contracts waived, and the entitlements of the other participants on parity shall be determined by redistributing the waived number of contracts to willing participants (including the Specialist) in accordance with this Advice.

(ii) In the case of an option which is subject to an Enhanced Specialist Participation, as set forth in Section C of this Advice, and one or more ROTs effect Waivers of their entire entitlements ("Total Waivers"), the number of ROTs with whom the Specialist is deemed to be on parity for purposes of determining the Enhanced Specialist Participation shall be reduced by the number of ROTs effecting Total Waivers and the following additional Rules shall apply:

(A) in the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with three or more ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the

Specialist shall be that which the Specialist would be entitled to receive under this Advice, as if the Specialist had been on parity with three ROTs.

(B) in the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with two ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Advice as if the Specialist had been on parity with two ROTs.

(C) In the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with one ROT, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Advice as if the Specialist had been on parity with one ROT. In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Waiver(s).

(iii) Partial Waiver. In the case of an option which is subject to an Enhanced Specialist Participation, in the event that one or more ROTs effect a Waiver of a portion of their respective entitlements, but not a Total Waiver, in the manner provided above (a "Partial Waiver"), the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the Specialist shall not be entitled to receive a number of contracts that is greater than 40% of the Remainder of the Order except in the situation referred to in the following sentence, unless all remaining crowd participants on parity have waived their entitlements or have been satisfied. In the case of the Specialist being on parity with only one ROT, the Specialist shall not be entitled to receive a number of contracts that is greater than 60% of the Remainder of the Order unless all remaining crowd participants on parity have waived their entitlements or have been satisfied.

In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Partial Waiver(s).

(iv) In no event shall two or more crowd participants enter into any agreement regarding the number of contracts to be waived by any crowd participant (i.e., subject to the provisions of sub-paragraph (D)(1)(b) above, any decision by a crowd participant to waive all or a portion of such crowd participant's entitlement must be an individual decision, and not the subject of an agreement among crowd participants).

(E) Rounding. In situations where the allocation of contracts pursuant to this Rule result in fractional amounts of contracts to be allocated to crowd participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.

(F) Just and Equitable Principles of Trade. (1) It shall be considered conduct inconsistent with just and equitable principles of trade for a member:

(a) to allocate initiating orders other than in accordance with this Advice;

(b) to enter into any agreement with another member concerning allocation of trades; or (c) to harass, intimidate or coerce any member to enter into any Waiver, or to make or refrain from making any complaint or appeal.

(2) A pattern or practice of waiving all or a portion of a crowd participant's entitlement, with the result that such crowd participant receives no allocation or a lesser allocation than he or she would otherwise have been entitled to, may be considered conduct inconsistent with just and equitable principles of trade.

(G) Notwithstanding the first sentence of this Advice, neither Rule 119(b) and (c) concerning precedence based on the size of bids on parity, nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of orders covered by this Advice.

## Section F

*Allocation of Automatically Executed Trades.* After public customer market and marketable limit orders have been executed, trades automatically executed in such options shall be allocated among the Specialist and crowd participants with orders or quotations at the Exchange's disseminated price in the following manner:

(i) If the Specialist or any crowd participant is quoting alone at the disseminated price and their quote is not matched by another market participant prior to execution, such Specialist or crowd participant shall be entitled to receive a number of contracts up to the size associated with his/her quotation.

(ii) *Parity.* Quotations entered electronically by the Specialist or an SQT that do not cause an order resting on the limit order book to become due for execution may be matched at any time by quotations entered electronically by the Specialist and/or other SQTs, and by ROT limit orders entered and shall be deemed to be on parity, subject to the requirement that orders of controlled accounts must yield priority to customer orders as set forth in Rule 1014(g)(i)(A).

(A) if the Specialist is quoting at the Exchange's disseminated price:

(1) orders for 5 contracts or fewer shall be allocated first to the Specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what

- percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the 5 contract or fewer order preference set forth in this subparagraph (ii)(A)(1), the Specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.
- (2) Respecting orders for greater than 5 contracts, the Specialist shall be entitled to receive a number of contracts that is the greater of: (i) the proportion of the aggregate size associated with the Specialist's quote, SQT quotes, and non-SQT ROT limit orders entered on the book at the disseminated price represented by the size of the Specialist's quote, or (ii) 60% of the contracts to be allocated if the Specialist is on parity with one SQT or one non-SQT ROT that has placed a limit order on the book at the Exchange's disseminated price; (iii) 40% of the contracts to be allocated if the Specialist is on parity with two SQTs or non-SQT ROTs that have placed a limit order on the book at the Exchange's disseminated price; and (iv) 30% of the contracts to be allocated if the Specialist is on parity with three or more SQTs or non-SQT ROTs that have placed a limit order on the book at the Exchange's disseminated price. In order to be entitled to receive the number of contracts set forth in this subparagraph (ii)(A)(2), the Specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.
- (3) Thereafter, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book at the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the total remaining aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book. Such SQT(s) and non-SQT ROTs shall not be entitled to receive a number of contracts that is greater than the size associated with their quotation or limit order.
- (4) If any contracts remain to be allocated after the Specialist, SQTs and non-SQT ROTs with limit orders on the limit order book have received their respective allocations, off-floor broker-dealers (as defined in Rule 1080(b)(i)(C)) that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the aggregate size associated with off-floor broker-dealer limit orders on the limit order book at the disseminated price represented by the size of the limit order they have placed on the limit order book. Such off-floor broker-dealers shall not be entitled to receive a number of contracts that is greater than the size that is associated with each such limit order.

(B) If the Specialist is not quoting at the Exchange's disseminated price, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts equal to the proportion of the aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book. Thereafter, off-floor broker-dealers that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts as specified in paragraph (ii)(A)(4) above.

(iii) Notwithstanding the first sentence of Rule 1014(g)(i), neither Rule 119(a)-(d) and (f), nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of automatically executed trades.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

Section No fine applicable. Matters subject for review by the Phlx Regulation  
A Department, Department of Market Regulation, or Department of Enforcement.

Section 1st Occurrence \$500.00  
B

2nd Occurrence \$1,000.00

3rd Occurrence \$2,000.00

4th Occurrence and thereafter Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

Section Fine not applicable  
C

Section Fine not applicable  
D

Section Fine not applicable  
E

**B-7 Options Floor Based Management System**

*Options Floor Based Management System.* In order to create an electronic audit trail for options orders negotiated by Registered Options Traders on the Exchange's Options Floor, a Registered Options Trader or such Registered Options Trader's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders

negotiated by such Registered Options Trader onto the electronic Options Floor Based Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Registered Options Trader shall be recorded by such Registered Options Trader or such Registered Options Trader's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Registered Options Trader must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Rule 1000(f), Registered Options Traders are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Registered Options Traders execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii) (other than for the use of Snapshot, as set forth in Rule 1000(f)(ii)(E)), Registered Options Traders shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Registered Options Traders or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Registered Options Traders or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by Registered Options Traders, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Registered Options Trader submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options Trader in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Registered Options Trader on the FBMS. The Registered Options Trader may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn.

Registered Options Traders are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

A Registered Options Trader is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **B-8 Use of Floor Brokers by an ROT While on the Floor**

(a) When an ROT who is on the floor gives an order to a Floor Broker for execution, the ROT must initial and time stamp the order ticket. The Floor Broker or his employees must indicate on the Options Floor Based Management System whether such order is opening or closing.

(b) If such order opens or increases a position in the account of an ROT, the ROT must be aware of the terms of the trade, initial and time stamp the order and retain a copy of the ticket.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **B-9 Use of Tickets**

When an issue of parity arises among yielding and non-yielding orders, unless the field which reads "closing" on an options ticket is checked, the order for an ROT shall be presumed to be an opening order.

## FINE SCHEDULE

Fine not applicable

**B-10 Responsibility for Mismatched or "Out" Trades**

In order for an ROT to be held responsible on mismatches or other "out" trades of listed options, the ROT must have been informed of the problem before 9:30 A.M. on the business day following the transaction in question.

## FINE SCHEDULE

Fine not applicable

**B-11 Reserved****B-12 ROTs and Specialists Entering Orders for Execution on Other Exchanges in Multiply Traded Options**

(a) A ROT or Specialist may not for the Market Functions Account send an opening order to buy or sell options on any other exchange unless such ROT or Specialist is registered in that specific option on the Exchange.

(b) Each opening order sent for execution on another market for the market maker account of a ROT or Specialist must be initiated from on the Exchange floor, except if executed pursuant to Commentary .01 of Rule 1014 and the corresponding provisions in Advice B-4 respecting off-floor orders. In initiating any such order, the ROT or Specialist, or Floor Broker, in the case of orders initiated from off-floor, is required to clear the crowd on the Exchange when the bid or offer of the order is on or between the Exchange disseminated market. Clearing the crowd on the Exchange requires that the order be loudly and audibly voiced in the crowd and, if not then executed, the order may be sent away.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence of Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**C. FLOOR BROKERS****C-1 Ascertaining the Presence of Registered Options Traders in a Trading Crowd**

A Floor Broker representing an order in options shall ascertain that at least one Registered Options Trader is present in the trading crowd at the post where such order is traded. This Floor Procedure Advice C-1 shall not apply to a Floor Broker in any foreign currency option if no Registered Options Trader registered in such foreign currency option is present on the Exchange's trading floor at that time.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **C-2 Options Floor Based Management System**

Options Floor Based Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Based Management System (as described in Rule 1080, Commentary .06). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional, market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Rule 1066; (v) number of contracts; (vi) limit price or market order or, in the case of a complex or multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order.

Pursuant to Rule 1000(f), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Floor Brokers execute orders in the Exchange's options trading crowd pursuant to Rule 1000(f)(ii) (other than for the use of Snapshot, as set forth in Rule 1000(f)(ii)(E)), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading

floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall either enter the required information that is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit trail. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Floor Brokers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is also designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, 1033 and 1084.

A Floor Broker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

#### FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

*The Exchange anticipates that it will implement the Snapshot feature referenced herein and described further in Rule 1063(e) during the Fourth Quarter of 2017. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when Snapshot will be available for use.*

### **C-3 Handling Orders of ROTs and Other Registered Options Market Makers**

(a) A Floor Broker must announce to the trading crowd when he is handling an order for a ROT and must state whether such order is opening or closing. In addition, in handling such orders the Floor Broker must comply with Commentaries .10, .11 and .13 of Rule 1014.

(b) Upon receipt of an options order on the Exchange for any account of a person registered as an options market maker on another national securities exchange, the Floor Broker or his employees must so indicate on the Options Floor Based Management System and must ensure that the order is represented in the trading crowd as a "BD" order for the purposes of the Exchange's yielding requirements. A Floor Broker must make reasonable efforts to inquire which orders placed with him for execution on the Exchange qualify as such orders.

(c) Before handling an opening transaction on behalf of a ROT, the Floor Broker or his employees must ascertain that the ROT is aware of the terms of the trade and assure that the floor ticket has been initialed and time-stamped by the ROT and that the order is appropriately entered on the Options Floor Based Management System. The Floor Broker must note on the Options Floor Based Management System any opening off-floor order to be cleared into an Exchange market maker account, as indicated by a ROT seeking market maker margin treatment for such order pursuant to Rule 1014, Commentary .01 and Advice B-4, and comply with the requirements of Advice B-12 respecting multiply traded options.

(d) A Floor Broker may not exercise any discretion with respect to the order of a ROT or any order for the account of an options market maker registered on another exchange.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **C-4 Floor Brokers Handling Orders for Same Firm**

A Floor Broker may not accept opening or discretionary orders for an ROT who is associated with the same member organization as such Floor Broker or who is associated with another member organization which is pursuant to Exchange Rule 793 affiliated with the same member organization as such Floor Broker.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **C-5 ROTs Acting as Floor Brokers**

Whenever an order is handled as agent by a Floor Broker who is also an ROT, the Floor Broker must advise at the time a market is sought from the crowd for the order that he is acting as a Floor Broker. Bids or offers made in person by an ROT will be assumed to be for his account unless otherwise specified.

An exemption to the above exists in the instance where a Floor Broker is representing an order in an issue in which the broker has previously that day represented himself as an agent, provided that the Floor Broker obtain the prior approval of an Options Exchange Official. In such cases, a Floor Broker is not required to further advise the crowd of his role as agent in that issue for the remainder of that day.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **C-7 Responsibility to Represent Orders to the Trading Crowd**

(a) Except as otherwise provided in Options Floor Procedure Advice B-11(c) and Exchange Rule 1064(c), once an option order has been received on the floor, it must be represented to the trading crowd before it may be represented away from the crowd.

(b) A Floor Broker must be loud and audible when representing a market and/or representing an order in the trading crowd. A Floor Broker must make reasonable efforts to position himself in the trading crowd to be heard by the majority of the trading crowd.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a) Fine not applicable. Matters subject for review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

(b)

1st Occurrence      \$500.00

2nd Occurrence      \$1,000.00

3rd Occurrence      \$2,000.00

4th Occurrence and Thereafter      Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **C-8 Reserved**

#### **C-9 Floor Brokers and Clerks Trading in their Customer Accounts**

All persons employed on the trading floor in association with a member organization, other than ROTs and Specialists, are prohibited from initiating trades in Exchange options in their customer accounts while on the floor. A member organization which accepts an order for the customer account of such a person must process the order through the channels it normally provides for its other customer orders. When any such order is received by the member organization and delivered to the floor for execution, it may not be handled by any person with a beneficial interest in the account, or by any associated person with knowledge that the order is for the account of an associate. Once such a person has placed an order for his/her customer account in an option, that person is prohibited from brokering orders in that option for the remainder of that day or until such order has been executed or cancelled whichever is later. This provision shall not apply to any transaction permissible under Section 11(a) (1) of the Securities Exchange Act of 1934.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

Matters subject to review by Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

#### **D. Reserved**

#### **E. STAFFING**

**E-1 Required Staffing of Options Floor**

Every Options Specialist Unit, Floor Brokerage Unit, Clearing Firm, Floor Broker and ROT must have a representative available on the floor (except that a Remote Specialist must have a representative available via telephonic and/or electronic communication access) for the thirty minutes before the opening and the thirty minutes after the close of trading and one hour after the preliminary trade reports are distributed. Such representatives must be authorized to make appropriate changes and corrections to trades of or guaranteed by such Specialist Unit, Floor Brokerage Unit, Clearing Firm, Floor Broker and ROT. Additionally, on expiration such representatives must be available on the floor until the Exchange has announced the last call for adjustments in expiring options.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence        \$500.00

2nd Occurrence        \$1,000.00

3rd Occurrence        \$2,000.00

4th Occurrence and Thereafter        Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement]

**F. MISCELLANEOUS****[F-1 Use of Identification Letters and Numbers**

All Specialists, ROTs, and Floor Brokers must use the complete alpha/numeric identification assigned by the Exchange. All Floor Brokers or their employees must indicate their complete alpha/numeric identifiers on the Options Floor Based Management System for each order they receive and represent in the trading crowd.

Fine not applicable.

**F-2 Allocation, Time Stamping, Matching and Access to Matched Trades**

(a) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System. Trades executed electronically via the XL System and through the Options Floor Based Management System are automatically trade reported without further action required by executing parties:

(i) in a trade involving a Floor Broker, the Floor Broker shall do so, provided that a Floor Broker may delegate this responsibility to the Specialist (or an assistant to the Specialist

under the Specialist's direct supervision) if the Specialist agrees to accept such responsibility, and, in the event of such delegation, the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so:

(ii) in all other cases where the Specialist is a participant (i.e., where there is no Floor Broker), the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so.

(iii) in any other case (i.e., where there is no Floor Broker and no Specialist is involved), the largest participant shall do so (for example, where several Registered Options Traders are involved):

and

(iv) if there is only one seller and one buyer (no Floor Broker and no Specialist is involved), the seller shall do so (for example, where only two Registered Options Traders are involved).

The person responsible for trade allocation (the "Allocation Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself/ by initialing the trade tickets. In the case of a trade, executed using the Floor Based Management System, such member shall allocate the trade using the Options Floor Based Management System.

(b) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape. Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(c) Execution times must be recorded on the reverse side of one or more of the tickets to a matched trade.

(d) Once a trade has been matched and submitted to a DET located on the trading floor for reporting, the respective parties to the trade must preserve the matched tickets, or copies thereof, for a period of not less than three years.

(e) Member access to tickets comprising a matched trade is available to any participant of that trade, as well as the respective Specialist and any Options Exchange Official acting in his capacity as an Options Exchange Official. Requests to review trade matches must be made with the Specialist Unit.

FINE SCHEDULE (Implemented on a three-year running calendar basis).

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

## F-2 (b)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,500.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-3 Reserved****F-4 Orders Executed as Spreads, Straddles, Combinations or Synthetics and Other Order Ticket Marking Requirements**

(a) Sp, St, Comb, Syn - Members executing spread, straddle or combination orders in reliance upon the "spread priority rule," Rule 1033(d), or synthetic option (buy-write, synthetic put and synthetic call) orders, must mark the tickets as "sp" for spreads, "st" for straddles, "comb" for combinations and "syn" for synthetics. Members or their employees must make the appropriate notation on the Options Floor Based Management System.

(b) Additional Marking Requirements - The following is a list of requirements to mark order tickets or, in the case of trades involving the Options Floor Based Management System to make the appropriate notations on the Options Floor Based Management System, including a description and reference to the Rule or Advice requiring such mark or notation:

Circling "yield"	yielding/11(a) (1)	Advice B-6
acronym	identification letter/#s	Advice F-1
ROT initial/time stamp	on-floor brokered orders	Advice B-8, C-3
SS	sold sale	Advice F-3

F	facilitation	Advice B-11
BD	non-member BD	Advice A-11
B/X	bid-exempt	Rule 1072
N	non-Phlx ROTs	Advice C-3
P	off-floor/market maker margin	Rule 1014, Comm. .01
P/A	principal acting as agent	Rule 1015

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-5 Changes or Corrections to Material Terms of a Matched Trade**

(a) All correction sheet submissions which change material terms of a transaction (security, price, volume, series, class and customer to Firm participations) must be signed by all parties to the transaction and by a representative of the Specialist Unit. Also if one of the parties to the transaction is not present at a time such matter is being resolved, a signature by Regulatory staff is required to acknowledge the contra-side's absence. The Regulatory signature in any such case does not relieve any party to the trade of liability in connection with the change.

(b) Any person signing a correction sheet shall use due diligence to confirm the correction before signing the correction sheet, including checking the appropriate floor tickets or computerized report ("run") in any case where a sizeable error may result in the absence of appropriate corrective action.

Generally, a sizeable error with respect to equity options and index options exceeds \$1,000 and, with respect to foreign currency options, exceeds \$3,000. However, the circumstances surrounding each correction must be considered and these amounts are guidelines only.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement]

### **F-[6]1 Option Quote Parameters**

When bidding and/or offering in equity option or index option issues, the following parameters should be utilized [(i)] on the opening;[ and (ii) after the opening for those quoting verbally:]

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

After the opening, options trading on Phlx XL II may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening). [Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above. ]

The bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment.

### **Foreign Currency Options**

When bidding and/or offering in U.S. dollar-settled foreign currency option issues, the following parameters should be utilized [(i)] on the opening; [and (ii) after the opening for those quoting verbally (in open outcry):]

<i>Current Option Bid</i>	<i>Maximum Quote Spread</i>
Less than \$2.00	.25
\$2.00 to less than \$5.00	.40
\$5.00 to less than \$10.00	.50
\$10.00 to less than \$20.00	.80
\$20.00 and greater	1

After the opening, options trading on Phlx XL II may be quoted electronically with a difference not to exceed \$5 between the bid and offer regardless of the price of the bid. The \$5 bid/ask differentials only apply following the opening rotation in each security (i.e., the bid/ask differentials specified above shall apply during the opening).[ Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above. ]

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro options and long-term foreign currency options.

#### Relief

Relief from the established bid/ask differentials may be granted upon the receipt of an approval of an Options Exchange Official.

#### Batching

The Exchange may aggregate individual violations and treat such violations as a single offense.

#### FINE SCHEDULE (Implemented on a one-year running calendar basis)

1st Occurrence	Warning letter
2nd Occurrence	Warning letter
3rd Occurrence	Warning letter
4th Occurrence	\$250.00
5th Occurrence	\$500.00

6th Occurrence           \$1,000.00

7th Occurrence and   Sanction is discretionary with Phlx Regulation Department,  
Thereafter             Department of Market Regulation, or Department of Enforcement

**[F-7 Reserved]**

**F-[8]2 Failure to Comply with an Exchange Inquiry**

Each member, member organization or associated person is required to promptly comply with any request of information made by the Exchange in connection with any regulatory inquiry, investigation or examination relating to the Exchange's disciplinary jurisdiction or regulatory obligations.

For the purposes of this Advice, information received within ten (10) business days from the date of the original request shall be deemed to meet the requirement of prompt compliance, except, for purposes of Exchange requests, information received within two business days from the date of the original request shall be deemed to meet the requirement of prompt compliance.

The Exchange may under extenuating circumstances grant extensions to allow for responses beyond the allotted requirement. Requests for extensions must be submitted in writing to the appropriate department, prior to the due date of the outstanding request. Each additional request for information not furnished within the allotted time periods may be considered a separate occurrence for purposes of the fine schedule below.

**FINE SCHEDULE (Implemented on a three-year running calendar basis)**

1st Occurrence           \$500.00

2nd Occurrence         \$1,000.00

3rd Occurrence         \$2,000.00

4th Occurrence and   Sanction is discretionary with Phlx Regulation Department,  
Thereafter             Department of Market Regulation, or Department of Enforcement

[Whenever the Exchange staff requests that a floor broker identify clients with respect to an order, regardless of whether that order has been executed or not, the floor broker must immediately provide the Exchange with sufficient information to reveal the identity of the floor broker's clients. If the floor broker fails to comply immediately with such request, the fines in the schedule above apply.]

**F-[9]3 Affiliations**

(i) Affiliations must be filed in writing with the Exchange's Membership Department as provided by Exchange Rule 908.

[(ii) Additionally, floor members shall adhere to the following requirements:

- (a) Pursuant to Rule 1020, an ROT is prohibited from receiving communications about trading interests or orders from an affiliated Floor Broker's customers prior to the respective trading crowd receiving the same information. In this regard, the ROT is prohibited from answering telephones at the affiliate's post, except that he may access a telephone at the post to communicate with associates of his Registered Options Trading Firm.
- (b) Any exchange of interests to trade between an ROT or his Firm and an affiliated Floor Broker Firm will require that the same information be provided to the respective trading crowd and shall also require that the crowd be advised that the order is presented for execution under Rule 1064(c) - Solicited Orders.]

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **F-[10]4 Unusual Market Conditions**

In the interest of maintaining a fair and orderly market under unusual market conditions for one or more classes of options, an Options Exchange Official may determine that the level of trading activities or the existence of unusual market conditions is such that the Exchange is incapable of collecting, processing, and making available to quotation vendors the data for a subject security required to be made available pursuant to the SEC Quote rule in a manner that accurately reflects the current market on the Exchange. The Exchange shall immediately notify all specified persons of such a determination. Regular trading procedures shall be resumed when an Options Exchange Official determines that the conditions supporting that declaration no longer exist.

FINE SCHEDULE

Fine not applicable

#### **[F-11 Splitting Orders**

ROTs of the same Firm, affiliated or financially affiliated ROTs, when bidding or offering at the same price for the same option, are to be treated as one interest for purpose of splitting an order in the trading crowd.

For the purposes of this Advice, affiliated ROT's are ROTs required to report such affiliations pursuant to Rule 908 and financially affiliated ROT's are ROT's required to report financial arrangements pursuant to Rule 783.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-12 Responsibility for Assigning Participation**

a) In each instance where a member effects a transaction on the options or foreign currency options floor, he must make reasonable efforts to ensure that a meeting of the minds occurred with the contra-side as to confirming the contra-side's participation in the trade. In trades where more than one contra-side is involved, each contra-side must immediately make known to the largest participant his understanding as to his respective level of participation in the trade.

b) No such contra-side who has participated in the trade shall leave the crowd until the level of his participation in the trade has been confirmed by the largest participant.

c) No person in the crowd shall submit a ticket for matching on a trade when that person is not due participation in the trade.

d) Disputes as to participation on a trade shall be resolved by a majority vote of those persons present in the crowd during the relevant time or, if not so settled, then by an Options Exchange Official.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement]

**F-[13]5 Supervisory Procedures Relating to ITSFEA**

(a) Member organizations must maintain written supervisory procedures as required by the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA). Such procedures must be reasonably designed to prevent the misuse of material, non-public information by employees.

(b) In addition to the requirements under ITSFEA, the Exchange herein institutes basic minimum standards for incorporation into ITSFEA-related written supervisory procedures for all member organizations. The requirements enumerated below must be included and, together with all related additional written supervisory procedures maintained in accordance with paragraph (a) above, must receive approval by the Exchange. These requirements are not intended to supersede, or be presumed to fulfill, the requirements of ITSFEA. These requirements are instead set forth as separate requirements of the Exchange.

In the instance where a member organization is subject to written supervisory procedures relating to ITSFEA, imposed by another self regulatory organization which is its designated examining authority ("DEA"), the Exchange requirements set forth in paragraph (b) of this Advice will not apply.

1.) Each new employee of the organization shall be furnished with a copy of the most current version of the Exchange's "Notice of Insider Trading" (Notice), or a document substantially similar to the Notice approved by the DEA for use in this connection. Within ten business days from the first date of employment with the Unit, each new employee must sign and return the Notice to the employer. By his signature on the Notice, the employee attests to having carefully read the Notice and agrees to appropriately supply the employer Firm with all trading accounts for which such person maintains a beneficial interest, including all personal and household accounts of the employee. Also, by his signature on the Notice, each new employee ensures that delivery of all related account statements will be made directly from the Firm(s) maintaining the account to the employer.

2.) Each Unit must complete the Exchange's "ITSFEA Accounts List," comprising all accounts submitted in connection with paragraph (1) above and all proprietary accounts of the Unit. Updates to the list must be made within one month of any change and each completed version of the list must be maintained for no less than three years by the Unit.

3.) Each month a supervisory person of the Unit is required to make a reasonable review of all activities from the account statements of those accounts reflected on the ITSFEA Accounts List with a view toward identifying the possible misuse of material non-public information. A report must be made promptly to the Exchange's Regulatory staff in the event that any such unusual profits are so identified.

Failure to properly maintain the ITSFEA Accounts List, or to conduct related reviews required by this Advice, may result in the issuance of fines in accordance with the schedule below.

## FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence        \$500.00

2nd Occurrence       \$1,000.00

3rd Occurrence       \$2,000.00

4th Occurrence and Thereafter    Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**[F-14 Executing Multi-leg and Synthetic Option Orders**

A multi-leg order (i.e. spread type order) as defined in Exchange Rule 1066(f) may be executed as a single transaction at a single credit or debit in accordance with Exchange Rule 1033(d) and the requirements below:

a) Bids (offers) for the total hedge order must be solicited from the crowd on the basis of a total credit or debit.

b) In the case of an "options-only hedge order" (spread, straddle, and combination orders), the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

(i) no option leg is executed outside of the established bid/offer for that option contract; and

(ii) at least one option leg is executed at a price better than the established bid/offer for that option contract.

c) In the case of conversions and reversals, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

(i) no option leg is executed outside of the established bid/offer for that option contract;

(ii) at least one option leg is executed at a price better than the established bid/offer for that option contract.

d) In the case of a synthetic option order, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established market for the individual legs (on a buy-on-the-offer and sell-on-the-bid basis), provided that the option leg is executed at a price better than the established bid/offer for that option contract.

Once the credit or debit execution price to a multi-leg option order is agreed upon, the stock portion of the order, if any, must be effected at or near the same time as the execution of the option portion.

#### FINE SCHEDULE

Fine not applicable.]

#### **F-[15]6 Minor Infractions of Position/Exercise Limits and Hedge Exemptions**

(a) Minor violations of the Exchange's position and exercise limits (Exchange Rule 1001 - Position Limits, Exchange Rule 1002 - Exercise Limits, Exchange Rule 1001A - Position Limits, and Exchange Rule 1002A - Exercise Limits) which do not exceed such limits by more than 5% may result in the issuance of a fine in accordance with section (a) of the fine schedule below.

In addition, when a position limit exemption for a specific period has lapsed without the position either being brought into compliance or a new exemption granted, a fine in accordance with section (a) of the fine schedule below may be issued.

Other violations of the position and exercise limit are subject to review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

(b) Automatic hedge exemptions are available for stock option positions. Specifically, each option of a stock option position hedged by 100 shares of stock or securities convertible into such stock, is exempted from having to be included in the aggregation count for the purposes of the position and exercise limits. The exemption is limited, however, to an amount of option contracts no greater than twice the standard limit of the respective option. Permissible hedges are provided below:

long stock, short call

long stock, long put

short stock, long call

short stock, short put

(i) When utilizing a hedge exemption, a report of the position must be received by the Exchange's Regulatory staff in a manner prescribed by the Exchange no later than the close of business following the day the exemption is availed upon. Failure to provide the Exchange with a hedge exemption form as required may result in the issuance of a fine in accordance with section (b)(i) of the fine schedule below.

(ii) Hedge exemptions apply for only as long as the hedge is maintained. In any instance where the stock side to a hedge exemption is decreased, the appropriate number of options must be liquidated prior to or simultaneous with the corresponding decrease in any stock position utilized to provide an automatic option hedge exemption. Failure to appropriately reduce the respective option position following such a decrease in the stock position such that the position limit does not exceed the limit by more than 5% may result in the issuance of a fine in accordance with section (b)(ii) of the fine schedule below. Instances where the resulting position exceeds established limits by more than 5% are subject to review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

(b)

(i)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

(ii)

1st Occurrence	\$500.00
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2nd Occurrence      \$1,000.00

3rd Occurrence      \$2,000.00

4th Occurrence and Thereafter      Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **[F-16 Two-Way, Three Way and Multi-Spread Transactions (FOREIGN CURRENCY OPTION ONLY)]**

Execution of spread type orders (spread, straddle and combination orders, as defined in Rule 1066(f) in foreign currency options must be effected in accordance with the provisions of Exchange Rule 1033(d), which requires that a foreign currency options participant holding a spread type order must first determine that the order is best served by bidding or offering on the basis of a total credit or debit before executing the order as a single transaction. Rule 1033(d) also requires the participant to ensure that at least one leg of the order is executed at a better price than the established bid/offer for that option and that no leg is executed at a price outside of the established bid/offer for that option.

Exchange Rule 1033(g) governing ration spread type orders in foreign currency options permits the size of the respective legs of such orders to be either equal in size or related by a permissible ratio (two-to-one, three-to-one, and three-to-two). In addition, spread type orders may be comprised of two or more legs, as described below:

#### **Two-Way Transaction**

(a) A two-way transaction is comprised of two legs, which can be either equal in size or differ by a permissible ratio (two-to-one, three-to-one, and three-to two), forming one spread type. See Rule 1033(d).

#### **Three-Way Transaction**

(b) A three-way transaction is comprised of three legs forming one spread type where (1) the order sizes of each of the three legs are equal to each other, or (2) the combined order size of any two legs on the same side of the market is either equal to the order size of the third leg or differs from the order size of the third leg by a permissible ratio (two-to-one, three-to-one, and three-to-two). See Rule 1033(f).

#### **Multi-Spread Transaction**

(c) A multi-spread transaction, as defined in Commentary .02 of Rule 1066, combines two of the same spread type orders for execution at a total net credit or debit, such as: a two-way order with another two-way order of the same spread type; a three-way order with another three-way order of the same spread type; or a two-way order with a three-way order of the same spread type. In addition, a multi-spread transaction may combine a

spread type order with a ratio spread type order of the same spread type. In combining spread type orders to create a multi-spread transaction, each individual spread must meet the execution requirements of Rule 1033(h): at least one leg of each spread must be executed at a price better than the established bid/offer for that option and no leg of any spread may be executed at a price outside of the established market for that option.

#### FINE SCHEDULE

Fine not applicable.

#### **F-17 Reserved**

#### **F-18 Reserved]**

#### **F-[19]7 Clearing Agents' Responsibility for Carrying Positions in Market Maker Accounts**

A member organization of this Exchange which is also a clearing member of OCC carrying accounts for Specialists and ROTs/market makers is required to take reasonable steps to ensure that only those positions in Exchange listed options which are eligible for exempt credit treatment are carried in the market functions account. Any transaction on another Exchange in an option that is also listed on the Exchange is covered by this Advice. Reasonable steps include the adoption and implementation of procedures designed to detect any pattern of activity in contravention of this Advice.

#### FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **[F-20 Reserved**

#### **F-21 Reserved**

#### **F-22 Intra-Day Addition of Strike Prices**

The Exchange may, under appropriate circumstances, list and make available for trading on an intra-day basis one or more option series with new strike prices.

For the purposes of this Advice, appropriate circumstances may include instances where:

(1) bona fide off floor customer interest is expressed to effect a sizable transaction at a strike price at or within 5 points of the price of the underlying instrument, or within a comparable amount of ticks respecting foreign currency options; or

(2) an operational error in not adding a requested exercise strike price has occurred. Customer interest includes institutional (Firm), corporate or customer interest expressed directly to the Exchange or through the customer's Floor Brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account. Only strike prices which are consistent with the provision in Rules 1012 and 1101A imposing a "reasonably related" standard for listing additional strike prices may be added intra-day pursuant to this Advice.

In each instance where such approval has been granted, prior written disclosure of each strike price to be added shall be disseminated to the trading floor and electronically to the options members. No trading may occur in any such series until such dissemination has taken place.

New series of equity options, options on Exchange Traded Fund Shares and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in Commentary .10 to Rule 1012 ]

#### FINE SCHEDULE

Fine not applicable

#### **[F-23 Clerks in the Crowd**

Clerks, other than Specialist clerks, are prohibited from a sustained presence in the trading crowd. In addition, clerks are prohibited from requesting market quotations from a Specialist or ROT, except that a Specialist clerk, under the supervision of a Specialist, may request the crowd's market in order to update disseminated markets or ascertain parity/priority splits in relation to the execution of an order. For purposes of this Advice, a clerk is any associated person not registered or eligible to effect transactions on the floor as a Specialist, ROT or Floor Broker, including member organizations whose membership privileges have been suspended or terminated as well as other member organizations without trading privileges.

A sustained presence shall be a period of time beyond such time that would, under the prevailing circumstances, be needed by the clerk to complete the allowable business function which brought the clerk to that crowd in the first place.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00

3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-24 Reserved****F-25 Fingerprinting Floor Personnel**

Member organizations are required to comply with Section 17(f) of the Securities Exchange Act of 1934 respecting the fingerprinting of required employees. Applicants for a permit must also be fingerprinted. Such fingerprints must be submitted to the FINRA for identification and appropriate processing prior to any employee performing the functions listed in SEC rule 17f-2.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement]

**F-[27]8 Options Exchange Official Rulings**

Options Exchange Officials are empowered to render rulings on the trading floor to resolve trading disputes occurring on and respecting activities on the trading floor. All rulings rendered by Options Exchange Officials are effective immediately and must be complied with promptly. Failure to promptly comply with a ruling concerning a trading dispute may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement. Failure to promptly comply with other rulings issued pursuant to Order and Decorum Regulations or Floor Procedure Advices and not concerning a trading dispute may result in an additional violation. Options Exchange Officials need not render decisions in any instance where the request for a ruling was not made within a reasonable period of time. An Options Exchange Official should not render a decision or authorize a citation where such Options Exchange Official was involved in or affected by the dispute, as well as in any situation where the Options Exchange Official is not able to objectively and fairly render a decision.

Options Exchange Officials shall endeavor to be prompt in rendering decisions. However, in any instance where an Options Exchange Official has determined that the benefits of further discovery as to the facts and circumstances of any matter under review outweigh the monetary risks of a delayed ruling, the Options Exchange Official may determine to delay rendering the ruling until such time as that further discovery is

completed. In issuing decisions for the resolution of trading disputes, Options Exchange Officials shall institute the course of action deemed by the ruling Options Exchange Official to be more fair to all parties under the circumstances at the time. An Options Exchange Official may direct the execution of an order on the floor, or adjust the transaction terms or participants to an executed order on the floor. However, an Options Exchange Official may nullify a transaction if they determine the transaction to have been in violation of Rule 1014 (Obligations and Restrictions Applicable to Specialists and Registered Options Traders) or [Rule 1033]Options 8, Section 24 (Bids And Offers-Premium).

Exchange staff may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. For purposes of this Rule, and without limitation, a conflict of interest exists where an Options Exchange Official: (a) is directly or indirectly affiliated with a party seeking an Options Exchange Official ruling; (b) is a participant or is directly or indirectly affiliated with a participant in a transaction that is the subject of an Options Exchange Official ruling; (c) is a debtor or creditor of a party seeking an Options Exchange Official ruling; or (d) is an immediate family member of a party seeking an Options Exchange Official ruling. Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.

All Options Exchange Official rulings concerning the adjustment and nullification of transactions are reviewable by the Exchange Review Council.

- (i) Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the Exchange Review Council. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings concerning the nullification or adjustment of transactions may be sustained, overturned or modified by the Exchange Review Council. In making a determination, the Exchange Review Council may consider facts and circumstances not available to the ruling Options Exchange Official as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge and related trading activity).
- (ii) All decisions made by the Exchange Review Council in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to Rule 124(d) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Securities Exchange Act of 1934, as amended, and the rules thereunder.
- (iii) A member or member organization seeking the Exchange Review Council review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the Exchange Review Council.

- (iv) Decisions of the Exchange Review Council concerning the review of Options Exchange Official rulings relating to the nullification or adjustment of transactions shall be final and may not be appealed to the Exchange's Board of Directors.
- (v) Failure to promptly comply with an Options Exchange Official or Exchange Review Council decision under this Rule may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

#### FINE SCHEDULE

\$250.00

#### [F-28 Deleted]

#### **F-30 Options Trading Floor Training**

All members and persons employed by or associated with a member organization shall successfully complete mandatory training, as required by the Exchange. Training topics include, but are not limited to, training related to that member's or person's function at the Exchange, changes in existing automated systems or any new technology that is utilized by the Exchange, compliance with Exchange Rules and federal securities laws, and issues related to conduct, health and safety on the trading floor. In addition, floor members shall complete mandatory training programs, on at least a semi-annual basis, that address compliance with the federal securities laws and the Exchange's Rules in place to prevent and deter unlawful trading by floor members.

Failure to attend the scheduled mandatory training described above may result in the issuance of a fine in accordance with the fine schedule below.

#### FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence	\$500.00
2nd Occurrence	\$1,000.00
3rd Occurrence	\$2,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **F-31 Communications and Equipment**

(1) **Registration.** Members and member organizations must register, prior to use, any new telephone to be used on the Options floor. Each phone registered with the Exchange must be registered by category of user. If there is a change in the category of any user, the phone must be re-registered with the Exchange. At the time of registration, members and representatives of member organizations must sign a statement that they are aware of and

understand the Rules and procedures governing the use of telephones on the Options floor.

(2) **Capacity and Functionality.** No wireless telephone used on the Options floor may have an output greater than one watt. No person on the Options floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers intercoms, walkie-talkies and any similar device. Speed-dialing features are permitted on any member telephone.

(3) **Specialists and Registered Options Traders.**

(a) Specialists and Registered Options Traders ("ROT's") may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Options floor).

(b) ROT's located off the Options floor may not place an order by calling a Floor Broker who is present in the trading crowd. ROT's located off the Options floor may not otherwise place an order by calling the Specialist phone in the trading crowd. Any telephonic order entered from off the Options floor must be placed with a person located in a member organization booth.

(4) **Floor Brokers.**

(a) Floor Brokers may use cellular and cordless telephones, but only to communicate with persons located on the Options floor. These telephones may not include a call forwarding feature. Headsets are permitted for Floor Brokers, but if the Exchange determines that a Floor Broker is maintaining a continuous open line through the use of a headset, the Floor Broker will be prohibited from future use of any headset for a length of time to be determined by the Exchange.

(b) All orders phoned to Floor Brokers must be received initially at the Floor Broker's booth. Floor Brokers may not receive telephonic orders while in the trading crowd except from their booth. Any telephonic order entered from off the Options floor must be placed with a person located in a member organization booth.

(5) **Clerks.**

(a) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(b) Stock Execution clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(c) The Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems

or capacity problems resulting from the number of such phones then in use on the Options floor. In such circumstances, the Exchange will first consider restricting the use of such phones by Stock Execution Clerks, and then by Floor Broker Clerks.

(6) **General Access In-House Phones.** The general access in-house telephones located outside of the trading post areas may be used by any member, clerk or Floor Broker to communicate with persons located on the Options floor or within the Exchange complex.

(7) **Telephone Records.** Members must maintain their cellular or cordless telephone records, including logs of calls placed, for a period of not less than one year. The Exchange reserves the right to inspect and/or examine such telephone records.

(8) **Exchange Liability.** The Exchange assumes no liability to members or member organizations due to conflicts between telephones in use on the Options floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

FINE SCHEDULE (Implemented on a three year running calendar basis)

1st                 \$250.00  
Occurrence

2nd                 \$500.00  
Occurrence

3rd                 \$1,000.00  
Occurrence

4th                 Sanction is discretionary with Phlx Regulation Department, Department of  
Occurrence     Market Regulation, or Department of Enforcement

### **F-32 Solicitation of Quotations**

In response to a Floor Broker's solicitation of a single bid or offer, the members of a trading crowd (including the Specialist and ROTs) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the Specialist and ROTs).]

### **F-[33]9 Failure to Provide Notification of Changes in Business Operations**

Any member organization for which the Exchange is the Designated Examining Authority ("DEA") shall provide prior written notification to the Exchange or its designee of any change in the business operations of such member organization which would

cause the member organization to be subject to additional or modified net capital requirements, examination schedules or other registration, examination or regulatory requirements.

For the purposes of this Advice, the appropriate time frame for notification is at least 10 business days prior to the change in business operations.

FINE SCHEDULE (Implemented on a three year running calendar basis)

1st Occurrence \$250.00

2nd Occurrence \$500.00

3rd Occurrence \$1,000.00

4th and Thereafter Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

**F-[34]10 Failure to Timely Submit Amendments to Form U4, Form U5 and Form BD**

Any member organization that is required to file Form U4, Form U5 or Form BD pursuant to Exchange Rules or the Securities Exchange Act of 1934 and the rules promulgated thereunder, is required to amend the applicable Form U4, Form U5 or Form BD to keep such forms current at all times. Member organizations and participant organizations shall amend Form U4, Form U5 or Form BD not later than thirty (30) days after the filer knew or should have known of the facts which gave rise to the need for the amendment.

FINE SCHEDULE (Implemented on a running 12 month period)

1st Occurrence \$500.00

2nd Occurrence \$1,000.00

3rd Occurrence \$2,000.00

4th and Thereafter Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **F-[35]11 Violations of Exercise and Exercise Advice Rules for Noncash-Settled Equity Option Contracts**

Any member who fails to submit to the Exchange in a timely manner pursuant to Rule 1042, or an exercise instruction relating to the exercise or nonexercise of a noncash-settled equity option shall be subject to the following fines:

FINE SCHEDULE (Implemented on a running 24 month period)

	Individual	Member Organization
1st Occurrence	\$500.00	\$1,000.00
2nd Occurrence	\$1,000.00	\$2,500.00
Subsequent Occurrence And Thereafter	\$2,500.00	\$5,000.00

### **G. INDICES**

#### **G-1 Index Option Exercise Advices**

In accordance with the provisions of Exchange Rule 1042A, all Specialists, ROTs, customers and Firms must complete an exercise advice when exercising any American style index option contract(s) and exercise the amount of option contracts indicated on the exercise advice.

Specialists, ROTs, customers and Firms must time stamp and submit the completed exercise advice to Exchange staff at the Surveillance Post or in the trading crowd no later than five minutes after the close of trading on the day of the exercise with respect to any American style index option traded on the Exchange. Exercise advices for index options are not required on (a) the business day prior to expiration in series expiring on a day other than a business day or (b) the expiration day in series expiring on a business day.

Those Firms utilizing the electronic systems of the Options Clearing Corporation to meet the time requirements of this Advice must transmit to the Options Clearing Corporation index exercise instructions according to the time frames described above.

The fine schedule below provides sanctions for infractions of the index option exercise advice procedures which are minor in nature. Any violation of the procedure which has been deemed serious by the Exchange will be referred directly to the Exchange's Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement where stronger sanctions may result.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence	\$250.00
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2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

#### **[H. REGULATIONS Pursuant to Rule 9216(c)]**

##### **Regulation 1 - Smoking and Alcohol**

Smoking is prohibited on the trading floor and the lower level areas adjacent to the trading floor except for those areas specifically designated for smoking.

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

Alcoholic beverages are prohibited on the trading floor and the lower level areas adjacent to the trading floor.

1st Occurrence	\$1,000.00
2nd Occurrence	Sanction is discretionary with Phlx Regulation Department

##### **Regulation 2 - Food, Liquids and Beverages, Trash, Litter and Vandalism**

###### **(a) Food, Liquids and Beverages**

Food, liquids and beverages while allowed on the trading floor, should be kept and consumed in a way that does not unreasonably interfere with others. All drinks should be in cans or covered containers. Food and drink may not be consumed while in transit on the trading floor.

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

## (b) Trash and Litter

All debris resulting from the consumption of food and drink, and other non-business trash, must be properly disposed of. Throwing or dropping objects on the trading floor, including food or drink, is strictly prohibited. All trading posts/booths must be free of debris, trash or litter at the end of each trading day.

The following fine schedule will apply to a violation of this section:

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd Occurrence	\$1,000.00
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

## (c) Vandalism

The abuse, destruction, or theft ("Vandalism") of any property on the Exchange's premises, whether or not owned by the Exchange, is a serious offense and will be dealt with appropriately, including prompt disciplinary action.

The following fine schedule will apply to a violation of this section:

1st Occurrence	\$3,000.00 and restitution
2nd Occurrence	\$5,000.00 and restitution
3rd Occurrence	\$10,000.00 and restitution
4th and Thereafter	Sanction is discretionary with Phlx Regulation Department

Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

**Regulation 3 - Identification Badges/Access Cards**

(i) Identification badges must be worn chest high in full view and must accurately reflect the respective person's associations and affiliations.

1st Occurrence	Official Warning
2nd Occurrence	\$100.00

3rd Occurrence           \$200.00

4th and Thereafter    Sanction is discretionary with Phlx Regulation Department

(ii) Use of another person's Identification Badge or Access Card will carry a fine of \$250.00 for the first occurrence and \$500.00 for each subsequent occurrence. The fine may be assessed against both the user and the person who allowed such use.

#### **Regulation 4 - Order**

(a) Members and associated persons shall not conduct themselves in a disorderly manner on the trading floor or on the premises immediately adjacent to the trading floor. Further, members, participants and associated persons shall not conduct themselves in an indecorous manner that is disruptive to the conduct of business on the trading floor, including but not limited to the use of profanity.

The fines to be imposed for such violations shall be as follows:

1st Occurrence           \$500.00

2nd Occurrence           \$1,000.00

3rd Occurrence           \$2,500.00

4th Occurrence and  
Thereafter                Sanction is discretionary with Phlx Regulation  
Department

(b) Members and associated persons shall not direct any threatening, abusive, harassing or intimidating speech or conduct at anyone while on the trading floor or on the premises immediately adjacent to the trading floor. The fines to be imposed for such violations shall be as follows:

1st Occurrence           \$2,500.00

2nd Occurrence           \$5,000.00

3rd and thereafter    Sanction is discretionary with Phlx Regulation Department

(c) Members and associated persons shall not possess a firearm on the trading floor or on the premises immediately adjacent to the trading floor. As stated in Rule 9216(c), members, participants and associated persons shall be excluded from the floor if they possess a firearm. In addition, the fines to be imposed for such violations shall be as follows

1st Occurrence           \$5,000.00

2nd Occurrence Sanction is discretionary with Phlx Regulation Department

(d) Members and associated persons shall not possess illegal controlled substances on the trading floor or on the premises immediately adjacent to the trading floor.

1st Occurrence \$5,000.00

2nd Occurrence Sanction is discretionary with Phlx Regulation Department

(e) The Exchange must report fines over \$1,000 to the Securities and Exchange Commission.

(f) Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

### **Regulation 5 - Visitors**

Non-member visitors will be permitted on the trading floor at the discretion of an Exchange official or Options Exchange Official. All visitors must be signed in by a member or Exchange official and accompanied at all times by a member, associated person or an Exchange official.

1st Occurrence Official Warning

2nd Occurrence \$50.00

3rd Occurrence \$100.00

4th Occurrence \$200.00

5th and Thereafter Sanction is discretionary with Phlx Regulation Department

Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

Non-member visitors who are performing contract work at the Exchange on behalf of a member are required to provide, upon request, a certificate of insurance evidencing Professional Liability Insurance in respect of all claims for injury, loss or damage arising out of any errors, acts or omissions in the performance of his or her duties for a sum of not less than \$1,000,000 for any one occurrence or series of occurrences and list Nasdaq PHLX as an insured. This includes any non-member visitors who are requesting access to perform any type of work at the Exchange or are utilizing any building facilities.

1st Occurrence	\$1,000.00
2nd Occurrence	\$5,000.00
3rd and Thereafter	Sanction is discretionary with Phlx Regulation Department

### **Regulation 6 - Dress**

The Dress Code must be complied with at the point of entry to the trading floor. The Dress Code is in effect on the trading floor before, during and after trading hours. The Dress Code outlining acceptable and unacceptable dress for members and member organization staff, and changes thereto, shall be communicated to members and member organizations by the Exchange in writing. Changes to the Dress Code shall be effective three business days after they are so communicated. In addition, the Dress Code will be posted in at least one visible location on the trading floor of the Exchange.

Each member will be responsible for compliance with this Regulation; and each member organization will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

The following is the fine schedule for dress code violations:

1st Occurrence	\$100.00
2nd Occurrence	\$250.00
3rd Occurrence	\$500.00
4th Occurrence and Thereafter	Sanction is discretionary with Phlx Regulation Department

### **Regulation 7 - Proper Utilization of the Security System**

#### **a) Attempt to Circumvent the Security System of the Exchange**

Any member or employee of a member organization who wishes to enter or exit the Exchange trading facilities must do so through the areas where the Exchange security systems are located.

1st Occurrence	\$250.00
2nd Occurrence	\$500.00
3rd and Thereafter	Sanction is discretionary with Phlx Regulation Department

b) Required Filing for Floor Member Organization Employee Status Notices with the Exchange

Following the termination of, or the initiation of a change in the trading status of any member or any non-member/clerk and trading floor personnel including clerks, interns, stock execution clerks and any other associated person, of member organizations who have been issued an Exchange access card and trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm, principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange Department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Further, every effort should be made to obtain the employee's access card and trading floor badge and to submit these to the appropriate Exchange Department.

1st Occurrence        \$100.00

2nd Occurrence        \$200.00

3rd and Thereafter    Sanction is discretionary with Phlx Regulation Department

c) Required Filing for the Termination of, or the Initiation of a Change in the Status of, a Business Relationship between member organizations and their Clearing Organizations

Following the commencement or termination of a clearing arrangement between member organizations and their clearing organization, a completed "Clearing Arrangement Notice" must be submitted to the Exchange as soon as possible, but no later than 9:30 AM the next business day by such clearing organization.

1st Occurrence        \$100.00

2nd Occurrence        \$200.00

3rd and Thereafter    Sanction is discretionary with Phlx Regulation Department]

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**Nasdaq PHLX LLC Rules**

**General Equity and Options Rules**

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**Options Rules**

**Options 8 Floor Trading**

**General Provisions**

### **Section 1. Applicability.**

(a) The Options 8 Rules shall apply to Exchange options transactions by and among members and member organizations physically located on the Exchange's options trading floor, including the trading crowds, and shall govern all activity that occurs in the physical space designated by the Exchange as "trading floor" as well as trading conducted through the Options Floor Based Management. All executions that occur automatically within the electronic system operated by the Exchange that receives and disseminates quotes, executes orders and reports transactions ("System" or "Electronic System") shall be governed by all other Options Rules except for the Options 8 Rules.

(b) All Options Rules shall apply to Exchange Floor Trading, in addition to the Options 8 Rules, however where the Options 8 Rules disagree with another Options Rule not within Options 8 a conflict shall be resolved in favor of the Options 8 Rule as it applies to the Exchange Trading Floor.

### **Section 2. Definitions**

(1) **Floor.** The term "floor" means the floor of the Exchange.

(2) **Floor Broker.** The term "Floor Broker" means an individual who is registered with the Exchange for the purpose, while on the Options Floor, of accepting and handling options orders.

(3) **Inactive Nominee.** The term "inactive nominee" shall mean a natural person associated with and designated as such by a member organization and who has been approved for such status and is registered as such with the Membership Department. An inactive nominee shall have no rights or privileges under a permit unless and until said inactive nominee becomes admitted as a member of the Exchange pursuant to the By-Laws and Rules of the Exchange. An inactive nominee merely stands ready to exercise rights under a permit upon notice by the member organization to the Membership Department on an expedited basis.

(4) **Presiding Exchange Officials.** The term "Presiding Exchange Officials" shall refer to the President of the Exchange and his designated staff who shall have general supervision over: (i) the options trading floor as well as general supervision of the dealings of members on the trading floor and on Exchange trading systems, and of the premises of the Exchange immediately adjacent thereto; (ii) the activities of Specialists, registered option traders, floor brokers, or other types of market makers and shall establish standards and procedures for the training and qualification of members active on the trading floor; (iii) all trading floor employees of members, and shall make and enforce such rules with respect to such employees as it may deem necessary; (iv) all connections or means of communications with the options trading floor and may require the discontinuance of any such connection or means of communication when, in the opinion of the President or his designee, it is contrary to the welfare or interest of the

Exchange; (v) the location of equipment and the assignment and use of space on the options trading floor; and (vi) relations with other options exchanges.

(5) **Permit.** The term “Permit” shall refer to the description in Rule 1(z). Additionally, notwithstanding applicable By-Laws and Rules conditioning membership, a Series A-1 permit holder on the Exchange's Trading Floor may be affiliated with up to two (2) member organizations (a primary and a secondary member organization) that are under common ownership. Both the primary and secondary member organizations shall notify the Membership Department of such an affiliation. This notification shall include: (i) an attestation of common ownership; (ii) the names of the individuals responsible for supervision of the permit holder; and (iii) the Exchange account numbers for billing purposes. For purposes of this Rule, "common ownership" shall be defined as at least 75% common ownership between the member organizations. A permit may not be transferred by lease, sale, gift, involuntary transfer, or any other means or as collateral to secure any obligation, except that a permit may be transferred within the Permit Holder's Member or to an “Inactive Nominee” who is registered as such with the Exchange, subject to the provisions of the By-Laws and Rules relating to an “Inactive Nominee”.

(6) **Public Outcry.** The term “Public Outcry” shall refer, pursuant to Rule 110, bids and offers which must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

(7) **Floor Market Maker.** The term “Floor Market Maker” is an ROT who is neither an SQT or an RSQT. A Floor Market Maker shall notify the Exchange of each option, on an issue-by-issue basis, in which such Floor Market Maker intends to be assigned to make markets. Such notification shall be in writing on a form prescribed by the Exchange (“Floor Market Maker Assignment Form”). Any change to such ROT Assignment Form shall be made in writing by the Floor Market Maker prior to the end of the trading session in which such change is to take place. Receipt of the properly completed ROT Assignment Form by a duly qualified Floor Market Maker applicant constitutes acceptance by the Exchange of such Floor Market Maker's assignment in, or termination of assignment in (as indicated on the ROT Assignment Form), the options listed on such ROT Assignment Form. All such assignments shall not be effective, and shall be terminated, in the event that such Floor Market Maker applicant fails to qualify as an ROT on the Exchange.

### Administration

**Section 3. Imposition**

The Board of Directors may, from time to time, fix and impose a charge upon members and member organizations measured by their respective net commissions on transactions effected on the Floor of the Exchange.

**Membership, and Registration****Section 4. Rights and Privileges of A-1 Permits**

(a) A Series A-1 permit holder shall be subject to Rule 908. Notwithstanding applicable By-Laws and Rules conditioning membership, a Series A-1 permit holder on the Exchange's Trading Floor may be affiliated with up to two (2) member organizations (a primary and a secondary member organization) that are under common ownership. Both the primary and secondary member organizations shall notify the Membership Department of such an affiliation. This notification shall include: (i) an attestation of common ownership; (ii) the names of the individuals responsible for supervision of the permit holder; and (iii) the Exchange account numbers for billing purposes. For purposes of this Rule, "common ownership" shall be defined as at least 75% common ownership between the member organizations.

**Section 5. Qualification as Member Organization**

(a) In addition to the requirements of Rule 910, applicants seeking membership on the Exchange Trading Floor are also required to demonstrate knowledge of Exchange Options Floor Rules and Procedures through an on-floor examination.

**Section 6. Registration of Floor Brokers**

(a) An applicant for registration as an Option Floor Broker shall file his application in writing with Regulatory staff on such form or forms as the Exchange may prescribe. Applications shall be reviewed by the Exchange, which shall consider an applicant's ability as demonstrated by his passing an Options Floor Broker's examination prescribed by the Exchange, and such other factors as the Exchange deems appropriate. After reviewing the application, the Exchange shall either approve or disapprove the applicant's registration as a Floor Broker.

**Section 7. Inactive Nominees**

(a) A member organization may designate an individual as an "Inactive Nominee." The member organization shall pay an Inactive Nominee Fee for the privilege of maintaining the Inactive Nominee status.

(1) The following requirements shall apply to Inactive Nominees:

(A) To be eligible for Inactive Nominee status, an individual must be approved as eligible to hold a permit in accordance with the By-Laws and Rules of the Exchange.

(B) An Inactive Nominee shall meet all membership requirements including examinations administered by the Exchange.

- (C) An Inactive Nominee shall have no rights or privileges of a permit holder unless and until said Inactive Nominee becomes an effective permit holder and all applicable Exchange fees are paid.
- (D) An Inactive Nominee's status will terminate after six (6) months unless it has been reaffirmed in writing by the member organization or terminated prior thereto.
- (2) In order to designate an Inactive Nominee as an effective permit holder the member organization shall:

- (A) Notify the Membership Department, in writing, prior to the opening of trading on any business day the name of the Inactive Nominee that the member organization desires to designate as an effective permit holder. The notice must identify the name of the permit holder that the Inactive Nominee will be acting on behalf of as well as the expected duration that such Inactive Nominee will remain activated.
- (b) Notwithstanding paragraph (ii)(a), a member organization may notify the Membership Department, in writing, of its desire to designate an Inactive Nominee as an effective permit holder intra-day in the event of an unforeseen emergency. The notice must identify the name of the Inactive Nominee, the name of the permit holder that the Inactive Nominee will be acting on behalf of, and the expected duration that such Inactive Nominee will remain activated. Such intra-day designations must be approved by the Chief Regulatory Officer or his/her designee prior to such Inactive Nominee becoming an effective permit holder.

### **Section 8. Trading Floor Registration**

- (a) Trading Floor Member Registration - Each Floor Broker, Specialist and Registered Options Trader on the Exchange trading floor must be registered as "Member Exchange" ("ME") under "PHLX" on Form U4. In addition, each Floor Broker, Specialist and Registered Options Trader must successfully complete the appropriate floor trading examination(s), if prescribed by the Exchange, in addition to requirements imposed by other Exchange Rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the trading status of any such member who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.
- (b) Non-member/Clerk Registration-All trading floor personnel, including clerks, interns, stock execution clerks and any other associated persons, of a member organization not required to register pursuant to subparagraph (a) must be registered as "Floor Employee"

(“FE”) under "PHLX" on Form U4. Further, the Exchange may require successful completion of an examination, in addition to requirements imposed by other Exchange Rules. The Exchange may also require periodic examinations due to changes in trading rules, products or automated systems. Following the termination of, or the initiation of a change in the status of any such personnel of a member organization who has been issued an Exchange access card and a trading floor badge, the appropriate Exchange form must be completed, approved and dated by a member organization principal, officer, or member of the member organization with authority to do so, and submitted to the appropriate Exchange department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Every effort should be made to obtain the person's access card and trading floor badge and to submit these to the appropriate Exchange department.

(c) Members whose activities are limited to the Exchange's options trading floor and who are registered pursuant to subparagraph (a) as well as associated persons whose activities are limited to the Exchange's options trading floor and are registered pursuant to subparagraph (b) are exempt from the representative registration requirements (but not the principal registration requirements, including any prerequisite representative registration requirement) of Rules 1210 and 1220.

### **Section 9. Trading Floor Admittance**

(a) No employee of a member or member organization shall be admitted to the trading floor unless that person is registered with and approved by the Exchange, which may in its discretion require the payment of a fee with respect to each employee so approved, and may at any time in its discretion withdraw any approval so given. Notwithstanding the foregoing, Section 39, Options Regulation 5 describes the procedures for non-member visitors.

### **Section 10. Training**

(a) In addition to Rule 625 requirements, floor members shall complete mandatory training programs, on at least a semi-annual basis, that address compliance with the federal securities laws and the Exchange's Rules in place to prevent and deter unlawful trading by floor members.

### **Market Participants**

### **Section 11. Specialist Appointment**

(a) In addition to the requirements specified in Rule 501 related to the appointment of a Specialist, each Specialist unit must consist of at least the following staff for each Trading Floor Specialist post: (1) one head Specialist; and (2) one assistant Specialist that must be associated with the Specialist unit. The Exchange, in its discretion, may require a unit to obtain additional staff depending upon the number of assigned options classes and associated order flow.

(b) An options Specialist currently operating from the Exchange's Trading Floor or a Remote Streaming Quote Trader (“RSQT”), as defined in Rule 1014, may submit an

application as described in Rule 501 to be approved in one or more classes as a Remote Specialist as defined in Rule 1020(a)(ii).

(1) In making a determination regarding the application of an options Specialist currently operating from the Exchange's Trading Floor that requests authorization to operate as a Remote Specialist, the Exchange will evaluate whether the change is in the best interest of the Exchange and may consider information that it believes will be of assistance to it. Factors to be considered may include, but are not limited to, any one or more of the following: performance, operational capacity of the Exchange or options Specialist, efficiency, number and experience of personnel of the options Specialist who will be performing functions related to the trading of the applicable securities, number of securities involved, number of ROTs and SOTs affected and trading volume of the securities.

### **Section 12. Clerks**

(a) 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.

(b) Badges. While on the trading floor, Clerks shall display prominently at all times the identification supplied to them by the Exchange.

(c) 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:

(1) entering or leaving the trading floor;

(2) transmitting, correcting, or checking the status of an order or reporting or correcting an executed trade; or

(3) 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.

(d) 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 Rule 1210, 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.

(e) Clerks' Use of Vendor Quote Terminals and Other Order-Entry Devices.

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

(f) Specialist Clerks. 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.

(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 Rule 1210, 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.

(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.

### **Regulation**

#### **Section 13. Acts Detrimental to the Interest or Welfare of the Exchange**

(a) In addition to Rule 708, acts which could be deemed detrimental to the interest or welfare of the Exchange include, but are not limited to, misconduct on the Trading Floor, in violation of the Exchange's Order and Decorum Regulations, that is repetitive, egregious or of a publicly embarrassing nature to the Exchange.

#### **Section 14. Financial Responsibility and Reporting**

(a) In addition to the obligations specified within Rule 703, each member organization whose principal business is as a floor broker on the Exchange and who is not self-clearing must establish and maintain an account with a clearing member organization of the Exchange, for the sole purpose of carrying positions resulting from errors made in the course of its floor brokerage business. Such an account for options transactions must be maintained with an entity which is also a clearing member organization of The Options Clearing Corporation. A floor broker prior to effecting any transactions, must file with the Exchange a letter from its clearing member organization stating that this account has been established and that the clearing member organization guarantees the financial responsibilities of the floor broker with respect to all orders entrusted on the floor with the floor broker as well as all transactions and balances carried within the account. This letter shall remain in effect until the Exchange receives written notice from the clearing

member of its intent to no longer clear or carry transactions for such floor broker. Written notice received at least one-half hour before the normal opening of trading shall take effect on the day of receipt; written notice received less than one-half hour before the opening of trading shall take effect on the opening of the business day following Exchange receipt.

**Section 15. "Stopping" An Option**

(a) An agreement to "stop" an option at a specified price constitutes a guarantee by the member who "grants the stop" that the order of the member who, "accepts the stop" will be executed at the stop price or better. No member is required to agree to grant or accept a stop.

(b) A member shall not accept a stop for an account in which he or another member has an interest unless:

(1) he is acting for an order originated off the Floor; or

(2) in the case of an order originated on the Floor, the member granting the stop is also acting for an account in which he or another member has an interest; or

(3) he is effecting a transaction to offset a transaction made in error; or

(4) he is engaged in bona fide arbitrage.

(c) No Specialist may stop an option against the book or for his own account at a price at which he holds an order capable of execution at that price; except:

(1) in connection with an opening or reopening; or

(2) when there is a competing bid or offer in the crowd at the same price at which the stop is granted; or

(3) when the Specialist does not have an executable order at the stop price; or

(4) when a broker makes an unsolicited request that a Specialist grant him a stop,

and

(A) the spread in the quotation is not less than twice the permitted minimum increment in the option;

(B) after the granting of the stop, the spread between the bid and the offer is reduced;

(C) the Specialist does not reduce the size of the market following the granting of the stop; and

(D) on the election of the stop, the order or orders on the Specialist's book entitled to priority will be executed against the stopped option.

(5) Each "stopped" transaction shall be reported for printing on the tape in the form and manner prescribed by the Exchange.

#### **Section 16. Trading for Joint Account**

(a) No member, while on the Floor, shall, without the prior approval of the Exchange, initiate the purchase or sale on the Exchange of any security for any account in which he, his member organization or a participant therein, is directly or indirectly interested with any person other than such member organization or participant therein.

(b) The provisions of this section shall not apply to any purchase or sale by any member for any joint account maintained solely for effecting bona fide domestic or foreign arbitrage transactions.

#### **Section 17. Limitations on Members' Trading Because of Customers' Orders**

(a) In addition to the limitations in Rule 452, a member organization's member on the Trading Floor may not execute a proprietary order at the same price, or at a better price, as an unexecuted customer order that he or she is representing, except to the extent the member itself could do so under this Rule.

#### **Section 18. General Responsibility of Floor Brokers**

(a) A Floor Broker handling an order is to use due diligence to cause the order to be executed at the best price or prices available to him in accordance with the Rules of the Exchange.

#### **Section 19. Responsibilities of Floor Brokers - Treasury Securities Options**

(a) A Floor Broker handling a contingency order for Treasury securities options that is dependent upon quotations or prices other than those originating on the floor shall be responsible for satisfying the dependency requirement on the basis of the most reliable information reasonably available to him concerning such quotations and prices but, in no event, shall be held to an execution of such an order. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such information is subsequently found to have been erroneous.

#### **Floor Trading Rules**

##### **Section 20. Dealings on Floor—Hours**

(a) Dealings upon the Exchange shall be limited to the hours during which the Exchange is open for the transaction of business; and no member shall make any bid, offer or transaction upon the Floor before or after those hours, except that loans of money or securities may be made after the official closing of the Exchange.

##### **Section 21. Dealings on Floor—Persons**

(a) No member shall, while on the Floor, make a transaction with any non-member in any security admitted to dealings on the Exchange.

**Section 22. Execution of Options Transactions on the Trading Floor**

(a) Options transactions on the Exchange's Trading Floor shall be executed in one of the following ways:

(1) automatically by the Exchange Trading System as provided in applicable Exchange Rules;

(2) through the Options Floor Based Management System. Members authorized to operate on the floor are not permitted to execute orders in the Exchange's options trading crowd, except as follows:

(A) The Exchange may determine to permit executions otherwise than in accordance with subparagraphs (1) and (2) above respecting an option or all options in the event of a problem with Exchange systems.

(B) In addition, members can execute orders in the options trading crowd pursuant to Options 8, Section 33, Accommodation Transactions (cabinet trades), and Options 8, Section 34, FLEX Equity, Index and Currency Options.

(C) Multi-leg orders with more than 15 legs can be executed in the trading crowd.

(D) The following split price orders that, due to FBMS system limitations, require manual calculation:

(i) simple orders not expressed in the applicable minimum increment ("sub-MPV") and that cannot be evenly split into two whole numbers to create a price at the midpoint of the minimum increment; and (ii) complex and multi-leg orders with at least one option leg with an odd-numbered volume that must trade at a sub-MPV price or one leg that qualifies under (i) above.

(E) As set forth in Options 8, Section 29(e)(v), members may use the Snapshot feature of the Options Floor Based Management System to provisionally execute orders in the options trading crowd.

(i) Surveillance staff must approve all executions submitted under this Options 8, Section 22(a)(3)(A)-(D) to validate that each abides by applicable priority and trade through rules. Under subsection (a)(3)(D), the rounding of prices may be used only where necessary to execute the trade at the MPV, and only to the benefit of a customer order or, where multiple customers' orders are involved, for the customer order that is earliest in time. If no customer order is involved, rounding of prices is available to the non-customer order that is earliest in time.

(b) Manner of Bidding and Offering. Bids and offers to be effective must either be entered electronically in a form and manner prescribed by the Exchange (as quotes or orders) or made by public outcry in the trading crowd (to which Rule 110 applies). All bids and offers shall be general ones and shall not be specified for acceptance by particular members.

(c) Public Outcry - Pursuant to Rule 110, bids and offers must be made in an audible tone of voice. A member shall be considered "in" on a bid or offer, while he remains at the post, unless he shall distinctly and audibly say "out." A member bidding and offering in immediate and rapid succession shall be deemed "in" until he shall say "out" on either bid or offer. Once the trading crowd has provided a quote, it will remain in effect until: (A) a reasonable amount of time has passed, or (B) there is a significant change in the price of the underlying security, or (C) the market given in response to the request has been improved. In the case of a dispute, the term "significant change" will be interpreted on a case-by-case basis by an Options Exchange Official based upon the extent of the recent trading in the option and, in the case of equity and index options, in the underlying security, and any other relevant factors.

(d) With respect to using the Options Floor Based Management System to execute an order pursuant to Option 8, Section 22, a member must audibly say "out" before the order is submitted into the FBMS for execution and, if the order is not executed, the member must audibly say "out" before each time the member resubmits the order for execution.

### **Section 23. Precedence of Highest Bid**

(a) The highest bid shall have precedence in all cases pursuant to Rule 119. Where bids are made at the same price, the priority and precedence shall be determined in accordance with the following rules:

(1) Sale removes bid from Trading Floor: A sale shall remove all bids from the Floor except that if the number of shares of stock or principal amount of bonds offered exceeds the number of shares or principal amount specified in the bid having priority or precedence, a sale of the unfilled balance to other bidders shall be governed by the provisions of these rules as though no sales had been made to the bidders having priority or precedence.

(2) Subsequent bids: (i) After bids have been removed from the Trading Floor under the provisions of sub-paragraph (1) above, priority and precedence shall be determined, in accordance with these rules, by subsequent bids.

### **Section 24. Bids And Offers—Premium**

(a) Size of Bid/Offer and Disseminated Size Guarantee. All bids or offers made on the Floor for option contracts shall be deemed to be for one option contract unless a specific number of option contracts is expressed in the bid or offer. A bid or offer for more than one option contract shall be deemed to be for the amount thereof or a smaller number of option contracts. Responsibility for ensuring that customer orders are filled to a

minimum of the disseminated size at the disseminated price is as set forth in Exchange Rule 1082.

(b) Solicitation of Quotations. In response to a floor broker's solicitation of a single bid or offer, the members of a trading crowd (including the Specialist and ROTs) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the Specialist and ROTs).

(c) Except as provided in (d) and (e) below, all bids or offers made on the Floor for option contracts shall be expressed as follows: (i) in the case of options on stocks or Exchange-Traded Fund Shares, in terms of dollars per share of the underlying stock or Exchange-Traded Fund Share (e.g., a bid of "5" shall represent a bid to pay a premium of \$500 for an option contract having a unit of trading consisting of 100 shares of an underlying stock or Exchange-Traded Fund Share, or a bid to pay a premium of \$550 for an option contract having a unit of trading consisting of 110 shares of an underlying stock or Exchange-Traded Fund Share); (ii) In the case of options on foreign currencies in terms of U.S. dollars per unit of the underlying foreign currency. E.g., a bid of "3.25" for a premium on a \$170 strike price option on the British pound shall represent a bid to pay \$325 per option contract; and (iii) *Mini Options*. Bids and offers for an option contract overlying 10 shares shall be expressed in terms of dollars per 1/10th part of the total value of the contract. An offer of ".50" shall represent an offer of \$5.00 on an option contract having a unit of trading consisting of 10 shares.

(d) *Contract Adjustments*. All bids or offers for an option contract for which The Options Clearing Corporation has established an adjusted unit of trading in accordance with paragraphs (c) and (d) of Section 11 of Article VI of the by-laws of The Options Clearing Corporation shall be expressed in terms of dollars per the appropriate fractional part of the total securities and/or other property constituting such adjusted unit of trading (e.g., where the adjusted unit of trading of an option contract consists of 110 shares of an underlying stock or Exchange-Traded Fund Share plus 15 rights, a bid of "5" shall represent a bid to pay a premium of \$550 for each option contract covering both the shares of underlying stock or Exchange-Traded Fund Share and the rights).

(e) *Spread Priority*. When a member holding a multi-leg order, as defined in Options 8, Section 32 and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a multi-leg order at the total credit or debit with one other member with priority over either the bid or the offer established in the marketplace that is not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than established bid or offer for that option contract AND no

option leg is executed at a price outside of the established bid or offer for that option contract.

(e) *Synthetic Option Orders.* When a member holding a synthetic option order, as defined in Options 8, Section 32, and bidding or offering on the basis of a total credit or debit for the order has determined that the order may not be executed by a combination of transactions at or within the bids and offers established in the marketplace, then the order may be executed as a synthetic option order at the total credit or debit with one other member, provided that the option leg is executed at a better price than the established bid or offer for that option contract, in accordance with Options 8, Section 25. Synthetic option orders in open outcry, in which the option component is for a size of 100 contracts or more, have priority over bids (offers) of crowd participants who are bidding (offering) only for the option component of the synthetic option order, but not over bids (offers) of public customers on the limit order book, and not over crowd participants that are willing to participate in the synthetic option order at the net debit or credit price.

(f) *Three-Way Spread Type Priority.* When a member holding a three-way order for foreign currency options determines that the order will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the three-way order, seek to execute the order at a total credit or debit with one other member provided that at least one of the individual legs to the order is effected at a price better than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract. For purposes of this Rule, three-way orders include spread, straddle and combination orders of three individual series in the same foreign currency options where (i) the order size for each of the three individual series are equal to each other, or (ii) the combined order size of any two series on the same side of the market is either equal to the order size of the third series by a or differs from the order size of the third series by a permissible ratio. For purposes of this paragraph, a permissible ratio is any one of the following: one-to-one, one-to-two, one-to-three and two-to-three.

(g) *Ratio Spread Type Priority.* A spread order may consist of different numbers of contracts so long as the number of contracts differ by a permissible ratio (a "Ratio Spread"). Similarly, the legs to a straddle or combination order may consist of different numbers of puts and calls so long as the number of contracts differ by a permissible ratio. For the purposes of this paragraph, a permissible ratio is any ratio that is equal to or greater than one-to-three (.333) and less than or equal to three-to-one (3.00). For example, a one-to-two (.5) ratio, a two-to-three (.667) ratio, or a two-to-one (2.0) ratio is permissible, whereas a one-to-four (.25) ratio or a four-to-one (4.0) ratio is not.

(h) *Multi-Spread Priority.* When a member holding two spread type orders (spreads, straddles or combinations, as defined in Options 8, Section 32) for the same account determines that the orders will be best served by bidding or offering on the basis of a total net credit or debit, the member may, after seeking bids and offers for the total of the two spread type orders, seek to execute both orders as a single transaction at a total net credit or debit with one other member, provided that at least one of the individual legs of each

individual spread is executed at a better price than the established bid or offer for that option contract and that no option leg is executed at a price outside of the established bid or offer for that option contract.

(i) Spread Type Priority. Through FBMS, Spread Type Orders consisting of a conforming ratio may be executed at a total credit or debit price with priority over individual bids or offers established in the marketplace (including customers) that are not better than the bids or offers comprising such total credit or debit, provided that at least one option leg is executed at a better price than the established bid or offer for that option contract and no option leg is executed at a price outside of the established bid or offer for that option contract.

### **Section 25. Floor Allocation**

(a) The following applies to the allocation of orders on the Trading Floor:

(1) Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, index option and U.S. dollar-settled foreign currency option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (B) below. For the purpose of this Rule, "Initiating Order" means an incoming contra-side order.

(A) Respecting transactions that are executed and allocated in open outcry by a participant other than the Specialist, "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Rule. The Remainder of the Order shall be allocated pursuant to this Rule.

(i) Orders of controlled accounts, other than ROTs and Specialists market making in person, must be (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and (2) recorded as for a controlled account by making the appropriate notation the Options Floor Based Management System.

(ii) The Enhanced Specialist Participation is a percentage of the Remainder of the Order to which the Specialist is entitled.

(B) An Initiating Order executed manually by the Specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit

order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Rule 1014(g)(vii). "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph.

(2) Purchase or sale priority for orders of 100 contracts or more. If a member purchases (sells) 50 or more option contracts of a particular series at a particular price or prices, he shall, at the next lower (higher) price have priority in purchasing (selling) up to the equivalent number of option contracts of the same series that he purchased (sold) at the higher (lower) price or prices, but only if his bid (offer) is made promptly and the purchase (sale) so effected represents the opposite side of a transaction with the same order or offer (bid) as the earlier purchase or purchases (sale or sales).

(i) When the market has a bid/ask differential of one minimum trading increment and the bid and/or offer represent the quotation of an out-of-crowd SQT or an RSQT, such member shall have priority over such SQT and/or RSQT with respect to both the bid and the offer.

(ii) The Exchange may increase the "minimum qualifying order size" above 100 contracts for all products under its jurisdiction. Announcements regarding changes to the minimum qualifying order size shall be made on the Exchange's website. This paragraph shall only apply to transactions that are effected in open outcry.

(b) *Enhanced Specialist Participation* —In equity option, index option and U.S. dollar-settled foreign currency options classes, when the registered Specialist is on parity with a controlled account as defined in subparagraph (i) above, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the Specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances: (1) where there is one controlled account on parity, the Specialist is entitled to receive 60% of the Remainder of the Order; or (2) where there are two controlled accounts on parity, in which case, the Specialist is entitled to receive 40% of the Remainder of the Order.

(1) The Exchange shall reduce the level of Enhanced Specialist Participation authorized under this Rule to a parity level of participation in accordance with Rules 119 and 120 with respect to any options class if the Specialist in such class is determined to be performing below any minimum standards or not satisfying any conditions that the Exchange may establish. The Exchange may reinstate Enhanced Specialist Participation for a particular options class if it determines that the Specialist in such class is performing at or above all established minimum standards and is satisfying all established conditions.

(c) Allocation of the Remainder of the Order Among Specialist and ROTs on Parity. After the application of Options 8, Section 25(a)(1) to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in paragraph (c)(3)(F)(i) below) as follows:

(1) Entitlement. ROTs and Specialists on parity are entitled to their Defined Participation (as described below), subject to: (a) any Waiver, as described below; and (b) rounding, as described below.

(2) Size. The term "stated size" in respect of an order or electronic quotation shall mean:

(A) in the case of orders handled manually by the Specialist:

(i) if a crowd participant (including the Specialist) has actually stated a size ("Actual Size"), such crowd participant's stated size shall be his or her Actual Size;

(ii) if the Specialist, an SQT or RSQT is disseminating an electronic quotation at the Exchange's disseminated price in a particular series at the time of the execution of an Initiating Order in such series, such Specialist, SQT or RSQT's disseminated size at the Exchange's disseminated price shall be his or her Actual Size, and such Specialist, SQT and/or RSQT shall be deemed a "crowd participant" for purposes of paragraph (c);

(B) unless the Specialist has an Actual Size, the stated size of the Specialist shall be the amount (if any) by which the disseminated size exceeds the sum of (x) the aggregate size of limit orders included in the disseminated size and (y) the aggregate sizes of all ROTs who have Actual Sizes;

(C) the stated size of an ROT who does not have an Actual Size is zero.

(i) in the case of floor brokered orders, each crowd participant's stated size shall be his or her Actual Size.

(3) Defined Participation. Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:

(A) in the case of a Specialist entitled to an Enhanced Specialist Participation, the Enhanced Specialist Participation, up to the Specialist's stated size, as set forth in paragraph (b) of this Rule, as applicable. The Specialist may decline to receive the Enhanced Specialist Participation, in which case the Specialist shall be entitled to participate as one crowd participant, up to the Specialist's stated size.

(B) except as provided in (A) above, the Defined Participation of the Specialist and ROTs on parity is determined as follows:

(i) where all participants have equal stated sizes, their Defined Participations shall be equal;

(ii) where participants have unequal stated sizes, the Defined Participations shall equal their Base Participations (as defined below) plus their Supplemental Participations (as defined below):

a. the “Base Participations” of all of the participants shall equal the stated size of the smallest participant; to the extent that there remains any excess to be allocated after all participants have been allocated their Base Participations, the smallest participant shall have no Supplemental Participation, and the other participants shall have “Supplemental Participations” as determined under “b” and “c” below;

b. if the remaining stated sizes (*i.e.* , after taking into account Base Participations) of all participants having Supplemental Participations is equal, then their Supplemental Participations shall be equal; otherwise the initial Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated their initial Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have further “Supplemental Participations” as determined under “c” below; and

c. if the remaining stated sizes (*i.e.* , after taking into account Base Participations and prior Supplemental Participations) of all participants having *further* Supplemental Participations is equal, then their *further* Supplemental Participations shall be equal; otherwise the next Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated the next Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have successive further Supplemental Participations determined in the same manner as provided in this clause.

The process described in clause “c” shall be followed to determine successive further Supplemental Participations until the sum of the Defined Participations equals the amount of the Remainder of the Order.

(iii)

a. If the sum of the Base Participations pursuant to sub-paragraph "a" above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Base Participations, subject to rounding.

b. If the sum of the Supplemental Participations pursuant to sub-paragraph "b" above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Supplemental Participations, subject to rounding.

c. If the sum of the further Supplemental Participations pursuant to sub-paragraph "c" above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive further Supplemental Participations, subject to rounding.

(3) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Rule. Notwithstanding the limitation set forth in sub-paragraph (3)(A) that limits the Specialist's entitlement to his/her stated size, for all contracts executed in excess of the disseminated size, the Specialist shall be entitled to receive the Enhanced Specialist Participation as set forth in paragraph (b) of this Rule, as applicable, but not to exceed the Specialist's Actual Size (if the Specialist has an Actual Size) in such excess contracts.

(C) Waiver. (1) An ROT (other than an RSQT) or Specialist may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an " Offer to Waive").

(i) Any Offer to Waive shall be made by stating it in a loud and audible voice to the other members of the trading crowd and the Allocating Participant.

(ii) If the Allocating Participant has determined that the other crowd participant(s) then on parity is willing to take the number of contracts that are subject to the Offer to Waive, the Allocating Participant may (but shall not be required to), accept such Offer to Waive by (a) allocating the Remainder of the Order in accordance with paragraph (c), taking into account the Offer to Waive; or (b) otherwise indicating, following the execution of the Remainder of the Order, that such Offer to Waive will be accepted (in which case, it shall be referred to as a " Waiver"). No Offer to Waive shall be an effective Waiver until the Allocating Participant has allocated the order or otherwise indicated that it is accepted.

(iii) In the case of an option which is not subject to an Enhanced Specialist Participation, as set forth in paragraph (b) of this Rule, if the Specialist or an ROT effects a Waiver in the manner provided above, the number of contracts to which such Specialist or ROT is entitled under paragraph (c) shall be reduced by the number of contracts waived, and the entitlements of the other participants on parity shall be determined by redistributing the waived number of contracts to willing participants (including the Specialist) in accordance with paragraph (c).

(2) In the case of an option which is subject to an Enhanced Specialist Participation, as set forth in paragraph (b) of this Rule, and one or more ROTs effect Waivers of their entire entitlements ("Total Waivers"), the number of ROTs with whom the Specialist is deemed to be on parity for purposes of determining the Enhanced Specialist Participation shall be reduced by the number of ROTs effecting Total Waivers and the following additional Rules shall apply:

(A) in the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with three or more ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(1) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Rule, as if the Specialist had been on parity with three ROTs.

(B) in the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with two ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (C)(iii) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Rule as if the Specialist had been on parity with two ROTs.

(C) In the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with one ROT, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (C)(iii) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Rule as if the Specialist had been on parity with one ROT. In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Waiver(s).

(3) Partial Waiver. In the case of an option which is subject to an Enhanced Specialist Participation, in the event that one or more ROTs effect a Waiver of a portion of their respective entitlements, but not a Total Waiver, in the manner provided above (a "Partial Waiver"), the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (C)(iii) above, provided that the Specialist shall not be entitled to receive a number of contracts that is greater than 40% of the Remainder of the Order except in the situation referred to in the following sentence, unless all remaining crowd participants on parity have waived their entitlements or have been satisfied. In the case of the Specialist being on parity with only one ROT, the Specialist shall not be entitled to receive a number of contracts that is greater than 60% of the Remainder of the Order unless all remaining crowd participants on parity have waived their entitlements or have been satisfied.

In no event shall any non-waiving ROT be required participate in fewer contracts than he/she would have received absent the Partial Waiver(s).

(4) In no event shall two or more crowd participants enter into any agreement regarding the number of contracts to be waived by any crowd participant ( i.e., subject to the provisions of sub-paragraph (C)(1)(ii) above, any decision by a crowd participant to waive all or a portion of such crowd participant's entitlement must be an individual decision, and not the subject of an agreement among crowd participants).

(D) Rounding. In situations where the allocation of contracts pursuant to this Rule result in fractional amounts of contracts to be allocated to crowd participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.

(E) Just and Equitable Principles of Trade. (i) It shall be considered conduct inconsistent with just and equitable principles of trade for a member: (a) to allocate initiating orders other than in accordance with this Rule; (b) to enter into any agreement with another member concerning allocation of trades; or (c) to harass, intimidate or coerce any member to enter into any Waiver, or to make or refrain from making any complaint or appeal.

(ii) A pattern or practice of waiving all or a portion of a crowd participant's entitlement, with the result that such crowd participant receives no allocation or a lesser allocation than he or she would otherwise have been entitled to, may be considered conduct inconsistent with just and equitable principles of trade.

(F) Notwithstanding the first sentence of Options 8, Section 25(a)(1), neither Rule 119(b) and (c) concerning precedence based on the size of bids on parity, nor Rule

120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of orders covered by paragraph (c).

(i) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System.

a. in a trade involving a floor broker, the floor broker shall so do, provided that a floor broker may delegate this responsibility to the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) if the Specialist agrees to accept such responsibility, and, in the event of such delegation, the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so:

b. in all other cases where the Specialist is a participant (i.e., where there is no floor broker), the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so;

c. in any other case (i.e., where there is no floor broker and no Specialist is involved), the largest on-floor participant shall do so (for example, where several Registered Options Traders are involved); and

d. if there is only one seller and one buyer (no floor broker and no Specialist is involved), the seller shall do so (for example, where only two Registered Options Traders are involved), unless either the seller or the buyer is an RSQT, in which case the on-floor participant in the transaction shall do so.

e. The person responsible for trade allocation (the "Allocating Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself by initiating the trade tickets. In the case of a trade executed using the Floor Based Management System the Allocating Participant shall allocate the trade using the Options Floor Based Management System.

(d) An ROT electing to engage in Exchange options transactions is designated as a Specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him on the floor in his capacity as an ROT. For purposes of this commentary, the term "transactions initiated and effected on the floor" shall not include transactions initiated by

an ROT off the floor, but which are considered "on-floor" pursuant to (d)(1) and (e) below. Similarly, an RSQT electing to engage in Exchange options transactions is designated as a Specialist on the Exchange for all purposes under the Securities Exchange Act of 1934 and the rules and regulations thereunder with respect to options transactions initiated and effected by him in his capacity as an ROT.

(1) The term "on the Floor" means the Trading Floor of the Exchange; the rooms, lobbies, and other premises immediately adjacent thereto made available by the Exchange for use by members generally; other rooms, lobbies and premises made available by the Exchange primarily for use by members generally; and the telephone and other facilities in any such place. Further, the provisions of this Rule do not apply to transactions initiated by an ROT for an account in which he has an interest unless such transactions are either initiated by an ROT while on the Trading Floor or unless such transactions although originated off the Floor are deemed on-Floor transactions under the provisions of these Rules.

(e) An off-Floor order for an account in which a member has an interest is to be treated as an on-Floor order if it is executed by the member who initiated it. In addition to transactions originated on the Trading Floor by an ROT for an account in which he has an interest, the following transactions are considered on-Floor trading:

- (1) Any transaction for an account in which an ROT has an interest if such transaction is initiated off the Floor by such ROT after he has been on the Floor during the same day.
- (2) Any transaction for a member organization for an account in which it has an interest:
  - (A) which results from an order entered off the Floor following a conversation relating thereto with a member on the Floor who is a partner of or stockholder of such member organization; or
  - (B) which results from an order entered off the Floor following the unsolicited submission from the Floor to the office of a quotation in a stock or Exchange-Traded Fund Share and the size of the market by a member on the Floor who is a partner of or stockholder of such member organization; or
  - (C) which results from an order entered off the Floor which is executed by a member on the Floor who is a partner of or stockholder of such member organization and who had handled the order on a "not-held" basis; provided, however, that the following are not on-Floor orders and such restrictions shall not apply to an order:

(i) to sell an option for an account in which the member organization is directly or indirectly interested if in facilitating the sale of a large block of stock or Exchange-Traded Fund Shares, the member organization acquired its position because the demand on the Floor was not sufficient to absorb the block at a particular price or prices; or

(ii) to purchase or sell an option for an account in which the member organization is directly or indirectly interested if the member or his member organization was invited to participate on the opposite side of a block transaction by another member, member organization or a partner or stockholder therein because the market on the Floor could not readily absorb the block at a particular price or prices; or

(iii) to purchase or sell an option for an account in which the member organization is directly or indirectly interested if the transaction is on the opposite side of a block order being executed by the member organization for the account of its customer and the transaction is made to facilitate the execution of such order; or

(iv) which results from an order entered off the Floor which is executed by a member on the Floor who is a partner of or stockholder of such member organization and who has changed the terms of the order.

(3) Any transaction for the account of an RSQT.

(f) Non-Electronic Orders.

(1) In the event that a Floor Broker or Specialist presents a non-electronic order in which an RSQT is assigned or which is allocated to a Remote Specialist, and/or in which an SQT assigned in such option is not a crowd participant, such Remote Specialist, SQT and/or RSQT may not participate in trades stemming from such a non-electronic order unless such non-electronic order is executed at the price quoted by the non-crowd participant Remote Specialist, SQT and/or RSQT at the time of execution.

(2) Notwithstanding the foregoing, respecting crossing, facilitation and solicited orders (as defined in Section 30) that are represented and executed in open outcry, priority shall be afforded to in-crowd participants (including, for purposes of this rule only, Floor Brokers), over Remote Specialists, RSQTs, out-of crowd SQTs, and out-of-crowd broker-dealer limit orders on the limit order book, but not over public customer orders. Such orders shall be allocated in accordance with Exchange Rules.

(3) The Specialist and/or SQTs participating in a trading crowd may, in response to a verbal request for a market by a floor broker, state a bid or offer that is different than their electronically submitted bid or offer, provided that such stated bid or

offer is not inferior to such electronically submitted bid or offer, except when such stated bid or offer is made in response to a floor broker's solicitation of a single bid or offer as set forth in Options 8, Section 24(a)(ii).

(4) For purposes of this Rule, an SQT or Floor Marker Maker shall be deemed to be participating in a crowd if such SQT is, at the time an order is represented in the crowd, physically located in a specific "Crowd Area." A Crowd Area shall consist of a specific physical location marked with specific, visible physical boundaries on the options floor, as determined by the Exchange. An SQT or Floor Market Maker who is physically present in such Crowd Area may engage in options transactions in assigned issues as a crowd participant in such a Crowd Area, provided that such SQT or Floor Market Maker fulfills the requirements set forth in this Rule. An SQT or Floor Market Maker shall be deemed to be participating in a single Crowd Area.

(g) Orders given out by an ROT to commission brokers—An on-Floor order given by an ROT to a commission broker, for an account in which the ROT has an interest, is subject to all the Rules restricting ROTs. When an ROT gives out such an order on the Floor to another member, the order must be so marked to indicate that it is for an account in which the ROT has an interest, unless it is exempt from this Rule, in order that the other member may know whether it may be entitled to priority or parity.

(h) Pair-offs before opening—An ROT cannot acquire a "long" option by pairing off with a sell order before the opening, unless all off-Floor bids at that price are filled.

(i) The number of ROTs in a trading crowd who are establishing or increasing a position may temporarily be limited when, in the judgment of an Options Exchange Official, the interests of a fair and orderly market are served by such limitation.

(j) Within each quarter an ROT must execute in person, and not through the use of orders (except that non-streaming ROTs can use orders entered in person), a specified number of contracts, such number to be determined from time to time by the Exchange.

(k) An ROT may not initiate orders from off the floor as a market maker in reliance upon the market maker exemption contained in Section 11(a)(1) of the Securities Exchange Act of 1934.

(l) In the interest of fair and orderly markets, the Exchange may adopt policies affecting the location of members in the trading crowd on a crowd-by-crowd basis.

(m) Floor brokers are able to achieve split price priority in accordance with Options 8, Section 25(a)(2), provided, however, that a floor broker who bids (offers) on behalf of a non-market-maker Phlx member broker-dealer ("Phlx member BD") must ensure that the Phlx member BD qualifies for an exemption from Section 11(a)(1) of the Exchange Act

or that the transaction satisfies the requirements of Exchange Act Rule 11a2-2(T), otherwise the floor broker must yield priority to orders for the accounts of non-members.

## **Section 26. Trading Halts**

(a) **Manual Rotations.** Pursuant to the authority in Rule 1047(b) and in accordance with the procedures enumerated in those commentaries, a manual trading rotation may be held on the opening in the event that the Exchange's System is not available, and a closing rotation may be held on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration where the underlying stock or Exchange-Traded Fund Share did not open or was halted, whenever such action is deemed necessary in the interests of maintaining a fair and orderly market in such class or series of options and to protect investors.

(1) For purposes of this Rule, a trading rotation is a series of very brief time periods during each of which bids, offers and transactions in only a single, specified option contract can be made. An Options Exchange Official may direct that one or more trading rotations be employed on any business day to aid in producing a fair and orderly market and shall specify, for each rotation so employed, the particular option contracts to be included and the sequence of such option contracts in the rotation. Trading rotations, which shall be conducted by the Specialist, shall be conducted in the following manner:

(b) **Opening Rotations.**—In the case of options on stocks or Exchange-Traded Fund Shares, the opening rotation in each class of options shall be held promptly following the opening of the underlying security on the primary market where it is traded. An underlying security shall be deemed to have opened on the primary market where it is traded if such market has (i) reported a transaction in the underlying security or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening. In the case of options on foreign currencies, the opening rotation in each option shall be held promptly following the opening of trading. In either case, respecting openings conducted manually, the Specialist should proceed in the following manner: Taking each option in which he is assigned in turn, the Specialist should first open the one or more series of such options having the nearest expiration, then proceed to a series of options having the next most distant expiration, and so forth, until all series have been opened. The Specialist shall determine which type of option should open first (i.e., put or call options), and may alternate the opening of put series and call series or may open all series of one type before opening any series of the other type, depending on current market conditions, except as provided below.

(c) **Modified Rotations**—(1) Modified rotations include reverse and shotgun rotations. A reverse rotation is an opening rotation where the Specialist should first open the one or more series of options of a given class having the most distant expiration, then proceed to the next nearest expiration, and so forth, ending with the nearest expiration, until all

series have been opened. A shotgun rotation is an opening rotation in which each option series opens in the same manner and sequence as during a regular trading rotation stated above in paragraph (2), but is permitted to freely trade once all option series with the same expiration month have been opened.

(A) A reverse trading rotation must be employed in connection with openings and reopenings involving a heavy influx of orders, unless exempted by an Options Exchange Official.

(B) A second rotation requires the approval of an Options Exchange Official. In addition, a modified rotation may be employed in connection with delayed openings, halts or suspensions of options trading or other unusual market conditions, but in a different manner and sequence of trading than described above provided an Options Exchange Official determines that such procedure should be implemented.

(C) This Commentary .01(b) shall apply only to manual openings conducted in accordance with the Commentary to Rule 1017.

(d) **Closing Rotations at Expiration**—On the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the last trading day prior to expiration with respect to expiring stock option contracts a closing rotation in each series of expiring options shall be commenced at 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., or after a closing price of the stock or Exchange-Traded Fund Share in its primary market is established, whichever is later. Except as otherwise provided by an Options Exchange Official, the Specialist may determine which type of expiring options series should close first, and may alternate the close of put series and call series or may close all series of one type before closing any series of the other type, depending on current market conditions. In any instance where an Options Exchange Official, determines to conduct a closing rotation on the business day of expiration, or, in the case of an option contract expiring on a day that is not a business day, on the trading day prior to expiration in any equity option for which the underlying did not trade, or for which trading was halted as of the normal close of trading in its primary market on that day, the rotation shall commence as immediately as practicable following the time at which the option normally ceases free trading, or at any earlier time

(e) **Quarterly Rotations**—On the last day of each calendar quarter, a closing rotation for some equity option series may be commenced at 4:00 p.m. or after the closing price of the stock in its primary market is established, whichever is later. Orders will not be accepted at or after 4:00 p.m. Prior notice will be provided to the trading floor regarding which options series will be subject to a closing rotation.

(1) In the event that trading in an underlying stock or Exchange-Traded Fund Share has not opened in the primary market for such stock or Exchange-Traded Fund Share within a reasonable time after

the opening of business, or, in the event that current quotations for any underlying foreign currency are for any reason unavailable, the Specialist shall report such delay or unavailability to the Regulatory staff and the appropriate steps will be taken to determine the cause for such delay or unavailability. The opening of trading in such option shall be delayed until the underlying stock has opened or until current quotations for the underlying foreign currency become available, as the case may be, unless an Options Exchange Official, determines that the interests of a fair and orderly market are best served by opening trading in such options.

(2) Stock or Exchange-Traded Fund Share Options Trading after 4:00 p.m. With the prior approval of an Options Exchange Official a trading rotation in any class of stock option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 p.m., or 4:15 p.m. for options on Exchange-Traded Fund Shares where the underlying Fund Shares themselves cease trading at 4:15 p.m., provided:

(i) Promptly after trading in the underlying security opens or re-opens, an opening or re-opening rotation in the corresponding options class is commenced; or

(ii) Such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor and the rotation does not commence until five minutes after the notice is disseminated.

(iii) If prior to 4:00 p.m. a trading rotation is in progress and an Options Exchange Official determines that a final trading rotation is needed to assure a fair and orderly market, the rotation in progress shall be halted and such final rotation begun as promptly as possible after 4:00 p.m.

(f) **Index Options Trading after 4:00 P.M.:** With the prior approval of an Options Exchange Official, a trading rotation in any class of index option contracts may be effected even though employment of the rotation will result in the transaction on the Exchange after 4:00 P.M. provided, in addition to Rule 1047A such rotation was initiated due to unusual market conditions pursuant to this Rule, notice of such rotation is disseminated to the trading floor, and the rotation does not commence until five minutes after the notice is disseminated.

## **Section 27. Quoting Obligations and Required Transactions**

(a) *No Continuous Electronic Quoting Obligation.* A Floor Market Maker will not be obligated to quote electronically in any designated percentage of series.

(b) Continuous Open Outcry Quoting Obligation: In response to any request for quote by a Floor Broker, Specialist, Options Exchange Official, or other ROT (including an SQT), Floor Market Makers must provide a two-sided market complying with the quote spread parameter requirements contained in Rule 1014(c)(i) (in the case of equity options and U.S. dollar-settled FCOs). Such Floor Market Maker shall provide such quotations with a size of not less than 10 contracts.

(c) In Classes of Option Contracts to Which Assigned—Affirmative Obligations. With respect to classes of option contracts to which his assignment extends, a Specialist and an ROT, whenever the ROT (except an RSQT) enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a Floor Broker, to make a market, are expected to engage, to a reasonable degree under the existing circumstances, in dealing for his own account when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of and demand for a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class. Without limiting the foregoing, a Specialist and an ROT is expected to perform the following activities in the course of maintaining a fair and orderly market:

(1) Options on Equities (including Exchange-Traded Fund Shares), Index Options, and U.S. dollar- settled Foreign Currency Options.

(A) Quote Spread Parameters (Bid/Ask Differentials)—

(i) Options on equities and index options bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2; no more than \$.40 where the prevailing bid is \$2 or more but less than \$5; no more than \$.50 where the prevailing bid is \$5 or more but less than \$10; no more than \$.80 where the prevailing bid is \$10 or more but less than \$20; and no more than \$1 where the prevailing bid is \$20 or more, provided that, in the case of equity options, the bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differentials may be as wide as the spread between the national best bid and offer in the underlying security, or its decimal equivalent rounded down to the nearest minimum increment. The Exchange may establish differences other than the above for one or more series or classes of options.

(ii) Options on U.S. dollar-settled FCO. With respect to all U.S. dollar-settled FCO bidding and/or offering so as to create differences of no more than \$.25 between the bid and the offer for each option contract for which the prevailing bid is less than \$2.00; no more than \$.40 where the prevailing bid is \$2.00 or more but

less than \$5.00; no more than \$.50 where the prevailing bid is \$5.00 or more but less than \$10.00; no more than \$.80 where the prevailing bid is \$10.00 or more but less than \$20.00; and no more than \$1.00 where the prevailing bid is \$20.00 or more. The Exchange may establish differences other than the above for one or more series or classes of options.

(d) In Classes of Option Contracts Other Than Those Which Appointed. With respect to classes of option contracts other than those to which his appointment extends, an ROT (other than an RSQT), whenever he enters the trading crowd in other than a floor brokerage capacity or is called upon by an Options Exchange Official or a floor broker to make a market, shall undertake the obligations specified in paragraph (c) of this Rule. Furthermore, an ROT should not:

(1) Effect purchases or sales on the Trading Floor of the Exchange except in a reasonable and orderly manner.

(e) Except in accordance with paragraphs (c) and (d), no ROT shall:

(1) initiate an Exchange options transaction while on the Trading Floor for any account in which he has an interest and execute as Floor Broker an off-floor order in options on the same underlying interest during the same trading session, or

(2) retain priority over an off-floor order while establishing or increasing a position for an account in which he has an interest while on the Trading Floor of the Exchange.

(f) A Floor Market Maker is required to trade either (a) 1,000 contracts and 300 transactions, or (b) 10,000 contracts and 100 transactions, on the Exchange each quarter. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

(1) In addition, in order for an ROT (other than an RSQT or a Remote Specialist) to receive Specialist margin treatment for off-floor orders in any calendar quarter, the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders, except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options. Transactions executed in the trading crowd where the contra-side is an ROT are not included.

## **Section 28. Responsibilities of Floor Brokers**

(a) General Responsibility. A Floor Broker handling an order is to use due diligence to cause the order to be executed at the best price or prices available to him in accordance with the Rules of the Exchange. An Options Floor Broker shall ascertain that at least one

Registered Options Trader is present at the trading post prior to representing an order for execution. This paragraph (a) shall not apply to a Floor Broker in any foreign currency option if no Registered Options Trader registered in such foreign currency option is present on the Exchange's trading floor at that time.

(b) Contingency order. An Options Floor Broker handling a contingency order that is dependent upon the price of the underlying security shall be responsible for satisfying the dependency requirement on the basis of the last reported price of the underlying security in the primary market that is generally available on the Options Floor at any given time. Unless mutually agreed by the members involved, an execution or non-execution that results shall not be altered by the fact that such reported price is subsequently found to have been erroneous.

(c) Combination orders at the opening or close. A Floor Broker shall not be held responsible for the execution of a single order combining different series of options based upon transaction prices that are established at the opening or close of trading or during any trading rotation.

(d) Orders for Registered Options Traders. An Options Floor Broker must inform the crowd when he is representing an order for a Registered Options Trader and must comply with Options 8, Section 25 (d)(1), (h), (i) and (j).

(e)(1) Options Floor Based Management System. In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule 1080(a)(i)(C)). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Option 8, Section 32; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor

Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(2) Pursuant to Options 8, Section 22, Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Floor Brokers execute orders in the Exchange's options trading crowd pursuant to Options 8, Section 22(a)(3), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(3) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(4) Execution. FBMS is designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Options 8, Sections 24 and 25 and 1084.

(5) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Floor Brokers as set forth sub-paragraph (i) below.

(f) Floor Brokers or their employees shall enter the required information (as described in paragraph (e) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

(g) A Floor Broker who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

(h) Floor Brokers must make reasonable efforts to ascertain whether each order entrusted to them is for the account of a customer or a broker-dealer. If it is ascertained that the order is for the account of a broker-dealer, the responsible Floor Broker must advise the crowd of that fact prior to bidding/offering on behalf of the order or submitting the order for execution. The Floor Broker or his employees must make the appropriate notation on the Options Floor Based Management System when it has been determined that the order is for an account of a broker/dealer.

(i) The Snapshot feature of FBMS records the market prevailing at the time the Snapshot is triggered. It records all information required to determine compliance with priority and trade-through requirements, including the following: (1) Away Best Bid and Offer; (2) the Exchange Best Bid and Offer; (3) customer orders at the top of the Exchange book; and (4) the best bid and offer of all-or-none orders.

(1) Availability.

(A) A member is permitted to trigger the Snapshot feature only at the time he or she provisionally executes a trade in the trading crowd. For purposes of this provision, provisional execution occurs when either: (1) the participants to a trade reach a verbal agreement in the trading crowd as to the terms of the trade; or (2) a member announces that he is crossing an order in accordance with Options 8, Section 30(a).

(B) A member is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

(C) A member may have only one Snapshot outstanding across all options classes and series at a given time.

(D) Surveillance Staff will monitor and enforce proper usage of the Snapshot feature on a post-trade basis.

(2) Snapshot Timer. After triggering the Snapshot feature, the member will have no more than 30 seconds to submit the provisionally executed trade along with the Snapshot into the System. The Snapshot will automatically become unavailable and expire if the member fails to submit a provisionally executed trade along with the Snapshot within 30 seconds after triggering the Snapshot.

(3) Verification. After the member submits the provisionally executed trade along with the Snapshot, the System then determines whether the terms of the provisionally

executed trade submitted by the member is consistent with applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot.

(A) If the provisionally executed trade submitted with the Snapshot is consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will report the trade to the Consolidated Tape.

(B) If the provisionally executed trade is not consistent with the applicable priority and trade-through rules based on the market prevailing at the time of the Snapshot, the System will reject the trade.

(C) If an order exists on the Exchange's limit order book that has priority at the time when a member seeks to take a Snapshot, the System will not prevent the member from taking a Snapshot, but the member must clear the order on the book, re-announce and provisionally re-execute the trade, and take a new Snapshot before submitting the provisionally executed trade to the System or else the System will reject the trade upon submission.

#### (4) Taking a New Snapshot

(A) A member may take a new Snapshot and trigger a new 30-second timer provided that the member first re-announces and provisionally re-executes the trade in the crowd, as described in paragraphs (1) through (3) above, if: (i) the Snapshot expired before the member submitted a provisional execution to the Trading System; (ii) the Trading System rejected a provisional execution that is subject to a Snapshot; or (iii) the member affirmatively canceled a Snapshot or permitted it to expire in anticipation of the Trading System rejecting the provisional execution that is subject to it.

### **Section 29. Use of Floor Based Management System by Registered Options Traders and Specialists**

(a) *Options Floor Based Management System.* In order to create an electronic audit trail for equity, equity index and U.S. dollar-settled foreign currency options orders negotiated by Registered Options Traders and Specialists on the Exchange's Options Floor, a Registered Options Trader, a Specialist, or their respective employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Registered Options Trader or Specialist onto the electronic Options Floor Based Management System ("FBMS") (as described in Rule 1080, Commentary .06). The following specific information with respect to orders negotiated by a Registered Options Trader or Specialist shall be recorded by such Registered Options Trader, Specialist, or their respective employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Registered Options Trader or

Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order. In the event of a malfunction in the Options Floor Based Management System, a Registered Options Trader or Specialist shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders, Specialists, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(b) Pursuant to Options 8, Section 22(a), Registered Options Traders and Specialists are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Registered Options Traders or Specialists execute orders in the Exchange's options trading crowd pursuant to Options 8, Section 22(a)(2), Registered Options Traders or Specialists shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders, Specialists, or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

(c) Complex Calculator. The FBMS will calculate and display a suggested price of each individual component of a multi-leg order up to 15 legs submitted on a net debit or credit basis.

(d) Execution. FBMS is designed to execute orders entered by Registered Options Traders or Specialists, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Registered Options Trader or Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options trader or Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced in an Options Trader Alert, after which it will be returned to the Registered Options Trader or Specialist on the FBMS. The Registered Options Trader or Specialist may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Registered Options Traders and Specialists are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, Options 8, Section 33 and 1084.

(e) Snapshot Feature. The Snapshot feature of FBMS may be utilized by Registered Options Traders and Specialists as set forth in Rule Options 8, Section 28(i).

(f) Registered Options Traders, Specialists or their employees shall enter the required information (as described in paragraph (a) above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity and index options and U.S. dollar-settled foreign currency options. Registered Options Traders, Specialists or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

(g) A Registered Options Trader or Specialist who wishes to place a limit order on the limit order book must submit such a limit order electronically through the Options Floor Based Management System.

### **Section 30. Reserved.**

### **Section 31. Discretionary Transactions**

(a) No Floor Broker shall execute or cause to be executed any order or orders on this Exchange with respect to which such Floor Broker is vested with discretion as to: (i) the choice of the class of options to be bought or sold, (ii) the number of contracts to be bought or sold, or (iii) whether any such transaction shall be one of purchase or sale. However, the provisions of this Rule shall not apply to any discretionary transaction executed by a Registered Options Trader for an account in which he has an interest.

(b) No Options Floor Broker shall hold a "not held" market order to buy and a "not held" market order to sell (or orders which have the effect of such "not held" market orders to buy and to sell) the same series of options for the same account or for accounts of the same beneficial owner. Also no Floor Broker shall leg a combination order for a Registered Options Trader or accept opening or discretionary orders for a Registered Options Trader who is associated with the same member organization as such Floor Broker or who is associated with another member organization which is pursuant to Exchange Rule 793 affiliated with the same member organization as such Floor Broker. Holding or accepting such orders can be interpreted as allowing the Floor Broker discretion respecting whether to purchase or sell such options.

(c) An Options Floor Broker may not exercise any discretion with respect to the order of a ROT or the order of an options market maker registered on another exchange.

### **Section 32. Certain Types of Floor-Based (Non-System) Orders Defined**

These order types are eligible for entry by a member for execution through the Options Floor Based Management System ("FBMS").

(a) *Market Order.* A market order is an order to buy or sell a stated number of option contracts and is to be executed at the best price obtainable when the order reaches the post.

(b) Limit Order. A limit order is an order to buy or sell a stated number of option contracts at a specified price, or better.

(c) Contingency Order. A contingency order is a limit or market order to buy or sell that is contingent upon a condition being satisfied while the order is at the post.

(1) Stop-Limit Order. A stop-limit order is a contingency order to buy or sell at a limited price when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop-limit order to buy becomes a limit order executable at the limit price or better when the option contract trades or is bid on the Exchange at or above the stop-limit price. A stop-limit order to sell becomes a limit order executable at the limit price or better when the option contract trades or is offered on the Exchange at or below the stop-limit price.

(2) Stop (stop-loss) Order. A stop order is a contingency order to buy or sell when a trade or quote on the Exchange for a particular option contract reaches a specified price. A stop order to buy becomes a market order when the option contract trades or is bid on the Exchange at or above the stop price. A stop order to sell becomes a market order when the option contract trades or is offered on the Exchange at or below the stop price.

Notwithstanding the foregoing, a stop or stop-limit order shall not be elected by a trade that is reported late or out of sequence.

(3) All or None Order. An all-or-none order is a market or limit order which is to be executed in its entirety or not at all.

(4) Cancel-Replacement Order. A cancel-replacement order is a contingency order consisting of two or more parts which require the immediate cancellation of a previously received order prior to the replacement of a new order with new terms and conditions. If the previously placed order is already filled partially or in its entirety the replacement order is automatically canceled or reduced by such number.

(5) Immediate or Cancel Order. An immediate-or-cancel ("IOC") order is a limit order that is to be executed in whole or in part upon receipt. Any portion not so executed shall be cancelled. IOC Orders are not routable and shall not be subject to any routing process described in these Rules.

(d) Not Held Order. A not held order is an order marked "not held", "take time" or which bears any qualifying notation giving discretion as to the price or time at which such order is to be executed.

(e) Multi-leg Orders. A multi-leg order is any spread type order (including a spread, straddle and combination order) for the same account or tied hedge order as defined below:

(1) Spread Order. A spread order is an order to buy a stated number of option contracts and to sell a stated number of option contracts in a different series of the same option and may be bid for or offered on a total net debit or credit basis.

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

(3) Combination Order. A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security and representing the same number of shares at option (if the underlying security is a stock or Exchange-Traded Fund Share) or the same number of foreign currency units (if the underlying security is a foreign currency). A combination order includes a conversion (generally, buying a put, selling a call and buying the underlying stock or Exchange-Traded Fund Share) and a reversal (generally, selling a put, buying a call and selling the underlying stock or Exchange-Traded Fund Share). In the case of adjusted option contracts, a combination order need not consist of the same number of shares at option.

(4) Tied Hedge Order. A tied hedge order is an option order that is tied to a hedge transaction as defined in Options 8, Section 30(d)(3)(A), following the receipt of an option order in a class determined by the Exchange as eligible for "tied hedge" transactions.

(5) Synthetic Option. A synthetic option order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock ("convertible security") coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying stock or convertible security or the number of units of the underlying stock or convertible security necessary to create a delta neutral position, or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock as, and on the opposite side of the market from, the stock or convertible security portion of the order.

(6) Spread Type Order - A spread type order is a multi-leg order submitted through the Floor Based Management System ("FBMS") involving the simultaneous purchase and/or sale of two or more different options series (up to 15) in the same underlying security, priced as a net debit or credit based on the relative prices of the individual components, for the same account, for the purpose of executing a particular investment strategy. A spread type order may include as one of the legs a stated number of units of an underlying security (stock or Exchange Traded Fund Share ("ETF")) coupled with the purchase or sale of options contract(s). The underlying security must be the deliverable for the options component of that Complex Order and represent exactly 100 shares per option for regular way delivery.

(7) Complex Order. A Complex Order is a multi-leg order that meets the definition of Complex Order in Rule 1098(a)(i).

(8) DNA Order. A DNA Order is an order submitted through FBMS that meets the definition of DNA Order in Rule 1098(a)(viii).

(f) Routing order types. In the System, the following order types will be available and governed by Rule 1080(m): DNR (do not route), FIND and SRCH.

(g) For options on foreign currencies, a multi-spread transaction consisting of spread, straddle or combination orders may be executed. A multi-spread transaction combines any two spread type orders for the same account as defined in Options 8, Section 32(e), a permissible multi-spread transaction combines any of the following: a two-way transaction with another two-way transaction of the same spread type; a three-way transaction with another three-way transaction of the same spread type; or a two-way transaction with a three-way transaction of the same spread type. In addition, a multi-spread transaction includes the combination of a spread type order with a ratio spread type order. The ratio between the spread type order and the ratio spread type order comprising the multi-spread transaction may range from one-to-one to three-to-one, which will be determined by the Exchange.

### **Section 33. Accommodation Transactions**

(a) A "cabinet order" is a closing limit order at a price of \$1 per option contract for the account of a customer, firm, Specialist or ROT. An opening order is not a "cabinet order" but may in certain cases be matched with a cabinet order pursuant to subsection (a)(iii) below. Only Floor Brokers may represent cabinet orders. Cabinet trading shall be available for each series of options open for trading on the Exchange under the following terms and conditions:

(1) Trading shall be conducted in accordance with other Exchange Rules except as otherwise provided herein or unless the context otherwise requires.

(2) Cabinet orders may be submitted to Floor Brokers and represented by them in the designated trading crowd of the option class. Floor Brokers must use the designated cabinet transaction forms provided by the Exchange to document receipt of a cabinet order and the execution of a cabinet transaction. Options 8, Section 29(e)(i) shall not apply to cabinet orders.

(3)(A) *Floor Broker Holds the Cabinet Order Only.* If a Floor Broker holds a cabinet order but does not hold contra-side interest, he shall follow the procedures set forth in this subsection (3)(A). In the trading crowd, and in the presence of at least one market maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet order to the trading crowd to solicit interest to participate on the closing position. All matching cabinet orders shall be assigned priority based upon the sequence in which such orders are received by the Floor Broker. If there is no matching cabinet order, the Floor Broker may match the cabinet order with a matching opening buy or sell limit order priced at \$1 per option contract. If there is no matching cabinet order or opening order, the Floor Broker may seek matching bids or offers for accounts of Specialists and ROTs. Specialists and ROTs can only participate after all other orders have been matched.

(B) *Floor Broker Holds the Cabinet Order and also a Contra-Side Cabinet Order.* If the Floor Broker holds a cabinet order as well as contra-side cabinet order, the Floor Broker shall follow the procedures set forth in this subsection (3)(B). In the trading crowd, and in the presence of at least one market-maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet orders to the trading crowd. The cabinet orders shall then be immediately crossed by the Floor Broker.

(C) *Floor Broker Holds Cabinet Order and a Contra-Side Opening Order.* If the Floor Broker holds a cabinet order as well as contra-side opening order, the Floor Broker shall follow the procedures set forth in this subsection (3)(C). In the trading crowd, and in the presence of at least one market-maker and Nasdaq Market Regulation Floor Surveillance, the Floor Broker shall announce the terms of the cabinet order to the trading crowd. If there is a matching cabinet order, the Floor Broker shall match the two cabinet orders. If there is no matching cabinet order, the cabinet order shall then be immediately crossed by the Floor Broker with the opening order held by the Floor Broker.

(4) Once the cabinet order has been either crossed or matched, the Floor Broker shall submit the designated cabinet form to the Nasdaq Market Operations staff for clearance and reporting at the close of the business day.

(5) Specialists and ROTs shall not be subject to the requirements of Options 8, Section 25 in respect of orders placed pursuant to this Rule. The provisions of Options 8 Section 24(b) and (c) and Rule 1034 shall not apply to orders placed in the cabinet. Cabinet transactions shall not be reported on the ticker.

(b) Any (i) member, or (ii) other person who is a non-member broker or dealer and who directly or indirectly controls, is controlled by, or is under common control with, a member (any such other person being referred to as an affiliated person) may effect any transaction as principal in the over-the-counter market in any class of option contracts listed on the Exchange for a premium not in excess of \$1.00 per contract.

(c) For each transaction executed by a member or affiliated person pursuant to paragraph (b) a record of such transaction shall be maintained by the member and shall be available for inspection by the Exchange for a period of three years. Such record shall include the circumstances under which the transaction was executed in conformity with this Rule.

(d) **Limit Orders Priced Below \$1:** Limit orders with a price of at least \$0 but less than \$1 per option contract may trade under the terms and conditions in Options 8, Section 33 above in each series of option contracts open for trading on the Exchange, except that:

(1) Bids and offers for opening transactions are only permitted to accommodate closing transactions.

(2) These procedures are available for trading in all options classes trading on the Exchange, including options classes participating in the Penny Pilot Program.

(3) Transactions shall be reported for clearing utilizing forms, formats and procedures established by the Exchange.

(e) Pursuant to Options 8, Section 34(h), open FLEX option positions are eligible to be closed in accordance with this Options 8, Section 33 at the minimum increments specified herein. The FLEX option cabinet order may be executed against contra-side interest which closes a FLEX option position or, to the extent permitted under Rule 1059(a)(iii), against contra-side interest which opens a FLEX option position. Sections (b) and (c) of Rule Options 8, Section 34 shall not apply to FLEX option transactions executed pursuant to Options 8, Section 34(h), and Options 8, Section 33. However, Sections (d) - (h) of Options 8, Section 34 shall apply to any FLEX option position opened pursuant to Options 8, Section 33.

#### **Section 34. FLEX Index, Equity and Currency Options**

(a) A Requesting Member shall obtain quotes and execute trades in certain non-listed FLEX options at the post of the non-FLEX option on the Exchange. The term "FLEX option" means a FLEX option contract that is traded subject to this Rule. Although FLEX options are generally subject to the Rules in this section, to the extent that the provisions of this Rule are inconsistent with other applicable Exchange Rules, this Rule takes precedence with respect to FLEX options.

#### **(b) Characteristics:**

(1) Underlying interest —

(A) any index upon which options currently trade on the Exchange. The applicable index multiplier shall be the same multiplier, in the case of U.S. dollar-denominated FLEX index options, that applies to non-FLEX index options on the same underlying index;

(B) any security which is options-eligible pursuant to Rule 1009; or

(C) any foreign currency which is options-eligible pursuant to Rule 1009 and which underlies non-FLEX U.S. dollar-settled foreign currency options that are trading on the Exchange.

(2) Type—put, call or hedge order (as defined in Options 8, Section 32).

(3) Exercise price—

(A) with respect to FLEX index options, may be specified in terms of a specific index value number, a percentage of the index value calculated as of the open or close of trading on the Exchange on the trade date, or a method for fixing such number;

(B) with respect to FLEX equity options, may be specified in terms of a specific dollar amount rounded to the nearest \$.10 or a percentage of the underlying security rounded to the nearest minimum increment; or

(C) with respect to FLEX currency options, may be specified in terms of a specific dollar amount rounded to the nearest hundredth of a dollar.

(4) Quote format—

(A) in the case of FLEX index options and equity options, a bid and/or offer in the form of a decimal price (e.g. .10 or .25), pursuant to Rule 1034, a specific dollar amount, or a percentage of the underlying equivalent value, in the case of FLEX index options, or security, in the case of FLEX equity options, rounded to the nearest minimum increment; or

(B) in the case of FLEX currency options, in the form of dollars per unit of underlying foreign currency in the minimum increments set forth for U.S. dollar settled foreign currency options in Rule 1034(a).

(5) Exercise style—American or European in the case of FLEX index options and FLEX equity options, and European only in the case of FLEX U. S. dollar-settled foreign currency options;

(6) Expiration date—

- (A) any month, business day and year within five years for FLEX index options and within three years for FLEX currency options, except that (i) a FLEX index option that expires on or within two business days prior or subsequent to a third Friday-of-the-month expiration day for a non-FLEX option (except quarterly expiring index options) or underlying currency may only have an exercise settlement value on the expiration date determined by reference to the reported level of the index as derived from the opening prices of the component securities ("a.m. settlement") and (ii) all FLEX currency options will expire at 11:59 p.m. eastern time on their designated expiration date; or
- (B) any month, business day and year within three years for FLEX equity options, provided, however, that a Requesting Member may request a longer term to a maximum of five years, and upon the assessment of the Regulatory staff that sufficient liquidity exists among FLEX equity participants, such request may be granted. Regulatory staff are Exchange employees responsible for, among other things, assessing that sufficient liquidity exists among FLEX equity participants requesting a term exceeding three years to a maximum of five years. The Exchange may also designate other qualified Exchange employees to assist the Regulatory staff as the need arises.
- (C) Provided the options on an underlying security or index are otherwise eligible for FLEX trading, FLEX options shall be permitted in puts and calls that do not have the same exercise style, same expiration date and same exercise price as non-FLEX options that are already available for trading on the same underlying security or index. FLEX options shall also be permitted before the options are listed for trading as non-FLEX options. Once and if the option series are listed for trading as non-FLEX options, then (i) all existing open positions established under the FLEX trading procedures shall be fully fungible with transactions in the respective non-FLEX option series, and (ii) any further trading in the series would be as non-FLEX options subject to the non-FLEX trading procedures and Rules. However, in the event the Non-FLEX series is added intra-day, a position established under the FLEX trading procedures would be permitted to be closed using the FLEX trading procedures for the balance of the trading day on which the Non-FLEX series is added against another closing only FLEX position. For such FLEX series, the Exchange will make an announcement that the FLEX series is now restricted to closing transactions; a FLEX Request for Quotes ("RFQ") may not be disseminated for any order representing a FLEX series having the same terms as a Non-FLEX series, unless such FLEX Order is a closing order (and it is the day the Non-FLEX series has been added); and only responses that close out an existing FLEX position are permitted. Any transactions in a restricted series that occur that do not conform to these requirements will be nullified by the Exchange.
- (7) Requesting quotes—to request a quote in FLEX options, an RFQ shall be submitted pursuant to paragraph (c) of this Rule;

(8) Minimum size—

(A) **Opening**—If there is no open interest in the particular series when an RFQ is submitted, the minimum size of an RFQ is:

(i) One contract in the case of FLEX market index options, and one contract in the case of FLEX industry index options;

(ii) One contract in the case of FLEX equity options; and

(iii) 50 contracts in the case of FLEX currency options.

(B) **Opened**—If there is open interest, the minimum size of an RFQ is:

(i) respecting FLEX index options, \$1 million underlying equivalent value, or the remaining size on a closing transaction, whichever is less;

(ii) respecting FLEX equity options, the lesser of 100 contracts or the number of contracts overlying \$1 million of the underlying securities in the case of an opening transaction, or 25 contracts or the remaining size in the case of a closing transaction, whichever is less; or

(iii) respecting FLEX currency options, 25 contracts, or the remaining size on a closing transaction, whichever is less.

(C) **Responsive**—The minimum value size for a responsive quote, other than an assigned ROT or assigned Specialist, is (includes non-assigned ROTs and a non-assigned Specialist):

(i) respecting FLEX index options, \$1 million underlying equivalent value respecting index options, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned Specialist are required to respond with at least \$10 million underlying equivalent value respecting FLEX market index options, and \$5 million underlying equivalent value respecting FLEX industry index options or Alpha Index options, or the size amount requested in the RFQ, whichever is less;

(ii) respecting FLEX equity options, 25 contracts, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned Specialist are required to respond with at least 250 contracts, or the size amount requested in the RFQ, whichever is less; or

(iii) respecting FLEX currency options, 50 contracts, or the remaining size on a closing transaction, whichever is less. However, an assigned ROT and assigned Specialist are required to respond with at least 250 contracts, or the size amount requested in the RFQ, whichever is less.

(D) "Underlying equivalent value" means the aggregate value of a FLEX index option (index multiplier times the current index value) multiplied by the number of FLEX index options.

(9) Settlement

(A) respecting FLEX index options, the settlement value may be specified as the index value reported at the: (i) close (P.M.-settled); (ii) opening (A.M.-settled) of trading on the Exchange, or (iii) as an average over a specified period of time, within parameters established by the Exchange. American style index options exercised prior to the expiration date can only settle based on the closing value on the exercise date. FLEX index options are settled in U.S. dollars; or

(B) The settlement value for FLEX options on the Australian dollar, the Euro, the British pound, the Canadian dollar, the Swiss franc, the Japanese yen, the Mexican peso, the Brazilian real, the Chinese yuan, the Danish krone, the New Zealand dollar, the Norwegian krone, the Russian ruble, the South African rand, the South Korean won, and the Swedish krona shall be the Exchange Spot Price at 12:00:00 Eastern Time (noon) on expiration day, unless the Exchange determines to apply an alternative closing settlement value as a result of extraordinary circumstances. FLEX currency options are settled in U.S. dollars. FLEX currency options will cease trading at 10:15 a.m. eastern time on their designated expiration date.

(10) Requesting Member—a member of the Exchange qualified to trade FLEX options pursuant to paragraph (d) of this Rule who initiates an RFQ for a FLEX option.

(11) Request for Quotes—the term "Request for Quotes" means the initial request supplied by a Requesting Member to initiate FLEX bidding and offering.

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

(13) FLEX Quote - the term "FLEX Quote" means (i) FLEX bids and offers entered by Specialists and Registered Options Traders and (ii) orders to purchase and orders to sell FLEX Options entered by Floor Brokers, in each case in response to a Request for Quotes.

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

(15) BBO Improvement Interval—the term "BBO Improvement Interval" means the minimum period of time, to be established by the Exchange, during which members

may submit FLEX Quotes to meet or improve the BBO established during the Request Response Time.

**(c) Procedure for Quoting and Trading FLEX Options.** FLEX options will not be continuously quoted and series are not pre-established. The Exchange's electronic quoting and trading system will not be available for FLEX options. The variable terms of FLEX options shall be established through the process described in this Rule. All transactions must be in compliance with Section 11(a) of the Securities Exchange Act of 1934 and the rules promulgated thereunder, which may include yielding priority to customer orders.

**(1) Requesting Quotations.** The Requesting Member may initiate a Request-for-Quote ("RFQ") by first announcing all of the following contract terms to the trading crowd of the non- FLEX option and then submitting an RFQ ticket to the post: (1) underlying index, security or foreign currency; (2) type, size, and crossing intention; (3) in the case of FLEX index options and FLEX equity options, exercise style; (4) expiration date; (5) exercise price; and (6) respecting index options, the settlement value. Thereafter, on receipt of an RFQ in proper form, the assigned Specialist or the Requesting Member shall cause the terms of the RFQ to be disseminated as an administrative text message through the Options Price Reporting Authority ("OPRA").

**(2) Responses.** Members may enter at the FLEX post FLEX Quotes responsive to each Request for Quotes. FLEX Quotes must be entered during the Request Response Time. Each FLEX Quote shall refer to a reference indicator as the Exchange determines appropriate from time to time. All FLEX Quotes may be entered, modified or withdrawn at any point during the request response time. At the expiration of the Request Response Time, the BBO shall be identified in accordance with the price and time priority principles set forth by the Exchange.

**(3) Formation of Contracts Following the Process of Initial Quotes.** At the expiration of the Request Response Time, the assigned Specialist, or if none, the Requesting Member shall determine the BBO and the BBO shall be displayed on such market data systems as are available. If the Requesting Member has not indicated an intention to cross or act as principal with respect to any part of the FLEX trade, the member shall promptly accept or reject the displayed BBO: provided, however, that if such a Requesting Member either rejects the BBO or is given a BBO for less than the entire size requested, all FLEX participating members other than the Requesting Member will have an opportunity during the BBO Improvement Interval in which to match, or improve, (as applicable), the BBO. At the expiration of any such BBO Improvement Interval, the Requesting Member must promptly accept or reject the BBO(s). If the Requesting Member has indicated an intention to cross or act as principal with respect to any part of the FLEX trade, acceptance of the displayed BBO shall be automatically delayed until the expiration of the BBO Improvement Interval. Prior to the BBO Improvement Interval, the Requesting Member must indicate at the post the price at which the member expects to trade. In these circumstances, the Requesting Member may participate with all

other FLEX-participating members in attempting to improve or match the BBO during the BBO Improvement Interval. At expiration of the BBO Improvement Interval, the Requesting Member must promptly accept or reject the BBO(s). The Requesting Member has no obligation to accept any FLEX bid or offer. Whenever, following the completion of FLEX bidding and offering responsive to a given RFQs, the Requesting Member rejects the BBO or the BBO size exceeds the FLEX transaction size indicated in the RFQs, members may accept the entire order or the unfilled balance of the BBO.

(4) **Priority.** The highest bid shall have priority, but where the two or more best bids are submitted at the same price, the bid(s) submitted first in time will have priority. The lowest offer shall have priority, but where the two or more best offers are submitted at the same price, the offer(s) submitted first in time will have priority.

(5) **BBO Improvement Interval.** In the case of FLEX equity options only and notwithstanding paragraph (c)(4), whenever the Requesting Member has indicated an intention to cross or act as principal on the trade and has matched or improved the BBO during the BBO Improvement Interval, the Requesting Member will be permitted to execute the contra side of the trade that is the subject of the RFQs, to the extent of at least 40% of the trade, provided the order is a public customer order or an order respecting the Requesting Member's firm proprietary account. Notwithstanding the foregoing, all market participants may effect crossing transactions.

(6) **Reporting Requirements.** RFQs, responsive quotes and completed trades will be promptly reported to OPRA and disseminated as an administrative text message.

(7) **Trading Rotations.** There will be no trading rotations in FLEX options, either at the opening or at the close of trading.

(8) **Hours of Trading.** FLEX options trading must be effected during the hours established by the Exchange. Such hours shall be within regular Exchange trading hours (for the non-FLEX option) on each business day, except that the Exchange in its discretion may determine at any time to narrow or expand FLEX trading hours to encompass, but not exceed, the trading hours of the non-FLEX option.

(d) Who May Trade FLEX Options.

(1) **Assigned ROTs and Assigned Specialists.** An ROT or Specialist may apply on a form prescribed by the Exchange to be assigned in FLEX options. At least two members shall be assigned to each FLEX option. Only the Specialist in the non-FLEX option may be the assigned Specialist in that FLEX option ("FLEX Specialist"). The provisions of Rule Options 8, Section 27(c) regarding market making obligations shall be applicable to assigned ROTs and assigned Specialists, such that a market must be provided in any FLEX option when requested by an Options Exchange Official.

(2) **Financial Requirements.** An assigned ROT in FLEX index options shall be required to maintain a minimum of \$100,000 in net liquid assets. An assigned Specialist in FLEX index options shall be required to maintain a minimum of \$1,000,000 in net capital. Floor Brokers shall be required to maintain a minimum of \$50,000 in net capital to qualify to trade FLEX options. Each such assigned ROT, assigned Specialist or Floor Broker shall immediately inform the Exchange upon failure to be in compliance with such requirements. The Exchange may waive the financial requirements of this Rule in unusual circumstances.

(3) **Letters of Guarantee.** No ROT or Specialist shall effect any FLEX option unless a Letter of Guarantee has been issued by a clearing member organization and filed with the Exchange pursuant to Rule 703 specifically accepting financial responsibility for all FLEX option transactions made by such person and such letter has not been revoked.

**(e) Position Limits.**

(1) FLEX index options shall be subject to a separate position limit of 200,000 contracts on the same side of the market respecting market index options; 36,000, 48,000, or 60,000 contracts respecting industry index options, depending on the position limit tier determined pursuant to Rule 1001A(b)(i); the same number of contracts respecting Alpha Index options that would apply to such Alpha Index options if they were not FLEX; the same number of contracts respecting MSCI EM Index options that would apply to such MSCI EM Index options if they were not FLEX; and the same number of contracts respecting MSCI EAFE Index options that would apply to such MSCI EAFE Index options if they were not FLEX. Reduced value or mini-size FLEX index option contracts shall be aggregated with full value or full-size FLEX index option contracts and counted by the amount by which they equal a full value contract (e.g. ten (10) one tenth (1/10th) value contracts equal one (1) full value contract). Positions in P.M.-settled FLEX index options shall be aggregated with positions in quarterly expiring options listed pursuant to Rule 1101A(b)(iv) on the same underlying index, if the FLEX index option expires at the close of trading on or within two business days of the last day of trading in each calendar quarter. However, except as provided in subsection (4) of this section (d), positions in FLEX index options shall otherwise not be taken into account when calculating position limits for non-FLEX index options. There shall be no position limits for full value options on the Russell 2000<sup>®</sup> Index ("Full Value Russell 2000<sup>®</sup> Options") and for one tenth (1/10th) value options on the Russell 2000<sup>®</sup> Index ("Reduced Value Russell 2000<sup>®</sup> Options"). There shall be no position limits for full value options on the Nasdaq 100 Index ("Full Value Nasdaq 100 Options") and for the reduced value options on the Nasdaq 100 Index ("Reduced Value Nasdaq 100 Options"). Options on the Full Value and Reduced Value Russell Indexes for the following products (collectively "Russell U.S. Indexes"): Russell 3000<sup>®</sup> Index, Russell 3000<sup>®</sup> Value Index, Russell 3000<sup>®</sup> Growth Index, Russell 2500<sup>™</sup> Index, Russell 2500<sup>™</sup> Value Index, Russell 2500<sup>™</sup> Growth Index, Russell 2000<sup>®</sup> Value Index, Russell 2000<sup>®</sup> Growth Index, Russell 1000<sup>®</sup> Index, Russell 1000<sup>®</sup> Value

Index, Russell 1000<sup>®</sup> Growth Index, Russell Top 200<sup>®</sup> Index, Russell Top 200<sup>®</sup> Value Index, Russell Top 200<sup>®</sup> Growth Index, Russell MidCap<sup>®</sup> Index, Russell MidCap<sup>®</sup> Value Index, Russell MidCap<sup>®</sup> Growth Index, Russell Small Cap Completeness<sup>®</sup> Index, Russell Small Cap Completeness<sup>®</sup> Value Index and Russell Small Cap Completeness<sup>®</sup> Growth Index, are subject to an aggregate position limit of 50,000 contracts on the same side of the market, provided that no more than 30,000 of such contracts are in the nearest expiration month series.

(2) FLEX equity options shall not be subject to a separate FLEX position limit. Except as provided in subsection (4) of this section (d), positions in FLEX equity options shall not be taken into account when calculating position limits for non-FLEX equity options, or FLEX or non-FLEX index options.

However, each member or member organization (other than a Specialist or ROT) that maintains a position on the same side of the market in excess of the standard limit under Rule 1001 for non-FLEX equity options of the same class on behalf of its own account or for the account of a customer shall report information on the FLEX equity option position, positions in any related instrument, the purpose or strategy for the position and the collateral used by the account. This report shall be in the form and manner prescribed by the Exchange. In addition, whenever the Exchange determines that a higher margin requirement is necessary in light of the risks associated with a FLEX equity option position in excess of the standard limit for non-FLEX equity options of the same class, the Exchange may consider imposing additional margin upon the account maintaining such under-hedged position. 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 requirement.

(3) Positions in FLEX currency options will be aggregated with positions in non-FLEX U.S. dollar-settled foreign currency option contracts for purposes of determining compliance with the position limits established by Rule 1001.

(4) As long as the options positions remain open, positions in FLEX index options that expire on a third Friday-of-the-month shall be aggregated with positions in non-FLEX index options on the same underlying security ("comparable non-FLEX index options"), positions in FLEX equity options that expire on a third Friday-of-the-month shall be aggregated with positions in non-FLEX equity options on the same underlying security ("comparable non-FLEX equity options"), and shall be subject to the position and exercise limits set forth in this rule, and 1001, 1002, 1001A, and 1002A, as applicable.

(f) Exercise Limits. In determining compliance with Rules 1002 and 1002A, exercise limits for FLEX options shall be equivalent to position limits established in this Rule. Positions in FLEX options shall not be taken into account when calculating exercise limits for non-FLEX options, except as provided in paragraph (d) above. The minimum exercise size shall be the lesser of \$1 million underlying equivalent value for FLEX index

options, and 25 contracts for FLEX equity and currency options, or the remaining size of the position.

(g) FLEX equity and currency options shall be subject to the exercise-by-exception procedure of Rule 805 of The Options Clearing Corporation.

(h) Notwithstanding Rule (c)(4) of this rule regarding FLEX Index, Equity and Currency Options minimum increments, open FLEX option positions are eligible to be closed in accordance with Options 8, Section 33, Accommodation Transactions, at the minimum increments specified therein. The FLEX option cabinet order may be executed against contraside interest to close a FLEX option position or, to the extent permitted under Rule Options 8, Section 33(a)(3)(B), against contraside interest which opens a FLEX option position. Sections (a) and (b) of this rule shall not apply to FLEX option transactions executed pursuant to this paragraph and Options 8, Section 33. Sections (d) - (h) of this rule shall apply to any FLEX option position opened pursuant to Options 8, Section 33.

### **Section 35. Disputes**

(a) Disputes occurring on and relating to the Trading Floor, if not settled by agreement between the members interested, shall be settled, if practicable, by vote of the members knowing of the transaction in question; if not so settled, they shall be settled by an Options Exchange Official.

In issuing decisions for the resolution of trading disputes, an Options Exchange Official shall institute the course of action deemed to be most fair to all parties under the circumstances at the time. An Options Exchange Official may direct the execution of an order on the floor, or adjust the transaction terms or participants to an executed order on the floor. An Options Exchange Official may nullify a transaction if the Options Exchange Official determines the transaction to have been in violation of Rules 1014 (Obligations and Restrictions Applicable to Specialists and Registered Options Traders), Options 8, Section 25 (Floor Allocation) or Options 8, Section 24 (Bids and Offers-Premium). This Rule shall not apply to options transactions that are the result of an Obvious Error or Catastrophic Error (as defined in Rule 1092). Options transactions that are the result of an Obvious Error or Catastrophic Error shall be subject to the provisions and procedures set forth in Rule 1092.

(b) All rulings rendered by an Options Exchange Official are effective immediately and must be complied with promptly. Failure to promptly comply with an initial Options Exchange Official ruling may result in referral to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement. Failure to promptly comply with other Options Exchange Official rulings issued pursuant to Order and Decorum Regulations (Rule 9216(c)) or Floor Procedure Advices (Rule 9216(b)) and not concerning a trading dispute may result in an additional violation.

(c) Review—Options Exchange Official rulings issued pursuant to Order and Decorum Regulations are reviewable pursuant to Rule 9216(c). Options Exchange Official rulings

issued pursuant to Floor Procedure Advices are subject to the Rule 9000 Series. All other Options Exchange Official rulings are reviewable pursuant to paragraph (d) of this Rule.

(d) Review of Options Exchange Official Rulings (Trading Disputes)—All Options Exchange Official rulings are reviewable by the Exchange Review Council.

(i) Regulatory staff must be advised within 15 minutes of an Options Exchange Official's ruling that a party to such ruling has determined to appeal from such ruling to the Exchange Review Council. The Exchange may establish the procedures for the submission of a request for a review of an Options Exchange Official ruling. Options Exchange Official rulings (including those concerning the nullification or adjustment of transactions) may be sustained, overturned or modified by the Exchange Review Council. The Exchange Review Council may act as a panel with a minimum of three Committee members, of which no more than 50% can be engaged in market making activity or employed by an Exchange member organization whose revenues from market making activity exceed ten percent of its total revenues.

In making a determination, the Exchange Review Council may consider facts and circumstances not available to the ruling Options Exchange Official as well as action taken by the parties in reliance on the Options Exchange Official's ruling (e.g., cover, hedge and related trading activity).

(ii) All decisions made by the Exchange Review Council in connection with initial rulings on requests for relief and with the review of an Options Exchange Official ruling pursuant to this paragraph (d) shall be documented in writing and maintained by the Exchange in accordance with the record keeping requirements set forth in the Securities Exchange Act of 1934, as amended, and the rules thereunder.

(iii) A member or member organization seeking review of an Options Exchange Official ruling shall be assessed a fee of \$250.00 for each Options Exchange Official ruling to be reviewed that is sustained and not overturned or modified by the Exchange Review Council. In addition, in instances where the Exchange, on behalf of a member or member organization, requests a review by another options exchange, the Exchange will pass any resulting charges through to the relevant member organization.

(iv) Decisions of the Exchange Review Council shall be final and may not be appealed to the Exchange's Board of Directors.

(v) All decisions of the Exchange Review Council are effective immediately and must be complied with promptly. Failure to promptly comply with a decision of the Exchange Review Council may result in referral to the Phlx Regulation Department, Department of Market Regulation or Department of Enforcement.

(e) Exchange staff may determine that an Options Exchange Official is ineligible to participate in a particular ruling where it appears that such Options Exchange Official has a conflict of interest. For purposes of this Rule, and without limitation, a conflict of interest exists where an Options Exchange Official: (a) is directly or indirectly affiliated with a party seeking an Options Exchange Official ruling; (b) is a participant or is directly or indirectly affiliated with a participant in a transaction that is the subject of a Options Exchange Official ruling; (c) is a debtor or creditor of a party seeking an Options Exchange Official ruling; or (d) is an immediate family member of a party seeking an Options Exchange Official ruling. Exchange staff may consider other circumstances, on a case-by-case basis, in determining the eligibility or ineligibility of a particular Options Exchange Official to participate in a particular ruling due to a conflict of interest.

### **Floor Trade Administration**

#### **Section 36. Resolution Of Uncompared Trade**

(a) When a disagreement between members or member organizations arising from an uncompared Exchange options transaction cannot be resolved by mutual agreement prior to 10:00 a.m. on the first business day following the trade date (in the case of options on stocks or Exchange-Traded Fund Shares) or prior to 8:30 a.m. on the first business day following the trade date (in the case of options on foreign currencies), the parties shall promptly, but not later than 3:30 p.m. on such day (in the case of options on stocks or Exchange-Traded Fund Shares) or 2:00 p.m. on such day (in the case of options on foreign currencies (unless otherwise excused by the Exchange) close out the transaction in the following manner. The member or member organization representing the purchaser in the uncompared Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to purchase the option contract that was the subject of the uncompared Exchange options transaction. The member or member organization representing the writer in the uncompared Exchange options transaction shall promptly enter into a new Exchange options transaction on the Floor of the Exchange to sell (write) the option contract that was the subject of the uncompared Exchange options transaction. Any claims for damages resulting from such transactions must be made promptly for the accounts of the members or member organizations involved and not for the accounts of their respective customers. Notwithstanding the foregoing, if either member or member organization is acting for a firm account in an uncompared Exchange options transaction and not for the account of a customer, such member organization need not enter into a new transaction, in which event money differences will be based solely on the closing transaction of the other party to the uncompared transaction.

(b) In the event an uncompared 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 not at fault may claim damages against the other member or member organization involved in the transaction based on the terms of such transaction. All such claims for damages shall be made promptly.

**Section 37. Letters of Authorization**

(a) Required of each Options Floor Broker. No Options Floor Broker shall act as such on the Exchange unless there is in effect and filed with the Exchange a Letter of Authorization that has been issued for such Options Floor Broker by a Clearing Member.

(b) Terms of Letter of Authorization. A Letter of Authorization shall provide that the issuing Clearing Member shall be responsible for the clearance of the Exchange transactions of the Options Floor Broker when the name of such Clearing Member is given up.

(c) Revocation of Letter of Authorization. A Letter of Authorization shall remain in effect until a written notice of revocation has been filed with the Exchange. If such written notice has not been filed for at least one hour prior to the opening of trading on a particular business day, such revocation shall not become effective until the close of trading on such day.

**Section 38. Communications and Equipment**

(a) No member or member organization shall establish or maintain any private wire connection, private radio, television or wireless system, between the Exchange Trading Floor and a non-member without application to and approval by the Exchange.

Every such means of communication shall be registered with the Exchange. Notice of the discontinuance of any such means of communication shall be promptly given to the Exchange.

(b)(1) No member, member organization or person associated with a member organization shall establish or maintain any telephonic communication between the Options Floor and any other location, or between locations on the Options Floor, without the prior written approval of the Exchange.

(2) No member, member organization or person associated with a member organization shall:

(A) establish or maintain any telephonic, electronic or wireless transmitting system or device, including related antennas, on the Options Floor or

(B) operate any other equipment on the Options Floor that creates radio frequency (RF) or other interference with the systems of the Exchange or other members.

(c) The Exchange may remove any telephonic, electronic or wireless equipment that has not received written approval under subsection (b)(1) from any Exchange facility.

(d) The Exchange may remove any telephonic, electronic or wireless equipment that violates subsection (b)(2) from any Exchange facility.

(1) The Exchange may deny, limit or revoke the use of any communication device whenever it determines that use of such communication device: (1) interferes with normal operation of the Exchange's own systems or facilities or with the Exchange's regulatory duties, (2) is inconsistent with the public interest, the protection of investors or just and equitable principles of trade, or (3) interferes with the obligations of a member or member organization to fulfill its duties under, or is used to facilitate any violation of, the Securities Exchange Act or rules thereunder, or Exchange rules.

(2)

(e)(1) *Registration.* Members and member organizations must register, prior to use, any new telephone to be used on the Options Floor. Each phone registered with the Exchange must be registered by category of user. If there is a change in the category of any user, the member or member organization must immediately inform the Exchange in writing on the same day as when the change occurs. At the time of registration, members and member organization representatives must sign a statement that they are aware of and understand the rules and procedures governing the use of telephones on the Options Floor.

(2) *Capacity and Functionality.* No person on the Options Floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers, but is not limited to, intercoms, walkie-talkies and any similar devices, and open mic and web-based communication applications. Speed-dialing features are permitted on any member telephone.

(3) *Specialists and Registered Options Traders.*

(A) Specialists and Registered Options Traders ("ROT") may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Options Floor).

(B) ROTs located off the Options Floor may not place an order by calling a Floor Broker who is present in a trading crowd. ROTs located off the Options Floor may not otherwise place an order by calling the Specialist phone in the trading crowd. Any telephonic order entered from off the Options Floor must be placed with a person located in a member organization booth.

(4) *Floor Brokers.*

(A) Floor Brokers may use cellular and cordless telephones, but only to communicate with persons located on the Options Floor. These telephones may not use a call forwarding or open mic feature on the Options Floor; if a call forwarding or open mic feature is available on the phone then such feature must

be disengaged at all times when the phone is on the Options Floor. Headsets are permitted for Floor Brokers, but if the Exchange determines that a Floor Broker is maintaining a continuous open line through the use of a headset, the Floor Broker will be prohibited from future use of any headset for a length of time to be determined by the Exchange.

(B) All orders phoned to Floor Brokers must be received initially at the Floor Broker's booth. Floor Brokers may not receive telephonic orders while in the trading crowd except from their booth. Any telephonic order entered from off the Options Floor must be placed with a person located in a member organization booth.

(5) Clerks.

(A) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(B) The Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems or capacity problems resulting from the number of such phones then in use on the Options Floor.

(6) Telephone Records. Members must maintain logs of calls and chats, including their cellular or cordless telephone records and logs of calls placed, for a period of not less than three years, the first two years in an easily accessible place. The Exchange reserves the right to inspect and/or examine such telephone records.

(7) Exchange Liability. The Exchange assumes no liability to members or member organizations due to conflicts between telephones in use on the Options Floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

(f) The Exchange has established a Wireless Telephone System policy. Violations of the Wireless Telephone System policy may result in disciplinary action by the Exchange.

(g) This Rule and any relevant Exchange policy are intended to apply to all communication and other electronic devices on the floor of the Exchange, including, but not limited to, wireless, wired, tethered, voice, and data.

## **Section 39. Option Minor Rule Violations and Order and Decorum Regulations**

### **A. SPECIALISTS**

#### **A-1 Options Floor Based Management System**

Options Floor Based Management System. In order to create an electronic audit trail for options orders negotiated by Specialists on the Exchange's Options Floor, a Specialist or

such Specialist's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Specialist onto the electronic Options Floor Based Management System as described in Options 8, Section 28(e)(1). The following specific information with respect to orders negotiated by a Specialist shall be recorded by such Specialist or such Specialist's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Specialist must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Options 8, Section 22(a) Specialists are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Specialists execute orders in the Exchange's options trading crowd pursuant to Options 8, Section 22(a)(2) (other than for the use of Snapshot, as set forth in Options 8, Section 22(a)(2)(E)), Specialists shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Specialists or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Specialists or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Specialists or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by Specialists, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Specialist submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Specialist in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Specialist on the FBMS. The Specialist may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Specialists are responsible for handling all FBMS orders in accordance with Exchange

priority and trade-through rules, including Rules 1014 and 1084 and Options 8, Section 24.

A Specialist is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence            \$500.00

2nd Occurrence        \$1,000.00

3rd Occurrence        \$2,000.00

4th Occurrence and   Sanction is discretionary with Phlx Regulation Department,  
Thereafter            Department of Market Regulation, or Department of Enforcement

### **A-2 Requesting Market Quotations**

A Specialist may request an ROT in the crowd to state his current bid and offer (including size) for any series of options traded at the post. A Specialist may request that staff or an Options Exchange Official call for additional ROTs to enter the trading crowd.

FINE SCHEDULE

Fine not applicable

### **A-3 All-or-None Option Orders**

An all-or-none option order is a limit order which is to be executed in its entirety, or not at all. Unlike a fill-or-kill order, an all-or-none order is not cancelled if it is not executed as soon as it is represented in the trading crowd. An all-or-none order has no standing respecting executions in the crowd except with respect to other all-or-none orders.

When represented in the crowd, all-or-none orders are not included as part of the bid or offer.

When entered electronically pursuant to Rule 1080 or into Options Floor Based Management System pursuant to Options 8, Sections 28 and 29, an all-or-none order has standing and is eligible for execution in time priority with all other customer orders and all-or-none professional orders (as specified in Rule 1000(b)(14)) at that price if the all-or-none contingency can be met.

FINE SCHEDULE

Fine not applicable

**B. REGISTERED OPTIONS TRADERS****B-1 Responsibility to Make Markets**

An ROT shall not refuse a request by a Floor Broker, Specialist, or Options Exchange Official to make a two sided market for any option series trading in the same crowd at which such ROT is trading.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**B-2 Crowd Courtesy**

An ROT shall position himself in the trading crowd so as to permit easy access to the time clock located at the Specialist post.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**B-3 Trading Requirements**

(a) An ROT (other than an RSQT or a Remote Specialist) is required to trade in person, and not through the use of orders (except that non-streaming ROTs can use orders entered in person), the greater of 1,000 contracts or 50% of his contract volume on the Exchange each quarter. Also, at least 50% of an ROT's trading activity in each quarter must be in assigned options. No application by an ROT to change options assignments will be approved unless such ROT is in compliance with the above requirements at the time the application for change is made.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a)

1. Quarterly requirement to trade the greater of 1,000 contracts or 50% of contract volume in person

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

2. Quarterly requirement to trade 50% in assigned options

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

(b) For any calendar quarter, in addition to the requirements of paragraph (a) above, in order for an ROT (other than an RSQT or a Remote Specialist) to receive Specialist margin treatment for off-floor orders in accordance with Options 8, Section 27(f), the ROT must execute the greater of 1,000 contracts or 80% of his total contracts that quarter in person (not through the use of orders except that non-streaming ROTs can use orders entered in person) and 75% of his total contracts that quarter in assigned options. Violations of this trading requirement are subject to Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement review.

**B-4 ROTs Entering Orders from On-Floor and Off-Floor for Execution on the Exchange**

An ROT may not enter from off the floor opening orders for his market maker accounts, but may enter from off the floor or on the floor opening orders for his customer account. An ROT may enter from off the floor closing orders for either his market maker or customer account.

However, an ROT who has executed the greater of 1,000 contracts or 80% of his total contracts in a calendar quarter in person and 75% of his total contracts that quarter in

assigned options may enter an opening transaction from off the floor for his market maker account if such transaction is for the purpose of hedging, reducing risk of, or rebalancing positions of the ROT. The off-floor orders for which an ROT receives Specialist margin treatment shall be subject to the obligations of Rule 1014(a) and an ROT is responsible for evidencing reliance of these provisions. Violations of this paragraph are subject to Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement review.

An ROT who enters an order from off the floor must advise the person receiving the order that it is an order for an ROT and must state whether the order is opening or closing, for a customer or market maker account, or opening from off-floor pursuant to the previous paragraph.

While on the floor, an ROT may place opening orders for his market maker account with a Floor Broker or with a Specialist which may then be executed even if the ROT has left the floor prior to its execution.

An ROT may cancel from off the floor opening or closing orders for his market maker or customer accounts; but if he wishes to effect a change in the terms of an opening order (e.g., security, price, volume, series, class or contingencies) from off the floor such changed order must be executed in his customer account, except in accordance with the second paragraph of this Advice.

An ROT shall not give discretion to a Floor Broker and shall not give a Floor Broker "not held" orders. With respect to delta orders placed with a Floor Broker for the account of an ROT, such orders may only be placed as day orders and must have the applicable delta legibly recorded on both the broker's floor ticket and the ROT's record of the order.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

#### **B-5 Agency-Principal Restrictions**

Except under extraordinary circumstances and with the prior approval of an Options Exchange Official, a member may not act as an ROT and as a Floor Broker during the same trading session in options on the same underlying security. A member has acted as a Floor Broker if he has accepted an order even though such order was not executed.

However, an ROT may close out positions held in his customer account in options on the same underlying security while he is acting as an ROT in those options.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence            \$500.00

2nd Occurrence        \$1,000.00

3rd Occurrence        \$2,000.00

4th Occurrence and    Sanction is discretionary with Phlx Regulation Department,  
Thereafter                Department of Market Regulation, or Department of Enforcement

**B-6 Priority of Options Orders for Equity Options, Index Options and U.S. Dollar-Settled Foreign Currency Options by Account Type (EQUITY OPTION, INDEX OPTION AND U.S. DOLLAR-SETTLED FOREIGN CURRENCY OPTION ONLY)**

**Section A**

Exchange Rules 119 and 120 direct members in the establishment of priority of orders on the floor. An account type is either a controlled account or a customer account. A controlled account includes any account controlled by or under common control with a broker-dealer. Customer accounts are all other accounts. Equity option, index option and U.S. dollar-settled foreign currency option orders of controlled accounts are required to yield priority to customer orders when competing at the same price, as described below. Orders of controlled accounts are not required to yield priority to other controlled account orders, except as provided in sub-paragraph (ii) below.

For the purposes of this Advice, "Initiating Order" means an incoming contra-side order.

- (i) Respecting transactions that are executed and allocated in open outcry by a participant other than the Specialist, "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers that are on parity in accordance with this Advice. The Remainder of the Order shall be allocated pursuant to this Advice.
- (ii) An Initiating Order executed manually by the Specialist shall be allocated as follows: first, to customer orders, and next to off-floor broker-dealer limit orders (as defined in Rule 1080(b)(i)(C)) resting on the limit order book. This provision shall not apply to electronically executed contracts, the allocation of which is described in Section F of this Advice. "Remainder of the Order" means the portion of an Initiating Order that remains following the allocation of contracts to customers and to off-floor broker-dealers in accordance with this sub-paragraph (ii).

**Section B**

Orders of controlled accounts, other than ROTs and Specialists market making in-person, must be

- (1) verbally communicated as for a controlled account when placed on the floor and when represented to the trading crowd and
- (2) recorded as for a controlled account by making the appropriate notation in the Options Floor Based Management System.

In any instance where an order is misrepresented in this fashion due to factors which give rise to the concern that it was the result of anything other than an inadvertent error, the Exchange may determine to bypass the fine schedule below and refer the incident to the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement for possible disciplinary proceedings in accordance with those procedures set forth under the Rule 8000 and 9000 Series.

**Section C**

The Enhanced Specialist Participation is a percentage of the Remainder of the Order to which the Specialist is entitled.

Enhanced Specialist Participation - In equity option, index option and U.S. dollar-settled foreign currency option classes, when the registered Specialist is on parity with a controlled account, as defined above, in accordance with Exchange Rules 119 and 120 and the number of contracts to be bought or sold is greater than five, the Specialist is entitled to receive an enhanced participation of 30% of the Remainder of the Order ("Enhanced Specialist Participation"), except in the following circumstances:

- (1) where there is one controlled account on parity, in which case the Specialist is entitled to receive 60% of the Remainder of the Order; or
- (2) where there are two controlled accounts on parity, in which case the Specialist is entitled to receive 40% of the Remainder of the Order.

**Section D**

Reserved.

**Section E**

Allocation of the Remainder of the Order Among Specialist and ROTs on Parity. After the application of this Advice to an Initiating Order, the Remainder of the Order shall be allocated by the Allocating Participant (as defined in Options 8, Section 25(c)(4)) as follows:

- (A) Entitlement. ROTs and Specialists on parity are entitled to their Defined Participation (as described below), subject to: (1) any Waiver, as described below; and (2) rounding, as described below.
- (B) Size. The term "stated size" in respect of an order or electronic quotation shall mean:
- (1) in the case of orders handled manually by the Specialist:
    - (a)(i) if a crowd participant (including the Specialist) has actually stated a size ("Actual Size"), such crowd participant's stated size shall be his or her Actual Size;
    - (ii) if the Specialist, an SQT or RSQT is disseminating an electronic quotation at the Exchange's disseminated price in a particular series at the time of the execution of an Initiating Order in such series, such Specialist, SQT or RSQT's disseminated size at the Exchange's disseminated price shall be his or her Actual Size, and such Specialist, SQT and/or RSQT shall be deemed a "crowd participant" for purposes of this Advice;
    - (b) unless the Specialist has an Actual Size, the stated size of the Specialist shall be the amount (if any) by which the disseminated size exceeds the sum of (x) the aggregate size of limit orders included in the disseminated size and (y) the aggregate sizes of all ROTs who have Actual Sizes;
    - (c) the stated size of an ROT who does not have an Actual Size is zero.
  - (2) in the case of floor brokered orders, each crowd participant's stated size shall be his or her Actual Size.
- (C) Defined Participation. Defined Participation is the portion of the Remainder of the Order to which a crowd participant is entitled. Defined Participation is determined as follows:
- (1) in the case of a Specialist entitled to an Enhanced Specialist Participation, the Enhanced Specialist Participation, up to the Specialist's stated size, as set forth in C of this Advice, as applicable. The Specialist may decline to receive the Enhanced Specialist Participation, in which case the Specialist shall be entitled to participate as one crowd participant, up to the Specialist's stated size.
  - (2) except as provided in (1) above, the Defined Participation of the Specialist and ROTs on parity is determined as follows:
    - (a) where all participants have equal stated sizes, their Defined Participations shall be equal;

(b) where participants have unequal stated sizes, the Defined Participations shall equal their Base Participations (as defined below) plus their Supplemental Participations (as defined below):

(i) the "Base Participations" of all of the participants shall equal the stated size of the smallest participant; to the extent that there remains any excess to be allocated after all participants have been allocated their Base Participations, the smallest participant shall have no Supplemental Participation, and the other participants shall have "Supplemental Participations" as determined under (ii) and (iii) below;

(ii) if the remaining stated sizes (i.e., after taking into account Base Participations) of all participants having Supplemental Participations is equal, then their Supplemental Participations shall be equal; otherwise the initial Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated their initial Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have further "Supplemental Participations" as determined under (iii) below; and

(iii) if the remaining stated sizes (i.e., after taking into account Base Participations and prior Supplemental Participations) of all participants having further Supplemental Participations is equal, then their further Supplemental Participations shall be equal; otherwise the next Supplemental Participations of such participants shall equal the remaining stated size of the smallest such participant; to the extent that there remains any excess to be allocated after all participants have been allocated the next Supplemental Participations, the smallest participant shall have no further Supplemental Participation, and the other participants shall have successive further Supplemental Participations determined in the same manner as provided in this clause (iii).

The process described in clause (iii) shall be followed to determine successive further Supplemental Participations until the sum of the Defined Participations equals the amount of the Remainder of the Order.

(iv)(a) If the sum of the Base Participations pursuant to sub-paragraph (i) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Base Participations, subject to rounding.

(b) If the sum of the Supplemental Participations pursuant to sub-paragraph (ii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive Supplemental Participations, subject to rounding.

(c) If the sum of the further Supplemental Participations pursuant to subparagraph (iii) above exceeds the number of contracts remaining to be allocated, such contracts shall be divided equally among crowd participants who are entitled to receive further Supplemental Participations, subject to rounding.

(3) Participation in additional contracts in excess of the Exchange's disseminated size among willing crowd participants shall be allocated under the applicable provisions of this Advice. Notwithstanding the limitation set forth in subparagraph (C)(1) that limits the Specialist's entitlement to his/her stated size, for all contracts executed in excess of the disseminated size, the Specialist shall be entitled to receive the Enhanced Specialist Participation as set forth in Section C of this Advice, as applicable, but not to exceed the Specialist's Actual Size (if the Specialist has an Actual Size) in such excess contracts.

(D) Waiver. (1) Any ROT (other than an RSQT) or Specialist may, in his or her sole discretion, offer to waive, in whole or in part, any part of a trade to which they were entitled to be allocated (an "Offer to Waive").

(a) Any Offer to Waive shall be made by stating it in a loud and audible voice to the other members of the trading crowd and the Allocating Participant.

(b) If the Allocating Participant has determined that the other crowd participant(s) then on parity is willing to take the number of contracts that are subject to the Offer to Waive, the Allocating Participant may (but shall not be required to), accept such Offer to Waive by (i) allocating the Remainder of the Order in accordance with this Advice, taking into account the Offer to Waive; or (ii) otherwise indicating, following the execution of the Remainder of the Order, that such Offer to Waive will be accepted (in which case, it shall be referred to as a "Waiver"). No Offer to Waive shall be an effective Waiver until the Allocating Participant has allocated the order or otherwise indicated that it is accepted.

(c) (i) In the case of an option which is not subject to an Enhanced Specialist Participation, as set forth in Section C of this Advice, if the Specialist or an ROT effects a Waiver in the manner provided above, the number of contracts to which such Specialist or ROT is entitled under this Advice shall be reduced by the number of contracts waived, and the entitlements of the other participants on parity shall be determined by redistributing the waived number of contracts to willing participants (including the Specialist) in accordance with this Advice.

(ii) In the case of an option which is subject to an Enhanced Specialist Participation, as set forth in Section C of this Advice, and one or more ROTs effect Waivers of their entire entitlements ("Total Waivers"), the number of ROTs with whom the Specialist is deemed to be on parity for purposes of determining the Enhanced Specialist Participation shall be reduced by the number of ROTs effecting Total Waivers and the following additional Rules shall apply:

- (A) in the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with three or more ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Advice, as if the Specialist had been on parity with three ROTs.
- (B) in the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with two ROTs, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Advice as if the Specialist had been on parity with two ROTs.
- (C) In the event that one or more ROTs on parity with the Specialist effect a Total Waiver of their respective entitlements such that the Specialist is on parity with one ROT, the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the maximum number of contracts to be allocated to the Specialist shall be that which the Specialist would be entitled to receive under this Advice as if the Specialist had been on parity with one ROT. In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Waiver(s).
- (iii) Partial Waiver. In the case of an option which is subject to an Enhanced Specialist Participation, in the event that one or more ROTs effect a Waiver of a portion of their respective entitlements, but not a Total Waiver, in the manner provided above (a "Partial Waiver"), the number of contracts to be allocated to each crowd participant shall be determined as provided in sub-paragraph (c)(i) above, provided that the Specialist shall not be entitled to receive a number of contracts that is greater than 40% of the Remainder of the Order except in the situation referred to in the following sentence, unless all remaining crowd participants on parity have waived their entitlements or have been satisfied. In the case of the Specialist being on parity with only one ROT, the Specialist shall not be entitled to receive a number of contracts that is greater than 60% of the Remainder of the Order unless all remaining crowd participants on parity have waived their entitlements or have been satisfied.
- In no event shall any non-waiving ROT be required to participate in fewer contracts than he/she would have received absent the Partial Waiver(s).
- (iv) In no event shall two or more crowd participants enter into any agreement regarding the number of contracts to be waived by any crowd participant (i.e., subject to the provisions of sub-paragraph (D)(1)(b) above, any decision by a

crowd participant to waive all or a portion of such crowd participant's entitlement must be an individual decision, and not the subject of an agreement among crowd participants).

(E) Rounding. In situations where the allocation of contracts pursuant to this Rule result in fractional amounts of contracts to be allocated to crowd participants, the number of contracts to be allocated shall be rounded in a fair and equitable manner.

(F) Just and Equitable Principles of Trade. (1) It shall be considered conduct inconsistent with just and equitable principles of trade for a member:

(a) to allocate initiating orders other than in accordance with this Advice;

(b) to enter into any agreement with another member concerning allocation of trades; or (c) to harass, intimidate or coerce any member to enter into any Waiver, or to make or refrain from making any complaint or appeal.

(2) A pattern or practice of waiving all or a portion of a crowd participant's entitlement, with the result that such crowd participant receives no allocation or a lesser allocation than he or she would otherwise have been entitled to, may be considered conduct inconsistent with just and equitable principles of trade.

(G) Notwithstanding the first sentence of this Advice, neither Rule 119(b) and (c) concerning precedence based on the size of bids on parity, nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of orders covered by this Advice.

## **Section F**

*Allocation of Automatically Executed Trades.* After public customer market and marketable limit orders have been executed, trades automatically executed in such options shall be allocated among the Specialist and crowd participants with orders or quotations at the Exchange's disseminated price in the following manner:

(i) If the Specialist or any crowd participant is quoting alone at the disseminated price and their quote is not matched by another market participant prior to execution, such Specialist or crowd participant shall be entitled to receive a number of contracts up to the size associated with his/her quotation.

(ii) *Parity.* Quotations entered electronically by the Specialist or an SQT that do not cause an order resting on the limit order book to become due for execution may be matched at any time by quotations entered electronically by the Specialist and/or other SQTs, and by ROT limit orders entered and shall be deemed to be on parity, subject to the requirement that orders of controlled accounts must yield priority to customer orders as set forth in Options 8, Section 25(c)(1)(A).

(A) if the Specialist is quoting at the Exchange's disseminated price:

- (1) orders for 5 contracts or fewer shall be allocated first to the Specialist, provided, however, that on a quarterly basis, the Exchange will evaluate what percentage of the volume executed on the Exchange is comprised of orders for 5 contracts or fewer allocated to Specialists, and will reduce the size of the orders included in this provision if such percentage is over 25%. In order to be entitled to receive the 5 contract or fewer order preference set forth in this sub-paragraph (ii)(A)(1), the Specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.
- (2) Respecting orders for greater than 5 contracts, the Specialist shall be entitled to receive a number of contracts that is the greater of: (i) the proportion of the aggregate size associated with the Specialist's quote, SQT quotes, and non-SQT ROT limit orders entered on the book at the disseminated price represented by the size of the Specialist's quote, or (ii) 60% of the contracts to be allocated if the Specialist is on parity with one SQT or one non-SQT ROT that has placed a limit order on the book at the Exchange's disseminated price; (iii) 40% of the contracts to be allocated if the Specialist is on parity with two SQTs or non-SQT ROTs that have placed a limit order on the book at the Exchange's disseminated price; and (iv) 30% of the contracts to be allocated if the Specialist is on parity with three or more SQTs or non-SQT ROTs that have placed a limit order on the book at the Exchange's disseminated price. In order to be entitled to receive the number of contracts set forth in this sub-paragraph (ii)(A)(2), the Specialist must be quoting at the Exchange's disseminated price, and shall not be entitled to receive a number of contracts that is greater than the size that is associated with its quote.
- (3) Thereafter, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book at the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the total remaining aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book. Such SQT(s) and non-SQT ROTs shall not be entitled to receive a number of contracts that is greater than the size associated with their quotation or limit order.
- (4) If any contracts remain to be allocated after the Specialist, SQTs and non-SQT ROTs with limit orders on the limit order book have received their respective allocations, off-floor broker-dealers (as defined in Rule 1080(b)(i)(C)) that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts that is the proportion of the aggregate size associated with off-floor broker-dealer limit orders on the limit order book at the disseminated price represented by the size

of the limit order they have placed on the limit order book. Such off-floor broker-dealers shall not be entitled to receive a number of contracts that is greater than the size that is associated with each such limit order.

(B) If the Specialist is not quoting at the Exchange's disseminated price, SQTs quoting at the disseminated price and non-SQT ROTs that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts equal to the proportion of the aggregate size associated with SQT quotes and non-SQT ROT limit orders on the book at the disseminated price represented by the size of the SQT's quote or, in the case of a non-SQT ROT, by the size of the limit order they have placed on the limit order book. Thereafter, off-floor broker-dealers that have placed limit orders on the limit order book which represent the Exchange's disseminated price shall be entitled to receive a number of contracts as specified in paragraph (ii)(A)(4) above.

(iii) Notwithstanding the first sentence of Options 8, Section 25(c)(1) neither Rule 119(a)-(d) and Options 8, Section 23(f), nor Rule 120 (insofar as it incorporates those provisions by reference) shall apply to the allocation of automatically executed trades.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

Section A No fine applicable. Matters subject for review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

Section B 1st Occurrence \$500.00

2nd Occurrence \$1,000.00

3rd Occurrence \$2,000.00

4th Occurrence and thereafter Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

Section C Fine not applicable

Section D Fine not applicable

Section E Fine not applicable

**B-7 Options Floor Based Management System**

Options Floor Based Management System. In order to create an electronic audit trail for options orders negotiated by Registered Options Traders on the Exchange's Options Floor, a Registered Options Trader or such Registered Options Trader's employees shall, prior to the negotiation of such an order in the trading crowd, record all options orders negotiated by such Registered Options Trader onto the electronic Options Floor Based Management System as described in Options 8, Section 28(e)(1). The following specific information with respect to orders negotiated by a Registered Options Trader shall be recorded by such Registered Options Trader or such Registered Options Trader's employees: (i) the order type (i.e., market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle) or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or market order or, in the case of a multi-leg order, net debit or credit, if applicable; and (vii) whether the transaction is to open or close a position, as applicable (collectively, the "required information"). A Registered Options Trader must enter complete alpha/numeric identification assigned by the Exchange for all orders entered. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the negotiation and execution of the order.

Pursuant to Rule 1000(f), Registered Options Traders are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event that Registered Options Traders execute orders in the Exchange's options trading crowd pursuant to Rule Options 8, Section 22(a) (other than for the use of Snapshot, as set forth in Options 8, Section 22(a)(2)(E)), Registered Options Traders shall record the required information on trade tickets, and shall not negotiate an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Registered Options Traders or their employees shall ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Registered Options Traders or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Registered Options Traders or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is designed to execute orders entered by Registered Options Traders, including multi-leg orders up to 15 legs, after negotiation in the trading crowd. When a Registered Options Trader submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Registered Options Trader in clearing

the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Registered Options Trader on the FBMS. The Registered Options Trader may resubmit the order for execution, as long as the quotes that comprise the order have not been withdrawn. Registered Options Traders are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, Option 8, Section 24 and 1084.

A Registered Options Trader is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**B-8 Use of Floor Brokers by an ROT While on the Floor**

(a) When an ROT who is on the floor gives an order to a Floor Broker for execution, the ROT must initial and time stamp the order ticket. The Floor Broker or his employees must indicate on the Options Floor Based Management System whether such order is opening or closing.

(b) If such order opens or increases a position in the account of an ROT, the ROT must be aware of the terms of the trade, initial and time stamp the order and retain a copy of the ticket.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and</u>	<u>Sanction is discretionary with Phlx Regulation Department,</u>

Thereafter                      Department of Market Regulation, or Department of Enforcement

**B-9 Use of Tickets**

When an issue of parity arises among yielding and non-yielding orders, unless the field which reads "closing" on an options ticket is checked, the order for an ROT shall be presumed to be an opening order.

FINE SCHEDULE

Fine not applicable

**B-10 Responsibility for Mismatched or "Out" Trades**

In order for an ROT to be held responsible on mismatches or other "out" trades of listed options, the ROT must have been informed of the problem before 9:30 A.M. on the business day following the transaction in question.

FINE SCHEDULE

Fine not applicable

**B-11 ROTs and Specialists Entering Orders for Execution on Other Exchanges in Multiply Traded Options**

(a) A ROT or Specialist may not for the Market Functions Account send an opening order to buy or sell options on any other exchange unless such ROT or Specialist is registered in that specific option on the Exchange.

(b) Each opening order sent for execution on another market for the market maker account of a ROT or Specialist must be initiated from on the Exchange floor, except if executed pursuant to Options 8, Section 27(f) and the corresponding provisions in Advice B-4 respecting off-floor orders. In initiating any such order, the ROT or Specialist, or Floor Broker, in the case of orders initiated from off-floor, is required to clear the crowd on the Exchange when the bid or offer of the order is on or between the Exchange disseminated market. Clearing the crowd on the Exchange requires that the order be loudly and audibly voiced in the crowd and, if not then executed, the order may be sent away.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence            \$250.00

2nd Occurrence           \$500.00

3rd Occurrence           \$1,000.00

4th Occurrence of      Sanction is discretionary with Phlx Regulation Department.

Thereafter Department of Market Regulation, or Department of Enforcement

### **C. FLOOR BROKERS**

#### **C-1 Ascertaining the Presence of Registered Options Traders in a Trading Crowd**

A Floor Broker representing an order in options shall ascertain that at least one Registered Options Trader is present in the trading crowd at the post where such order is traded. This Floor Procedure Advice C-1 shall not apply to a Floor Broker in any foreign currency option if no Registered Options Trader registered in such foreign currency option is present on the Exchange's trading floor at that time.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

#### **C-2 Options Floor Based Management System**

Options Floor Based Management System. In order to create an electronic audit trail for options orders represented by Floor Brokers on the Exchange's Options Floor, a Floor Broker or such Floor Broker's employees shall, contemporaneously upon receipt of an order and prior to the representation of such an order in the trading crowd, record all options orders represented by such Floor Broker onto the electronic Options Floor Based Management System (as described in Rule 1080(a)(i)(C)). The following specific information with respect to orders represented by a Floor Broker shall be recorded by such Floor Broker or such Floor Broker's employees: (i) the order type (i.e., customer, firm, broker-dealer, professional, market maker) and order receipt time; (ii) the option symbol; (iii) buy, sell, cross or cancel; (iv) call, put, complex (i.e., spread, straddle), or contingency order as described in Options 8, Section 32; (v) number of contracts; (vi) limit price or market order or, in the case of a complex or multi-leg order, net debit or credit, if applicable; (vii) whether the transaction is to open or close a position; and (viii) The Options Clearing Corporation ("OCC") clearing number of the broker-dealer that submitted the order (collectively, the "required information"). A Floor Broker must enter complete alpha/numeric identification assigned by the Exchange for all orders entered on behalf of Exchange Registered Option Traders. Any additional information with respect to the order shall be inputted into the Options Floor Based Management System contemporaneously upon receipt, which may occur after the representation and execution of the order.

Pursuant to Options 8, Section 22(a), Floor Brokers are not permitted to execute orders in the Exchange's options trading crowd (subject to certain exceptions). In the event of a malfunction in the Options Floor Based Management System or in the event that the Exchange determines that Floor Brokers are permitted to execute orders in the

Exchange's options trading crowd for a specific reason pursuant to Options 8, Section 22(a)(3), (other than for the use of Snapshot, as set forth in Options 8, Section 22(a)(3)(E)), Floor Brokers shall record the required information on trade tickets, and shall not represent an order for execution which has not been time stamped with the time of entry on the trading floor. Such trade tickets also shall be time stamped upon the execution of such an order. Floor Brokers or their employees shall either enter the required information that is recorded on such trade tickets into the Exchange's electronic trading system or ensure that such information is entered for inclusion in the electronic audit ensure the required information that is recorded on such trade tickets is entered into the Exchange's electronic trading system by DETs for inclusion in the electronic audit trail.

Floor Brokers or their employees shall enter the required information (as described above) for FLEX options, or ensure that such information is entered, into the Exchange's electronic audit trail in the same electronic format as the required information for equity, equity index and U.S. dollar-settled foreign currency options. Floor Brokers or their employees shall enter the required information for FLEX options into the electronic audit trail on the same business day that a specific event surrounding the lifecycle of an order in FLEX options (including, without limitation, orders, price or size changes, execution or cancellation) occurs.

FBMS is also designed to execute two-sided orders entered by Floor Brokers, including multi-leg orders up to 15 legs, after representation in the trading crowd. When a Floor Broker submits an order for execution through FBMS, the order will be executed based on market conditions at the time of execution and in accordance with Exchange rules. FBMS execution functionality will assist the Floor Broker in clearing the Exchange book, consistent with Exchange priority rules. If the order cannot be executed, the System will attempt to execute the order a number of times for a period of no more than one second, which period shall be established by the Exchange and announced by Options Trader Alert, after which it will be returned to the Floor Broker on the FBMS. The Floor Broker may resubmit the order for execution, as long as the quotes/orders that comprise the cross have not been withdrawn. Floor Brokers are responsible for handling all FBMS orders in accordance with Exchange priority and trade-through rules, including Rules 1014, Option 8, Section 24 and 1084.

A Floor Broker is prohibited from triggering the Snapshot feature for the purpose of obtaining favorable priority or trade-through conditions or avoiding unfavorable priority or trade-through conditions.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>

4th Occurrence and Thereafter Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

*The Exchange anticipates that it will implement the Snapshot feature referenced herein and described further in Options 8, Section 28(e) during the Fourth Quarter of 2017. The Exchange will notify members via an Options Trader Alert, to be posted on the Exchange's website, at least seven calendar days prior to the date when Snapshot will be available for use.*

### **C-3 Handling Orders of ROTs and Other Registered Options Market Makers**

(a) A Floor Broker must announce to the trading crowd when he is handling an order for a ROT and must state whether such order is opening or closing. In addition, in handling such orders the Floor Broker must comply with Commentaries .07 of Rule 1014 and Options 8, Section 25(h) and (j).

(b) Upon receipt of an options order on the Exchange for any account of a person registered as an options market maker on another national securities exchange, the Floor Broker or his employees must so indicate on the Options Floor Based Management System and must ensure that the order is represented in the trading crowd as a "BD" order for the purposes of the Exchange's yielding requirements. A Floor Broker must make reasonable efforts to inquire which orders placed with him for execution on the Exchange qualify as such orders.

(c) Before handling an opening transaction on behalf of a ROT, the Floor Broker or his employees must ascertain that the ROT is aware of the terms of the trade and assure that the floor ticket has been initialed and time-stamped by the ROT and that the order is appropriately entered on the Options Floor Based Management System. The Floor Broker must note on the Options Floor Based Management System any opening off-floor order to be cleared into an Exchange market maker account, as indicated by a ROT seeking market maker margin treatment for such order pursuant to Options 8, Section 27(f) and Advice B-4, and comply with the requirements of Advice B-12 respecting multiply traded options.

(d) A Floor Broker may not exercise any discretion with respect to the order of a ROT or any order for the account of an options market maker registered on another exchange.

### **FINE SCHEDULE (Implemented on a two-year running calendar basis)**

1st Occurrence      \$500.00

2nd Occurrence      \$1,000.00

3rd Occurrence      \$2,000.00

4th Occurrence and Sanction is discretionary with Phlx Regulation Department,

Thereafter                      Department of Market Regulation, or Department of Enforcement

#### **C-4 Floor Brokers Handling Orders for Same Firm**

A Floor Broker may not accept opening or discretionary orders for an ROT who is associated with the same member organization as such Floor Broker or who is associated with another member organization which is pursuant to Exchange Rule 793 affiliated with the same member organization as such Floor Broker.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

1st Occurrence                      \$500.00

2nd Occurrence                      \$1,000.00

3rd Occurrence                      \$2,000.00

4th Occurrence and      Sanction is discretionary with Phlx Regulation Department,  
Thereafter                      Department of Market Regulation, or Department of Enforcement

#### **C-5 ROTs Acting as Floor Brokers**

Whenever an order is handled as agent by a Floor Broker who is also an ROT, the Floor Broker must advise at the time a market is sought from the crowd for the order that he is acting as a Floor Broker. Bids or offers made in person by an ROT will be assumed to be for his account unless otherwise specified.

An exemption to the above exists in the instance where a Floor Broker is representing an order in an issue in which the broker has previously that day represented himself as an agent, provided that the Floor Broker obtain the prior approval of an Options Exchange Official. In such cases, a Floor Broker is not required to further advise the crowd of his role as agent in that issue for the remainder of that day.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

1st Occurrence                      \$500.00

2nd Occurrence                      \$1,000.00

3rd Occurrence                      \$2,000.00

4th Occurrence and      Sanction is discretionary with Phlx Regulation Department,  
Thereafter                      Department of Market Regulation, or Department of Enforcement

#### **C-6 Responsibility to Represent Orders to the Trading Crowd**

(a) Except as otherwise provided in Options Floor Procedure Advice B-11(c) and Exchange Options 8, Section 30(c), once an option order has been received on the floor, it must be represented to the trading crowd before it may be represented away from the crowd.

(b) A Floor Broker must be loud and audible when representing a market and/or representing an order in the trading crowd. A Floor Broker must make reasonable efforts to position himself in the trading crowd to be heard by the majority of the trading crowd.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

(a) Fine not applicable. Matters subject for review by the Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

(b)

1st Occurrence            \$500.00

2nd Occurrence           \$1,000.00

3rd Occurrence           \$2,000.00

4th Occurrence and    Sanction is discretionary with Phlx Regulation Department,  
Thereafter                Department of Market Regulation, or Department of Enforcement

### **C-7 Floor Brokers and Clerks Trading in their Customer Accounts**

All persons employed on the trading floor in association with a member organization, other than ROTs and Specialists, are prohibited from initiating trades in Exchange options in their customer accounts while on the floor. A member organization which accepts an order for the customer account of such a person must process the order through the channels it normally provides for its other customer orders. When any such order is received by the member organization and delivered to the floor for execution, it may not be handled by any person with a beneficial interest in the account, or by any associated person with knowledge that the order is for the account of an associate. Once such a person has placed an order for his/her customer account in an option, that person is prohibited from brokering orders in that option for the remainder of that day or until such order has been executed or cancelled whichever is later. This provision shall not apply to any transaction permissible under Section 11(a)(1) of the Securities Exchange Act of 1934.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

Matters subject to review by Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement.

**D. STAFFING****D-1 Required Staffing of Options Floor**

Every Options Specialist Unit, Floor Brokerage Unit, Clearing Firm, Floor Broker and ROT must have a representative available on the floor (except that a Remote Specialist must have a representative available via telephonic and/or electronic communication access) for the thirty minutes before the opening and the thirty minutes after the close of trading and one hour after the preliminary trade reports are distributed. Such representatives must be authorized to make appropriate changes and corrections to trades of or guaranteed by such Specialist Unit, Floor Brokerage Unit, Clearing Firm, Floor Broker and ROT. Additionally, on expiration such representatives must be available on the floor until the Exchange has announced the last call for adjustments in expiring options.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E. MISCELLANEOUS****E-1 Use of Identification Letters and Numbers**

All Specialists, ROTs, and Floor Brokers must use the complete alpha/numeric identification assigned by the Exchange. All Floor Brokers or their employees must indicate their complete alpha/numeric identifiers on the Options Floor Based Management System for each order they receive and represent in the trading crowd.

Fine not applicable.

**E-2 Allocation, Time Stamping, Matching and Access to Matched Trades**

(a) In order to facilitate timely tape reporting of trades, it is the duty of the persons identified below to allocate, match and time stamp trades executed in open outcry and to submit the matched trade tickets to an Exchange Data Entry Technician ("DET") located on the trading floor immediately upon execution. When executing trades electronically, it is also the duty of the persons identified below to enter and submit trade information to the Trading System using the Options Floor Based Management System. Trades executed electronically via the System and through the Options Floor Based Management System are automatically trade reported without further action required by executing parties:

(i) in a trade involving a Floor Broker, the Floor Broker shall do so, provided that a Floor Broker may delegate this responsibility to the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) if the Specialist agrees to accept such responsibility, and, in the event of such delegation, the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so:

(ii) in all other cases where the Specialist is a participant (i.e., where there is no Floor Broker), the Specialist (or an assistant to the Specialist under the Specialist's direct supervision) shall do so.

(iii) in any other case (i.e., where there is no Floor Broker and no Specialist is involved), the largest participant shall do so (for example, where several Registered Options Traders are involved):

and

(iv) if there is only one seller and one buyer (no Floor Broker and no Specialist is involved), the seller shall do so (for example, where only two Registered Options Traders are involved).

The person responsible for trade allocation (the "Allocation Participant") shall, for each trade allocated by such Allocating Participant, circle his or her badge identification number on the trade tickets, identifying himself or herself as the Allocating Participant in the particular trade. If the Allocating Participant is not a participant in the trade to be allocated, he/she shall identify himself/herself/ by initialing the trade tickets. In the case of a trade, executed using the Floor Based Management System, such member shall allocate the trade using the Options Floor Based Management System.

(b) A member or member organization initiating an options transaction, whether acting as principal or agent, must report or ensure that the transaction is reported within 90 seconds of the execution to the tape. Transactions not reported within 90 seconds after execution shall be designated as late. A pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with just and equitable principles of trade.

(c) Execution times must be recorded on the reverse side of one or more of the tickets to a matched trade.

(d) Once a trade has been matched and submitted to a DET located on the trading floor for reporting, the respective parties to the trade must preserve the matched tickets, or copies thereof, for a period of not less than three years.

(e) Member access to tickets comprising a matched trade is available to any participant of that trade, as well as the respective Specialist and any Options Exchange Official acting in his capacity as an Options Exchange Official. Requests to review trade matches must be made with the Specialist Unit.

FINE SCHEDULE (Implemented on a three-year running calendar basis).

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

E-2 (b)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,500.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-3 Orders Executed as Spreads, Straddles, Combinations or Synthetics and Other Order Ticket Marking Requirements**

(a) Sp, St, Comb, Syn - Members executing spread, straddle or combination orders in reliance upon the "spread priority rule," Options 8, Section 34(d), or synthetic option (buy-write, synthetic put and synthetic call) orders, must mark the tickets as "sp" for spreads, "st" for straddles, "comb" for combinations and "syn" for synthetics. Members or their employees must make the appropriate notation on the Options Floor Based Management System.

(b) Additional Marking Requirements - The following is a list of requirements to mark order tickets or, in the case of trades involving the Options Floor Based Management System to make the appropriate notations on the Options Floor Based Management System, including a description and reference to the Rule or Advice requiring such mark or notation:

<u>Circling "yield"</u>	<u>yielding/11(a) (1)</u>	<u>Advice B-6</u>
<u>acronym</u>	<u>identification letter/#s</u>	<u>Advice E-1</u>
<u>ROT initial/time stamp</u>	<u>on-floor brokered orders</u>	<u>Advice B-8, C-3</u>
<u>SS</u>	<u>sold sale</u>	<u>Minor Rule Plan F-3</u>

<u>F</u>	<u>facilitation</u>	<u>Advice B-11</u>
<u>BD</u>	<u>non-member BD</u>	<u>Advice A-11</u>
<u>B/X</u>	<u>bid-exempt</u>	<u>Rule 1072</u>
<u>N</u>	<u>non-Phlx ROTs</u>	<u>Advice C-3</u>
<u>P</u>	<u>off-floor/market maker margin</u>	<u>Options8, Section 27(f)</u>
<u>P/A</u>	<u>principal acting as agent</u>	<u>Rule 1015</u>

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-4 Changes or Corrections to Material Terms of a Matched Trade**

(a) All correction sheet submissions which change material terms of a transaction (security, price, volume, series, class and customer to Firm participations) must be signed by all parties to the transaction and by a representative of the Specialist Unit. Also if one of the parties to the transaction is not present at a time such matter is being resolved, a signature by Regulatory staff is required to acknowledge the contra-side's absence. The Regulatory signature in any such case does not relieve any party to the trade of liability in connection with the change.

(b) Any person signing a correction sheet shall use due diligence to confirm the correction before signing the correction sheet, including checking the appropriate floor tickets or computerized report ("run") in any case where a sizeable error may result in the absence of appropriate corrective action.

Generally, a sizeable error with respect to equity options and index options exceeds \$1,000 and, with respect to foreign currency options, exceeds \$3,000. However, the circumstances surrounding each correction must be considered and these amounts are guidelines only.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

### **E-5 Option Quote Parameters**

When bidding and/or offering in equity option or index option issues, the following parameters should be utilized after the opening for those quoting verbally:

<b><u>Current Option Bid</u></b>	<b><u>Maximum Quote Spread</u></b>
<u>Less than \$2.00</u>	<u>.25</u>
<u>\$2.00 to less than \$5.00</u>	<u>.40</u>
<u>\$5.00 to less than \$10.00</u>	<u>.50</u>
<u>\$10.00 to less than \$20.00</u>	<u>.80</u>
<u>\$20.00 and greater</u>	<u>1</u>

Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above.

The bid/ask differentials stated above shall not apply to in-the-money series where the market for the underlying security is wider than the differentials set forth above. For such series, the bid/ask differential may be as wide as the quotation for the underlying security on the primary market, or its decimal equivalent rounded up to the nearest minimum increment.

### **Foreign Currency Options**

When bidding and/or offering in U.S. dollar-settled foreign currency option issues, the following parameters should be utilized after the opening for those quoting verbally (in open outcry):

<b><u>Current Option Bid</u></b>	<b><u>Maximum Quote Spread</u></b>
<u>Less than \$2.00</u>	<u>.25</u>

<u>\$2.00 to less than \$5.00</u>	<u>.40</u>
<u>\$5.00 to less than \$10.00</u>	<u>.50</u>
<u>\$10.00 to less than \$20.00</u>	<u>.80</u>
<u>\$20.00 and greater</u>	<u>1</u>

Quotations provided in open outcry may not be made with \$5 bid/ask differentials and instead must comply with the bid/ask differential requirements described above.

The bid/ask differential as stated above shall apply to all listed series, including the longest term, except for the two longest term series open for trading in the Euro options and long-term foreign currency options.

#### Relief

Relief from the established bid/ask differentials may be granted upon the receipt of an approval of an Options Exchange Official.

#### Batching

The Exchange may aggregate individual violations and treat such violations as a single offense.

#### FINE SCHEDULE (Implemented on a one-year running calendar basis)

<u>1st Occurrence</u>	<u>Warning letter</u>
<u>2nd Occurrence</u>	<u>Warning letter</u>
<u>3rd Occurrence</u>	<u>Warning letter</u>
<u>4th Occurrence</u>	<u>\$250.00</u>
<u>5th Occurrence</u>	<u>\$500.00</u>
<u>6th Occurrence</u>	<u>\$1,000.00</u>
<u>7th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

#### **E-6 Failure to Comply with an Exchange Inquiry**

In addition to E-2 of the Options Minor Rule Plan, whenever the Exchange staff requests that a floor broker identify clients with respect to an order, regardless of whether that

order has been executed or not, the floor broker must immediately provide the Exchange with sufficient information to reveal the identity of the floor broker's clients. If the floor broker fails to comply immediately with such request, the fines in the schedule above apply.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-7 Affiliations**

In addition to F-3 of the Options Minor Rule Plan, Floor members shall adhere to the following requirements:

- (a) Pursuant to Rule 1020, an ROT is prohibited from receiving communications about trading interests or orders from an affiliated Floor Broker's customers prior to the respective trading crowd receiving the same information. In this regard, the ROT is prohibited from answering telephones at the affiliate's post, except that he may access a telephone at the post to communicate with associates of his Registered Options Trading Firm.
- (b) Any exchange of interests to trade between an ROT or his Firm and an affiliated Floor Broker Firm will require that the same information be provided to the respective trading crowd and shall also require that the crowd be advised that the order is presented for execution under Options 8, Section 30(c) - Solicited Orders.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-8 Splitting Orders**

ROTs of the same Firm, affiliated or financially affiliated ROTs, when bidding or offering at the same price for the same option, are to be treated as one interest for purpose of splitting an order in the trading crowd.

For the purposes of this Advice, affiliated ROT's are ROTs required to report such affiliations pursuant to Rule 908 and financially affiliated ROT's are ROT's required to report financial arrangements pursuant to Rule 783.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-9 Responsibility for Assigning Participation**

a) In each instance where a member effects a transaction on the options or foreign currency options floor, he must make reasonable efforts to ensure that a meeting of the minds occurred with the contra-side as to confirming the contra-side's participation in the trade. In trades where more than one contra-side is involved, each contra-side must immediately make known to the largest participant his understanding as to his respective level of participation in the trade.

b) No such contra-side who has participated in the trade shall leave the crowd until the level of his participation in the trade has been confirmed by the largest participant.

c) No person in the crowd shall submit a ticket for matching on a trade when that person is not due participation in the trade.

d) Disputes as to participation on a trade shall be resolved by a majority vote of those persons present in the crowd during the relevant time or, if not so settled, then by an Options Exchange Official.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>

4th Occurrence and Thereafter Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-10 Executing Multi-leg and Synthetic Option Orders**

A multi-leg order (i.e. spread type order) as defined in Options 8, Section 32(e) may be executed as a single transaction at a single credit or debit in accordance with Options 8, Section 24(d) and the requirements below:

(a) Bids (offers) for the total hedge order must be solicited from the crowd on the basis of a total credit or debit.

(b) In the case of an "options-only hedge order" (spread, straddle, and combination orders), the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

(1) no option leg is executed outside of the established bid/offer for that option contract; and

(2) at least one option leg is executed at a price better than the established bid/offer for that option contract.

(c) In the case of conversions and reversals, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established markets for the individual option legs (on a buy-on-the-bid or sell-on-the-offer basis), such that:

(1) no option leg is executed outside of the established bid/offer for that option contract;

(2) at least one option leg is executed at a price better than the established bid/offer for that option contract.

(d) In the case of a synthetic option order, the trade may be immediately executed at a single credit or debit which is superior to the aggregate price of the established market for the individual legs (on a buy-on-the-offer and sell-on-the-bid basis), provided that the option leg is executed at a price better than the established bid/offer for that option contract.

Once the credit or debit execution price to a multi-leg option order is agreed upon, the stock portion of the order, if any, must be effected at or near the same time as the execution of the option portion.

### **FINE SCHEDULE**

Fine not applicable.

**E-11 Two-Way, Three Way and Multi-Spread Transactions (FOREIGN CURRENCY OPTION ONLY)**

Execution of spread type orders (spread, straddle and combination orders, as defined in Options 8, Section 32(f) in foreign currency options must be effected in accordance with the provisions of Options 8, Section 24(d), which requires that a foreign currency options participant holding a spread type order must first determine that the order is best served by bidding or offering on the basis of a total credit or debit before executing the order as a single transaction. Options 8, Section 24(d), also requires the participant to ensure that at least one leg of the order is executed at a better price than the established bid/offer for that option and that no leg is executed at a price outside of the established bid/offer for that option.

Options 8, Section 24(g) governing ration spread type orders in foreign currency options permits the size of the respective legs of such orders to be either equal in size or related by a permissible ratio (two-to-one, three-to-one, and three-to-two). In addition, spread type orders may be comprised of two or more legs, as described below:

**Two-Way Transaction**

(a) A two-way transaction is comprised of two legs, which can be either equal in size or differ by a permissible ratio (two-to-one, three-to-one, and three-to two), forming one spread type. See Options 8, Section 24(d)

**Three-Way Transaction**

(b) A three-way transaction is comprised of three legs forming one spread type where (1) the order sizes of each of the three legs are equal to each other, or (2) the combined order size of any two legs on the same side of the market is either equal to the order size of the third leg or differs from the order size of the third leg by a permissible ratio (two-to-one, three-to-one, and three-to-two). See Options 8, Section 24(f).

**Multi-Spread Transaction**

(c) A multi-spread transaction, as defined in Options 8, Section 32(e), combines two of the same spread type orders for execution at a total net credit or debit, such as: a two-way order with another two-way order of the same spread type; a three-way order with another three-way order of the same spread type; or a two-way order with a three-way order of the same spread type. In addition, a multi-spread transaction may combine a spread type order with a ratio spread type order of the same spread type. In combining spread type orders to create a multi-spread transaction, each individual spread must meet the execution requirements of Options 8, Section 24(h) at least one leg of each spread must be executed at a price better than the established bid/offer for that option and no leg of any spread may be executed at a price outside of the established market for that option.

**FINE SCHEDULE**

Fine not applicable.

### **E-12 Intra-Day Addition of Strike Prices**

The Exchange may, under appropriate circumstances, list and make available for trading on an intra-day basis one or more option series with new strike prices.

For the purposes of this Advice, appropriate circumstances may include instances where:

(1) bona fide off floor customer interest is expressed to effect a sizable transaction at a strike price at or within 5 points of the price of the underlying instrument, or within a comparable amount of ticks respecting foreign currency options; or

(2) an operational error in not adding a requested exercise strike price has occurred. Customer interest includes institutional (Firm), corporate or customer interest expressed directly to the Exchange or through the customer's Floor Brokerage unit, but not interest expressed by an ROT with respect to trading for the ROT's own account. Only strike prices which are consistent with the provision in Rules 1012 and 1101A imposing a "reasonably related" standard for listing additional strike prices may be added intra-day pursuant to this Advice.

In each instance where such approval has been granted, prior written disclosure of each strike price to be added shall be disseminated to the trading floor and electronically to the options members. No trading may occur in any such series until such dissemination has taken place.

New series of equity options, options on Exchange Traded Fund Shares and options on Trust Issued Receipts opened for trading shall be subject to the range limitations set forth in Commentary .10 to Rule 1012.

### **FINE SCHEDULE**

Fine not applicable

### **E-13 Clerks in the Crowd**

Clerks, other than Specialist clerks, are prohibited from a sustained presence in the trading crowd. In addition, clerks are prohibited from requesting market quotations from a Specialist or ROT, except that a Specialist clerk, under the supervision of a Specialist, may request the crowd's market in order to update disseminated markets or ascertain parity/priority splits in relation to the execution of an order. For purposes of this Advice, a clerk is any associated person not registered or eligible to effect transactions on the floor as a Specialist, ROT or Floor Broker, including member organizations whose membership privileges have been suspended or terminated as well as other member organizations without trading privileges.

A sustained presence shall be a period of time beyond such time that would, under the prevailing circumstances, be needed by the clerk to complete the allowable business function which brought the clerk to that crowd in the first place.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-14 Fingerprinting Floor Personnel**

Member organizations are required to comply with Section 17(f) of the Securities Exchange Act of 1934 respecting the fingerprinting of required employees. Applicants for a permit must also be fingerprinted. Such fingerprints must be submitted to the FINRA for identification and appropriate processing prior to any employee performing the functions listed in SEC Rule 17f-2.

FINE SCHEDULE (Implemented on a two-year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-15 Options Trading Floor Training**

All members and persons employed by or associated with a member organization shall successfully complete mandatory training, as required by the Exchange. Training topics include, but are not limited to, training related to that member's or person's function at the Exchange, changes in existing automated systems or any new technology that is utilized by the Exchange, compliance with Exchange Rules and federal securities laws, and issues related to conduct, health and safety on the trading floor. In addition, floor members shall complete mandatory training programs, on at least a semi-annual basis, that address compliance with the federal securities laws and the Exchange's Rules in place to prevent and deter unlawful trading by floor members.

Failure to attend the scheduled mandatory training described above may result in the issuance of a fine in accordance with the fine schedule below.

FINE SCHEDULE (Implemented on a three-year running calendar basis)

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,000.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement</u>

**E-16 Communications and Equipment**

(1) **Registration.** Members and member organizations must register, prior to use, any new telephone to be used on the Options floor. Each phone registered with the Exchange must be registered by category of user. If there is a change in the category of any user, the phone must be re-registered with the Exchange. At the time of registration, members and representatives of member organizations must sign a statement that they are aware of and understand the Rules and procedures governing the use of telephones on the Options floor.

(2) **Capacity and Functionality.** No wireless telephone used on the Options floor may have an output greater than one watt. No person on the Options floor may use any device for the purpose of maintaining an open line of continuous communication whereby a person not located in the trading crowd may continuously monitor the activities in the trading crowd. This prohibition covers intercoms, walkie-talkies and any similar device. Speed-dialing features are permitted on any member telephone.

**(3) Specialists and Registered Options Traders.**

(a) Specialists and Registered Options Traders ("ROTs") may use their own cellular and cordless phones to place calls to any person at any location (whether on or off the Options floor).

(b) ROTs located off the Options floor may not place an order by calling a Floor Broker who is present in the trading crowd. ROTs located off the Options floor may not otherwise place an order by calling the Specialist phone in the trading crowd. Any telephonic order entered from off the Options floor must be placed with a person located in a member organization booth.

**(4) Floor Brokers.**

(a) Floor Brokers may use cellular and cordless telephones, but only to communicate with persons located on the Options floor. These telephones may not include a call forwarding feature. Headsets are permitted for Floor Brokers, but if the Exchange determines that a Floor Broker is maintaining a continuous open line through the use of a headset, the Floor Broker will be prohibited from future use of any headset for a length of time to be determined by the Exchange.

(b) All orders phoned to Floor Brokers must be received initially at the Floor Broker's booth. Floor Brokers may not receive telephonic orders while in the trading crowd except from their booth. Any telephonic order entered from off the Options floor must be placed with a person located in a member organization booth.

**(5) Clerks.**

(a) Floor Broker clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(b) Stock Execution clerks are subject to the same terms and conditions on telephone use as Floor Brokers.

(c) The Exchange reserves the right to prohibit clerks from using cellular or cordless phones on the floor at any time that it is necessary due to electronic interference problems or capacity problems resulting from the number of such phones then in use on the Options floor. In such circumstances, the Exchange will first consider restricting the use of such phones by Stock Execution Clerks, and then by Floor Broker Clerks.

(6) **General Access In-House Phones.** The general access in-house telephones located outside of the trading post areas may be used by any member, clerk or Floor Broker to communicate with persons located on the Options floor or within the Exchange complex.

(7) **Telephone Records.** Members must maintain their cellular or cordless telephone records, including logs of calls placed, for a period of not less than one year. The Exchange reserves the right to inspect and/or examine such telephone records.

(8) **Exchange Liability.** The Exchange assumes no liability to members or member organizations due to conflicts between telephones in use on the Options floor or due to electronic interference problems resulting from the use of telephones on the trading floor.

FINE SCHEDULE (Implemented on a three year running calendar basis)

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>

4th Occurrence      Sanction is discretionary with Phlx Regulation Department, Department of Market Regulation, or Department of Enforcement

### **E-17 Solicitation of Quotations**

In response to a Floor Broker's solicitation of a single bid or offer, the members of a trading crowd (including the Specialist and ROTs) may discuss, negotiate and agree upon the price or prices at which an order of a size greater than the Exchange's disseminated size can be executed at that time, or the number of contracts that could be executed at a given price or prices, subject to the provisions of the Options Order Protection and Locked/Crossed Market Plan and the Exchange's Rules respecting Trade-Throughs. Notwithstanding the foregoing, a single crowd participant may voice a bid or offer independently from, and differently from, the members of a trading crowd (including the Specialist and ROTs).

### **F. REGULATIONS Pursuant to Rule 9216(c)**

#### **Regulation 1 - Smoking and Alcohol**

Smoking is prohibited on the trading floor and the lower level areas adjacent to the trading floor except for those areas specifically designated for smoking.

1st Occurrence      \$250.00

2nd Occurrence      \$500.00

3rd Occurrence      \$1,000.00

4th and Thereafter      Sanction is discretionary with Phlx Regulation Department

Alcoholic beverages are prohibited on the trading floor and the lower level areas adjacent to the trading floor.

1st Occurrence      \$1,000.00

2nd Occurrence      Sanction is discretionary with Phlx Regulation Department

#### **Regulation 2 - Food, Liquids and Beverages, Trash, Litter and Vandalism**

##### **(a) Food, Liquids and Beverages**

Food, liquids and beverages while allowed on the trading floor, should be kept and consumed in a way that does not unreasonably interfere with others. All drinks should be in cans or covered containers. Food and drink may not be consumed while in transit on the trading floor.

1st Occurrence      \$250.00

<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department</u>

(b) Trash and Litter

All debris resulting from the consumption of food and drink, and other non-business trash, must be properly disposed of. Throwing or dropping objects on the trading floor, including food or drink, is strictly prohibited. All trading posts/booths must be free of debris, trash or litter at the end of each trading day.

The following fine schedule will apply to a violation of this section:

<u>1st Occurrence</u>	<u>\$250.00</u>
<u>2nd Occurrence</u>	<u>\$500.00</u>
<u>3rd Occurrence</u>	<u>\$1,000.00</u>
<u>4th and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department</u>

(c) Vandalism

The abuse, destruction, or theft ("Vandalism") of any property on the Exchange's premises, whether or not owned by the Exchange, is a serious offense and will be dealt with appropriately, including prompt disciplinary action.

The following fine schedule will apply to a violation of this section:

<u>1st Occurrence</u>	<u>\$3,000.00 and restitution</u>
<u>2nd Occurrence</u>	<u>\$5,000.00 and restitution</u>
<u>3rd Occurrence</u>	<u>\$10,000.00 and restitution</u>
<u>4th and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department</u>

Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

**Regulation 3 - Identification Badges/Access Cards**

(i) Identification badges must be worn chest high in full view and must accurately reflect the respective person's associations and affiliations.

<u>1st Occurrence</u>	<u>Official Warning</u>
<u>2nd Occurrence</u>	<u>\$100.00</u>
<u>3rd Occurrence</u>	<u>\$200.00</u>
<u>4th and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department</u>

(ii) Use of another person's Identification Badge or Access Card will carry a fine of \$250.00 for the first occurrence and \$500.00 for each subsequent occurrence. The fine may be assessed against both the user and the person who allowed such use.

#### **Regulation 4 - Order**

(a) Members and associated persons shall not conduct themselves in a disorderly manner on the trading floor or on the premises immediately adjacent to the trading floor. Further, members, participants and associated persons shall not conduct themselves in an indecorous manner that is disruptive to the conduct of business on the trading floor, including but not limited to the use of profanity.

The fines to be imposed for such violations shall be as follows:

<u>1st Occurrence</u>	<u>\$500.00</u>
<u>2nd Occurrence</u>	<u>\$1,000.00</u>
<u>3rd Occurrence</u>	<u>\$2,500.00</u>
<u>4th Occurrence and Thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department</u>

(b) Members and associated persons shall not direct any threatening, abusive, harassing or intimidating speech or conduct at anyone while on the trading floor or on the premises immediately adjacent to the trading floor. The fines to be imposed for such violations shall be as follows:

<u>1st Occurrence</u>	<u>\$2,500.00</u>
<u>2nd Occurrence</u>	<u>\$5,000.00</u>
<u>3rd and thereafter</u>	<u>Sanction is discretionary with Phlx Regulation Department</u>

(c) Members and associated persons shall not possess a firearm on the trading floor or on the premises immediately adjacent to the trading floor. As stated in Rule 9216(c), members, participants and associated persons shall be excluded from the floor if they possess a firearm. In addition, the fines to be imposed for such violations shall be as follows

1st Occurrence      \$5,000.00

2nd Occurrence      Sanction is discretionary with Phlx Regulation Department

(d) Members and associated persons shall not possess illegal controlled substances on the trading floor or on the premises immediately adjacent to the trading floor.

1st Occurrence      \$5,000.00

2nd Occurrence      Sanction is discretionary with Phlx Regulation Department

(e) The Exchange must report fines over \$1,000 to the Securities and Exchange Commission.

(f) Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

#### **Regulation 5 - Visitors**

Non-member visitors will be permitted on the trading floor at the discretion of an Exchange official or Options Exchange Official. All visitors must be signed in by a member or Exchange official and accompanied at all times by a member, associated person or an Exchange official.

1st Occurrence      Official Warning

2nd Occurrence      \$50.00

3rd Occurrence      \$100.00

4th Occurrence      \$200.00

5th and Thereafter      Sanction is discretionary with Phlx Regulation Department

Each Floor Manager, Post Supervisor, or Firm Representative will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

Non-member visitors who are performing contract work at the Exchange on behalf of a member are required to provide, upon request, a certificate of insurance evidencing Professional Liability Insurance in respect of all claims for injury, loss or damage arising out of any errors, acts or omissions in the performance of his or her duties for a sum of not less than \$1,000,000 for any one occurrence or series of occurrences and list Nasdaq PHLX as an insured. This includes any non-member visitors who are requesting access to perform any type of work at the Exchange or are utilizing any building facilities.

1st Occurrence            \$1,000.00

2nd Occurrence        \$5,000.00

3rd and Thereafter    Sanction is discretionary with Phlx Regulation Department

### **Regulation 6 - Dress**

(a) The Dress Code must be complied with at the point of entry to the trading floor. The Dress Code is in effect on the trading floor before, during and after trading hours. The Dress Code outlining acceptable and unacceptable dress for members and member organization staff, and changes thereto, shall be communicated to members and member organizations by the Exchange in writing. Changes to the Dress Code shall be effective three business days after they are so communicated. In addition, the Dress Code will be posted in at least one visible location on the trading floor of the Exchange.

(b) Each member will be responsible for compliance with this Regulation; and each member organization will be responsible for monitoring staff compliance with this Regulation. A violation of this Regulation may result in fines to the members, member organizations and associated persons.

The following is the fine schedule for dress code violations:

1st Occurrence            \$100.00

2nd Occurrence        \$250.00

3rd Occurrence        \$500.00

4th Occurrence and        Sanction is discretionary with Phlx Regulation  
Thereafter                    Department

### **Regulation 7 - Proper Utilization of the Security System**

(a) Attempt to Circumvent the Security System of the Exchange

Any member or employee of a member organization who wishes to enter or exit the Exchange trading facilities must do so through the areas where the Exchange security systems are located.

1st Occurrence      \$250.00

2nd Occurrence      \$500.00

3rd and Thereafter      Sanction is discretionary with Phlx Regulation Department

(b) Required Filing for Floor Member Organization Employee Status Notices with the Exchange

Following the termination of, or the initiation of a change in the trading status of any member or any non-member/clerk and trading floor personnel including clerks, interns, stock execution clerks and any other associated person, of member organizations who have been issued an Exchange access card and trading floor badge, the appropriate Exchange form must be completed, approved and dated by a firm, principal, officer, or member of the firm with authority to do so, and submitted to the appropriate Exchange Department as soon as possible, but no later than 9:30 A.M. the next business day by the member organization employer. Further, every effort should be made to obtain the employee's access card and trading floor badge and to submit these to the appropriate Exchange Department.

1st Occurrence      \$100.00

2nd Occurrence      \$200.00

3rd and Thereafter      Sanction is discretionary with Phlx Regulation Department

(c) Required Filing for the Termination of, or the Initiation of a Change in the Status of, a Business Relationship between member organizations and their Clearing Organizations

Following the commencement or termination of a clearing arrangement between member organizations and their clearing organization, a completed "Clearing Arrangement Notice" must be submitted to the Exchange as soon as possible, but no later than 9:30 AM the next business day by such clearing organization.

1st Occurrence      \$100.00

2nd Occurrence      \$200.00

3rd and Thereafter      Sanction is discretionary with Phlx Regulation Department

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